

TALLINK GRUPP AS
GROUP ANNUAL REPORT 2017

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COMPANY OVERVIEW

Tallink Grupp AS with its subsidiaries (hereinafter also referred to as “the Group”) is the leading European ferry operator in offering high quality mini-cruise and passenger transport services in the Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. The Group provides its services on various routes between Finland and Sweden, Estonia and Finland, Estonia and Sweden, and Latvia and Sweden under the brand names of “Tallink” and “Silja Line”. The Group has a total fleet of 14 vessels that include cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates four hotels in Tallinn and one in Riga.

STRATEGY

The Group’s vision is to be the market pioneer in Europe by offering excellence in leisure and business travel and sea transportation services.

The Group’s strategy is to

- Strive for the highest level of customer satisfaction
- Increase volumes and strengthen its market position in the region
- Develop a wide range of quality services for different customers and to pursue new growth opportunities
- Ensure cost efficient operations
- Maintain an optimal debt level that allows paying sustainable dividends

A modern fleet, a wide route network, a strong market share and brand awareness together with high safety, security and environmental standards are the main competitive advantages for the Group. They are the cornerstones for successful and profitable operations.

MANAGEMENT REPORT

In 2017, the Group carried a record number, a total of 9.8 million passengers, which is 3.2% more than in 2016. The number of cargo units transported increased by 11% compared to the previous financial year. The Group’s consolidated revenue amounted to EUR 967.0 million (EUR 937.8 million in 2016). EBITDA increased by EUR 8.9 million and amounted to EUR 158.3 million (EUR 149.5 million in 2016), net profit for the financial year was EUR 46.5 million or EUR 0.069 per share (EUR 44.1 million or EUR 0.066 per share in 2016).

The period’s biggest milestone for the Group was the launch of the new LNG-powered shuttle vessel Megastar. The ship carried more than 2 million passengers in its first year on the Tallinn-Helsinki route. This is the highest-ever number of passengers carried by any of the Group’s vessels on the Baltic Sea per year. Megastar improved the efficiency of the Group’s shuttle operations and the Group was able to increase the result of the Estonia – Finland segment despite tighter competition in the market.

The most positive development in 2017 was the growth of the cargo business. Cargo volumes increased in all geographical segments by 11.0% in total, while cargo revenues increased by 13.3% or EUR 13.8 million compared to the previous year and amounted to EUR 117.7 million. In order to be better positioned to serve our cargo customers and capture increasing cargo volumes, the cargo ship Sea Wind going in between Estonia and Finland, previously operating from Tallinn Old City Harbour, started operating from Muuga Harbour to Vuosaari in October.

In the financial year, the revenues of all core operating segments increased compared to the previous year. Shop and restaurant revenue increased by EUR 15.3 million and ticket revenue by EUR 6.7 million, the growth being supported by a 3.2% increase in passenger numbers. Cargo revenue increased by EUR 13.8 million compared to 2016. The growth was

driven by an increase in the number of transported cargo units in all geographical segments, resulting from positive economic developments in our main markets.

In 2017, the Group's ships carried a total of 5.1 million passengers on the Estonia – Finland routes, which is at the same level as in 2016 and the number of cargo units transported on the routes increased by 11.6%. On the Tallinn – Helsinki route competition intensified due to capacities added by competitors, which put pressure on ticket prices. In addition, the Group operated one cruise ferry on the Tallinn – Helsinki route in contrast to two cruise ferries in the period March to August 2016. The new shuttle vessel Megastar improved the efficiency of the shuttle operations and the Group was able to increase the segment result in a changed competitive environment. The segment revenue increased by EUR 1.2 million and amounted to EUR 354.5 million, the segment result increased by EUR 2.4 million and amounted to EUR 77.9 million.

The Finland-Sweden routes revenue increased by EUR 7.5 million compared to the previous year and amounted to EUR 344.8 million. Growth was supported by a 1.1% higher passenger number and by a 7.6% increase in the number of transported cargo units. The segment result increased by EUR 3.2 million compared to the previous year, amounting to EUR 18.5 million.

The Estonia-Sweden routes revenue increased by EUR 7.2 million compared to the previous year. Growth was supported by a 4.8% higher passenger number and by a 2.9% increase in the number of transported cargo units. The segment result decreased compared to the previous year due to higher operating costs as since December 2016 a larger vessel has been deployed on the route.

The Latvia-Sweden route's revenue increased by EUR 21.9 million compared to the previous year. Growth was supported by a 45.8% higher passenger number and by a 70.1% increase in the number of transported cargo units, which resulted from added capacity. The cruise ferry Romantika started operating on the Riga – Stockholm route in December 2016 as a second ship on this route. The capacity increase entails also higher operating cost and the segment's result was negative in 2017.

In the 2017 financial year, the Group's investments amounted to EUR 219.2 million. The largest investment was the purchase of the shuttle ferry Megastar in January 2017. A number of investments were made to upgrade the ships' restaurants, shops and cabins. Investments were also made in the development of the online booking and sales systems.

The key highlights of the 2017 financial year were the following:

- All-time high annual passenger number and higher revenue
- New LNG fast ferry Megastar started shuttle service on the Tallinn - Helsinki route
- New passenger terminal opened in Helsinki
- Lower chartering revenues
- Scheduled maintenance of five ships during the Q1 low season
- Increased competition on the Tallinn – Helsinki route
- Lower operating costs from the termination of the charter of fast ferry Superstar
- Effects from the re-routing of vessels in December 2016
- Renovated cruise ferry Silja Europa returned to the Tallinn – Helsinki route
- Two ships on the Riga – Stockholm route
- Sale of two Superfast vessels in December 2017
- Group-wide ship renovation programme continued

KEY FIGURES OF THE FINANCIAL YEAR 2017

For the year ended 31 December	2017	2016	Change %
Revenue (million euros)	967.0	937.8	3.1%
Gross profit (million euros)	194.6	192.6	1.0%
Net profit for the period (million euros)	46.5	44.1	5.4%
EBITDA (million euros)	158.3	149.5	5.9%
Depreciation and amortisation (million euros)	86.4	77.9	10.9%
Investments (million euros)	219.3	68.9	218.2%
Weighted average number of ordinary shares outstanding ¹	669 882 040	669 882 040	0.0%
Earnings per share	0.069	0.066	4.5%
Number of passengers	9 755 720	9 457 522	3.2%
Number of cargo units	364 296	328 190	11.0%
Average number of employees	7 406	7 163	3.4%
As at 31 December	2017	2016	Change %
Total assets (million euros)	1 558.6	1 539.0	1.3%
Total liabilities (million euros)	722.3	729.1	-0.9%
Interest-bearing liabilities (million euros)	560.9	558.9	0.4%
Net debt (million euros)	472.0	480.1	-1.7%
Total equity (million euros)	836.3	809.9	3.3%
Equity ratio (%)	53.7%	52.6%	
Number of ordinary shares outstanding ¹	669 882 040	669 882 040	0.0%
Shareholders' equity per share	1.25	1.21	3.3%
Ratios	2017	2016	Change %
Gross margin (%)	20.1%	20.5%	
EBITDA margin (%)	16.4%	15.9%	
Net profit margin (%)	4.8%	4.7%	
Return on assets (ROA)	4.3%	4.6%	
Return on equity (ROE)	5.6%	5.4%	
Return on capital employed (ROCE)	5.3%	5.6%	
Net debt to EBITDA	3.0	3.2	-6.9%

EBITDA: earnings before net financial items, share of profit of equity-accounted investees, taxes, depreciation and amortisation

Earnings per share: net profit / weighted average number of shares outstanding

Equity ratio: total equity / total assets

Shareholder's equity per share: shareholder's equity / number of shares outstanding

Gross margin: gross profit / net sales

EBITDA margin: EBITDA / net sales

Net profit margin: net profit / net sales

ROA: earnings before net financial items, taxes / average total assets

ROE: net profit / average shareholders' equity

ROCE: earnings before net financial items, taxes / (total assets – current liabilities (average for the period))

Net debt: interest-bearing liabilities less cash and cash equivalents

Net debt to EBITDA: net debt / 12-months trailing EBITDA

¹ Share numbers exclude own shares.

SALES

The Group's consolidated revenue amounted to EUR 967.0 million in 2017 (937.8 million in 2016). Restaurant and shop sales on-board and on mainland of EUR 536.7 million (521.5 million in 2016) contributed more than half of total revenue. Ticket sales amounted to EUR 242.7 million (236.0 million in 2016) and sales of cargo transport to EUR 117.7 million (103.9 million in 2016).

Geographically, 36.7% or EUR 354.5 million of revenue came from the Estonia-Finland route and 35.7% or EUR 344.8 million from the Finland-Sweden route. Revenue from the Estonia-Sweden route was EUR 117.2 million or 12.1% and from the Latvia-Sweden route EUR 66.5 million or 6.9%. The share of revenue generated by other geographical segments decreased to 8.7% or EUR 83.9 million.

The following tables provide an overview of the breakdown of revenue from operations between the Group's geographical and operating segments:

Geographical segments	2017	2016
Finland - Sweden	35.7%	36.0%
Estonia - Finland	36.7%	37.7%
Estonia - Sweden	12.1%	11.7%
Latvia - Sweden	6.9%	4.8%
Other	8.7%	9.9%

Operating segments	2017	2016
Restaurant and shop sales on-board and on mainland	55.5%	55.6%
Ticket sales	25.1%	25.2%
Sales of cargo transportation	12.2%	11.1%
Sales of accommodation	2.2%	2.1%
Income from charter of vessels	1.9%	2.7%
Other	3.1%	3.3%

EARNINGS

Gross profit was EUR 194.6 million (EUR 192.6 million in 2016) and EBITDA EUR 158.3 million (EUR 149.5 million in 2016). Net profit for 2017 was EUR 46.5 million (EUR 44.1 million in 2016). Basic and diluted earnings per share were EUR 0.069 (EUR 0.066 in 2016).

The 2017 financial statements include one-off costs related to the exploration of potential strategic options of EUR 3.6 million. The Group's like-for-like results (results excluding one-off costs) are as follows: gross profit EUR 194.6 million (EUR 192.6 million in 2016), EBITDA EUR 161.9 million (EUR 149.5 million in 2016), net profit EUR 50.1 million (EUR 44.1 million in 2016), basic and diluted earnings per share EUR 0.075 (EUR 0.066 in 2016). For additional information, please see Note 26 Subsequent Events.

The cost of goods related to sales at shops and restaurants, which is the largest operating cost item, amounted to EUR 227.8 million (EUR 225.0 million in 2016).

Fuel costs for 2017 amounted to EUR 85.9 million (EUR 74.2 million in 2016). Fuel costs were impacted by an increase in carriage capacity and higher fuel prices throughout the year. As a result, total annual fuel costs increased by 15.8%. The Group makes continuous efforts to improve and optimize its day to day operations and lower the fleet's fuel costs.

The Group's personnel expenses amounted to EUR 215.2 million (EUR 210.0 million in 2016). The average number of employees in 2017 was 7 406 (7 163 in 2016).

Administrative expenses for the period amounted to EUR 53.7 million, and sales and marketing expenses to EUR 71.3 million (EUR 51.0 million and 72.3 million respectively in 2016). Administrative expenses for 2017 include one-off costs related to the exploration of potential strategic options of EUR 3.6 million. The Group's like-for-like administrative expenses (expenses excluding one-off costs) are EUR 50.1 million (EUR 51.0 million in 2016).

Depreciation and amortisation of the Group's assets totalled EUR 86.4 million (EUR 77.9 million in 2016). There were no impairment losses related to the Group's property, plant and equipment and intangible assets.

The Group's net finance costs for 2017 amounted to EUR 21.2 million (EUR 26.8 million in 2016).

The Group's exposure to credit risk, liquidity risk and market risks, and its financial risk management activities are described in the notes to the financial statements.

LIQUIDITY AND CASH FLOW

The Group's net operating cash flow for 2017 was EUR 136.2 million (EUR 147.4 million in 2016).

The Group's cash used in investing activities was EUR 219.2 million (EUR 68.6 million in 2016). The largest investment was the purchase of the shuttle ferry Megastar in January 2017. A number of investments were made to upgrade the ships' restaurants, shops and cabins. Investments were also made in the development of the online booking and sales systems. The Group's proceeds from the sale of two Superfast vessels were EUR 132.5 million (EUR 0.2 million in 2016).

In the 2017 financial year, the Group's net repayments of existing loans totalled EUR 174.4 million (EUR 313.5 million in 2016), including an early repayment of two loans taken to finance the purchase of ships of EUR 59.6 million in total and a change in overdraft. The long term export credit loan in amount of EUR 184.0 million was taken to finance the purchase of the new shuttle ferry Megastar.

Interest payments were EUR 20.7 million (EUR 24.1 million in 2016).

As at 31 December 2017, the Group's cash and cash equivalents totalled EUR 88.9 million (EUR 78.8 million as at 31 December 2016). In addition, available unused overdraft credit lines amounted to EUR 75.0 million (EUR 35.0 million in 2016).

In management's opinion, the Group has sufficient liquidity to support its operations.

FINANCING SOURCES

The Group finances its operations and investments with operating cash flows, debt and equity financing and potential proceeds from disposals of assets. At 31 December 2017, the Group's capitalisation ratio (interest-bearing liabilities as a percentage of interest-bearing liabilities and shareholders' equity) was 40.1% compared to 40.8% at 31 December 2016. The decrease results from a EUR 2.0 million increase in interest-bearing liabilities and a EUR 28.4 million decrease in equity.

LOANS AND BORROWINGS

At the end of the 2017 financial year, interest-bearing liabilities totalled EUR 560.9 million, a 0.4% increase compared to the end of the previous financial year.

On 24 January 2017, a long-term loan of EUR 184 million was drawn down at the delivery of the new shuttle ferry Megastar. The export credit loan from Finnish Export Credit Ltd. was arranged by Nordea Bank Finland Plc., has a maturity of twelve years and bears OECD Commercial Interest Reference Rate (CIRR)-based fixed interest.

In December 2017 the Group repaid loans taken to finance the purchase of the vessel Baltic Princess in 2008 and the vessel Isabelle in 2013. The total amount of loans repaid before maturity was EUR 59.6 million.

As at 31 December 2017, the Group did not have an outstanding overdraft balance and unused overdraft credit lines amounted to EUR 75.0 million.

All interest-bearing liabilities have been incurred in euros or in Norwegian krone.

SHAREHOLDERS' EQUITY

In 2017, the Group's consolidated equity increased by 3.3%, from EUR 809.9 million to EUR 836.3 million. The change in equity is mainly attributable to net profit of EUR 46.5 million and dividend payments to shareholders of EUR 20.1 million. Shareholders' equity per share was EUR 1.25. At the end of 2017, the Group's share capital amounted to EUR 361 736 302. For further information about shares, please see the "Shares and Shareholders" section of this report.

VESSELS AND OTHER INVESTMENTS

The Group's main revenue-generating assets are vessels, which account for approximately 80% of total assets. During the financial year the Group owned 14 vessels. The vessel types and operations at the end of the financial year are described in the table below:

Vessel name	Vessel Type	Built/renovated	Route	Other information
Silja Europa	Cruise ferry	1993/2016	Finland-Estonia	overnight cruise
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Megastar	High-speed ro-pax	2017	Finland-Estonia	shuttle service
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Estonia	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Baltic Princess	Cruise ferry	2008	Finland-Sweden	overnight cruise
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Isabelle	Cruise ferry	1989	Sweden-Latvia	overnight cruise
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed "Atlantic Vision"

As at 31 December 2017 the book value of the ships amounted to EUR 1 269 million (EUR 1 230 million at the end of 2016). The Group's vessels are regularly valued by two to three independent international shipbrokers who are also approved by mortgagees.

All of the Group's vessels have protection and indemnity insurance (P&I) and hull and machinery insurance (H&M) and they meet all applicable safety regulations.

The Group does not have any substantial on-going research and development projects.

MARKET DEVELOPMENTS

The total number of passengers carried by the Group in 2017 was 9.8 million. The total number of cargo units carried exceeded 364 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in 2017 and 2016 by route.

Passengers	2017	2016
Finland-Sweden	2 918 850	2 886 383
Estonia-Finland	5 062 635	5 077 985
Estonia-Sweden	1 030 490	983 196
Latvia-Sweden	743 745	509 958
Total	9 755 720	9 457 522

Cargo units	2017	2016
Finland-Sweden	74 409	69 167
Estonia-Finland	233 381	209 062
Estonia-Sweden	43 648	42 402
Latvia-Sweden	12 858	7 559
Total	364 296	328 190

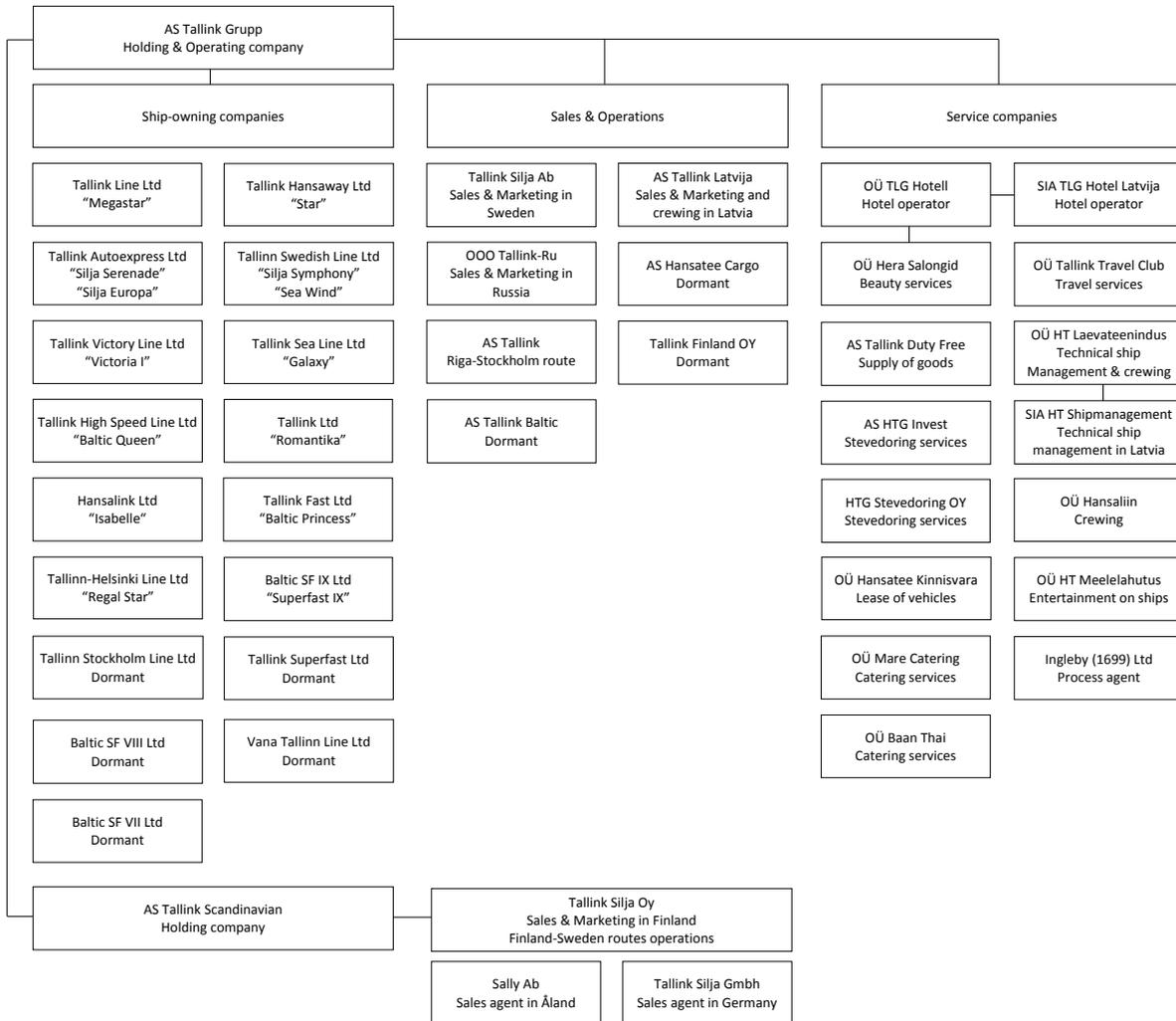
Passenger vehicles	2017	2016
Finland-Sweden	161 909	164 184
Estonia-Finland	827 576	873 132
Estonia-Sweden	72 239	72 893
Latvia-Sweden	72 599	57 286
Total	1 134 323	1 167 495

The Group's market shares on routes operated in 2017 were as follows:

- The Group carried approximately 56% of passengers and 65% of ro-ro cargo on the routes between Estonia and Finland.
- The Group carried approximately 54% of passengers and 28% of ro-ro cargo on the routes between Finland and Sweden.
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.
- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm.

GROUP STRUCTURE

At the reporting date, the Group consisted of 44 companies. All of the subsidiaries are wholly-owned companies of Tallink Grupp AS. The following diagram represents the Group's structure at the reporting date:



The Group also owns 34% of AS Tallink Takso.

PERSONNEL

On 31 December 2017, the Group had 7 311 employees (7 234 on 31 December 2016).

As at 31 December	2017	2016	Change
Onshore total	1 602	1 642	-2.4%
Estonia	869	884	-1.7%
Finland	472	489	-3.5%
Sweden	173	181	-4.4%
Latvia	71	72	-1.4%
Russia	11	11	0.0%
Germany	6	5	20.0%
At sea	5 093	5 030	1.3%
Hotel*	616	562	9.6%
Total	7 311	7 234	1.1%

* The number of hotel personnel is not included in the total number of onshore personnel.

In 2017, staff costs in the cost of sales were EUR 160.0 million (EUR 152.4 million in 2016). Staff costs related to administrative staff and sales & marketing staff were EUR 23.1 million and EUR 32.1 million respectively (EUR 24.5 million and EUR 33.1 million respectively in 2016).

SHARES AND SHAREHOLDERS

As at 31 December 2017 Tallink Grupp AS had a total of 669 882 040 (31 December 2016: 669 882 040) shares issued and fully paid.

All the shares are of the same kind and each share carries one vote at the shareholders' general meeting. No preference shares or shares with special rights have been issued. According to the articles of association of Tallink Grupp AS, shares can be freely transferred. No authorization needs to be obtained in order to buy or sell Tallink Grupp AS shares.

Tallink Grupp AS shares have no nominal value and the notional value of each share is EUR 0.54.

On 9 June 2015, the annual general meeting of Tallink Grupp AS approved the terms of a share option programme that allowed issuing options for up to 20 million shares. As at 31 December 2017 no options had been issued under the 2015 share option programme.

According to the resolution of the general meeting of 9 June 2015, the Company was granted the right to acquire its own shares subject to the following conditions:

- 1) The Company is entitled to acquire own shares within five years as from the adoption of the resolution.
- 2) The total notional value of the shares owned by the Company may not exceed 10% of share capital.
- 3) The price payable for one share may not be more than the highest price paid on the Tallinn Stock Exchange for a share of Tallink Grupp AS at the day when the share is acquired.
- 4) Own shares will be paid for from assets exceeding share capital, mandatory legal reserve and share premium.

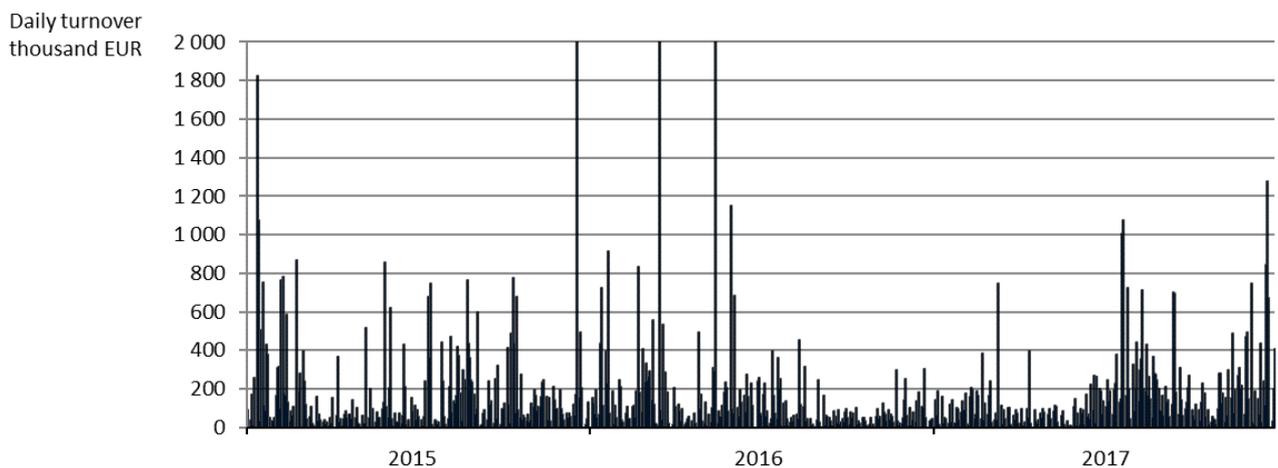
No share buybacks have been performed since the adoption of this resolution. The Supervisory Board is authorized to increase the share capital by EUR 25 000 000 to up to EUR 386 736 302 within three years as from 1 January 2017. The Management Board of Tallink Grupp AS has not been granted the right to issue new shares.

TRADING

The shares of Tallink Grupp AS are traded on the NASDAQ OMX Tallinn Stock Exchange under the symbol TAL1T (REUTERS: TAL1T.TL, BLOOMBERG: TAL1T ET).

During the 2017 financial year, there were transactions with 36 896 698 Tallink Grupp AS shares on the Tallinn Stock Exchange. The highest daily average share price on the Tallinn Stock Exchange was EUR 1.25 and the lowest daily average share price was EUR 0.905. The average daily turnover of Tallink Grupp AS shares on the Tallinn Stock Exchange was EUR 152.2 thousand.

The following charts give an overview of the performance of the share price and trading on the Tallinn Stock Exchange during the last three years, from 1 January 2015 to 31 December 2017. Market capitalization at the end of the 2017 financial year was EUR 837.3 million.



The table below presents the breakdown of share capital by size of share ownership as at 31 December 2017:

Ownership size	Shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	717	6.8%	27 122	0.0%
100 - 999	3 200	30.2%	1 454 056	0.2%
1 000 - 9 999	5 839	55.1%	12 861 693	1.9%
10 000 - 99 999	703	6.6%	17 686 366	2.7%
100 000 - 999 999	88	0.8%	24 497 658	3.7%
1 000 000 - 9 999 999	43	0.4%	116 143 900	17.3%
10 000 000 +	9	0.1%	497 211 245	74.2%
Total	10 599	100.0%	669 882 040	100.0%

As at 31 December 2017, 6.5% of the Group's shares were held by individuals.

The table below presents the investors of the Group by investor type at 31 December 2017:

Investor type	Shareholders	Number of shares	% of share capital
Principal shareholder, Infortar AS	1	254 776 164	38.0%
Institutional investors	873	371 514 872	55.5%
Private individuals	9 725	43 591 004	6.5%

The table below presents the 10 largest shareholders of the Group at 31 December 2017:

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
Baltic Cruises Investment L.P.	36 931 732	5.5%
ING Luxembourg S.A. AIF Account	24 829 806	3.7%
ING Luxembourg S.A. Client Account	19 262 260	2.9%
Nordea Bank Finland Plc. Clients	15 926 744	2.4%
CVCI Growth Partnership II L.P.	13 850 000	2.1%
State Street Bank and Trust Omnibus Fund OM01	12 150 155	1.8%
Bank of New York Mellon S.A. Clients	11 641 154	1.7%
Clearstream Banking Luxembourg S.A. Clients	7 000 074	1.0%

SHAREHOLDERS' AGREEMENT

Major shareholders of the Group entered into a shareholders' agreement in August 2006. The agreement was amended in December 2012. The main terms of the agreement are available on the Group's website. The agreement sets forth among other terms that the parties of the agreement and each shareholder of Tallink will remain independent in their decisions and will not be restricted by the agreement or otherwise, directly or indirectly, to exercise their voting right or any other powers available to them, in the manner which, in their own opinion, best complies with the obligations under Estonian laws, the Rules of the Tallinn Stock Exchange or the Corporate Governance Recommendations.

Two shareholders of AS Tallink Grupp, Baltic Cruises Holding L.P. ("BCH") and Baltic Cruises Investment L.P. ("BCI"), and another shareholder, Citigroup Venture Capital International Growth Partnership (Employee) II L.P. ("CVCI"), concluded an agreement that restricts the free transferability of AS Tallink Grupp shares as documented in the Co-Investment Agreement between BCI, BCH and CVCI dated 29 June 2017.

TAKEOVER BIDS

The Group has not concluded any agreement with its management or employees that provides for a compensation payment in the case of a takeover bid.

DIVIDENDS

The Group's strong expansion and growth have been achieved thanks to significant investments in the recent past. The Group's policy has been to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Management Board targets to distribute at least 50% of net profit, calculated over the long term, as dividends or capital repayment, taking however the Group's financial position into account.

In June 2017 the shareholders' annual general meeting decided to pay a dividend of EUR 0.03 per share from net profit for 2016. The total dividend of EUR 20.1 million was paid out on 5 July 2017.

To the shareholders' annual general meeting in 2018 the Management Board will propose a dividend of EUR 0.03 per share from net profit for 2017.

CORPORATE GOVERNANCE REPORT

This report is made in accordance with the Estonian Accounting Act and gives an overview of the governance of Tallink Grupp AS and its compliance with the requirements of the Corporate Governance Recommendations (CGR) of the NASDAQ OMX Tallinn Stock Exchange. The Group follows most of the articles of the CGR except where indicated otherwise in this report.

ORGANIZATION AND ADMINISTRATION

Pursuant to the Estonian Commercial Code and the articles of association of Tallink Grupp AS (the Company), the right of decision and the administration of the Company are divided between the shareholders represented by the shareholders' general meeting, the Supervisory Board and the Management Board.

SHAREHOLDERS' GENERAL MEETING

The Company's highest governing body is the shareholders' general meeting. The primary duties of the general meeting are to approve the annual report and the distribution of dividends, elect and remove members to the Supervisory Board, elect auditors, pass resolutions on any increase or decrease in share capital, change the articles of association and resolve other issues, which are the responsibility of the general meeting by law. According to the law, the articles of association can be amended only by the shareholders' general meeting. In such a case it is required that 2/3 of the participating votes are for it.

Every shareholder or his/her proxy with a relevant written power of attorney may attend the general meeting, discuss the items on the agenda, ask questions, make proposals and vote.

The Group publishes a notice of an annual general meeting and an extraordinary general meeting at least three weeks in advance in a national daily newspaper, in the stock exchange information system and on the Company's website at www.tallink.com. The notice includes information on where the meeting will be held.

The agenda of the meeting, the Board's proposals, draft resolutions, comments and other relevant materials are made available to the shareholders before the general meeting on the Company's website and in the stock exchange information system. The shareholders may ask questions before the general meeting by sending an email to info@tallink.ee.

The Company has not made it possible to observe and attend general meetings through electronic channels as there has not been any interest in it (CGR 1.3.3).

In the reporting period Tallink Grupp AS held the annual general meeting on 13 June 2017. The meeting was attended by the Management Board members Janek Stalmeister, Andres Hunt and Lembit Kitter. The Supervisory Board members present were Mr. Enn Pant, Mr. Toivo Ninnas, Mr. Kustaa Äimä, Mr. Ain Hanschmidt, Mr. Colin Douglas Clark, Ms. Eve Pant and Mr. Kalev Järvelill. The meeting was also attended by the Company's auditor. The chairman of the meeting was Mr. Raino Paron. The meeting was held in Estonian. The attending shareholders represented 530 290 789 votes, i.e. 79.16% of all votes. The resolutions adopted were: approval of the Annual Report, distribution of profits, extension of the term of office of a member of the Supervisory Board and appointment of an auditor.

THE SUPERVISORY BOARD

The Supervisory Board engages in oversight and longer-term management activities such as supervising the Management Board and approving business plans, acting in the best interest of all shareholders. No residency requirements apply to the members of the Supervisory Board. The Supervisory Board reports to the general meeting of the shareholders.

The Supervisory Board consists of five to seven members. Members of the Supervisory Board are elected for periods of three years at a time. The Supervisory Board elects one of its members as chairman. For electing a member to the Supervisory Board, his or her written consent is needed. The general meeting of the shareholders may remove any member of the Supervisory Board without a reason. Such a decision requires 2/3 of the votes represented at the general meeting. A member of the Supervisory Board may resign without a reason by informing the general meeting of the shareholders about the resignation.

The Supervisory Board is responsible for supervising management of the Company and organisation of its operations. The Supervisory Board determines the principles for the Company's strategy, organisation, annual operating plans and budgets, financing and accounting. The Supervisory Board elects the members of the Management Board and determines their salaries and benefits.

At present, the Supervisory Board has seven members: Mr. Enn Pant – Chairman, Mr. Toivo Ninnas, Ms. Eve Pant, Mr. Ain Hanschmidt, Mr. Lauri Kustaa Äimä, Mr. Colin Douglas Clark and Mr. Kalev Järvelill. The members of the Supervisory Board have the knowledge and experience necessary to fulfil their duties following the Corporate Governance Recommendations and legislation.

The meetings of the Supervisory Board are held according to need, but at least once in every three months. The Supervisory Board convened four times during the 2017 financial year. The Company's operations, development, strategies, targets and budget were discussed. Seven resolutions were adopted in writing without convening a meeting.

The members of the Supervisory Board avoid conflicts of interest and observe the prohibition on competition. The Supervisory Board and the Management Board work closely in the best interests of the Company and its shareholders, acting in accordance with the articles of association. Confidentiality rules are followed on exchanging information.

The remuneration of the Supervisory Board was decided at the shareholders' general meeting on 7 June 2012. Accordingly, the remuneration of the chairman is EUR 2 500 per month and the remuneration of other members of the Supervisory Board is EUR 2 000 per month. There are no other benefits for members of the Supervisory Board.

The direct shareholdings of the members of the Supervisory Board at the end of the 2017 financial year were the following:

Name	Shares
Enn Pant	3 951 913
Toivo Ninnas	19 200
Eve Pant	603 500
Ain Hanschmidt	1 800 000
Lauri Kustaa Äimä	237 000
Colin Douglas Clark	0
Kalev Järvelill	0

THE MANAGEMENT BOARD

The Management Board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example on entering into contracts on behalf of the Company. The Management Board is independent in their decisions and follows the best interests of the Company's shareholders.

The Management Board must adhere to the decisions of the general meeting of the shareholders and lawful orders of the Supervisory Board. The Management Board ensures, with its best efforts, that the Company complies with the law and that the Company's internal audit and risk management functions operate effectively.

The Management Board consists of three to seven members. The members and the chairman of the Management Board are elected by the Supervisory Board for periods of three years at a time. For electing a member to the Management Board his or her written consent is needed. The chairman of the Management Board may propose that the Supervisory Board also appoint a vice chairman of the Management Board, who fulfils the chairman's duties in the absence of the chairman. Every member of the Management Board may represent the Company alone in any legal and business matter. According to the law the Supervisory Board may recall any member of the Management Board without a reason. A member of the Management Board may resign without a reason by informing the Supervisory Board about the resignation.

At present, the Management Board has three members. Mr. Janek Stalmeister, Chairman, is responsible for leading the Board and general and strategic management of the Group, additionally he is responsible for IT, hotel operations, retail operations, cargo operations and regional offices. Mr. Andres Hunt, Vice Chairman, is responsible for fulfilling the chairman's duties in his absence, finance, technical management and internal control. Mr. Lembit Kitter is responsible for the Group's sales & marketing, daily operations, customer service, business development and human resources. The Supervisory Board has concluded service agreements with the members of the Management Board. In 2017 the remuneration of the members of the Group's Management Board was EUR 1.1 million in total.

The remuneration of the Management Board is determined by the Supervisory Board according to the CGR. The Supervisory Board has adopted the principles of remuneration of the management of Tallink Grupp AS. According to the document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to six-months' remuneration that are paid when the Group earns a profit and when they meet their individual performance criteria. The pay and benefits of individual Board members are not disclosed as the Group believes that such detailed information is insignificant for investors and is outweighed by the possible harm and discomfort to the members of the Management Board from the disclosure of sensitive personal information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

Members of the Management Board avoid conflicts of interest and observe the prohibition on competition.

The direct shareholdings and granted share options of the members of the Management Board at the end of the 2017 financial year were the following:

Name	Shares
Janek Stalmeister	45 000
Andres Hunt	860 000
Lembit Kitter	0

AUTHORITY OF THE MEMBERS OF THE MANAGEMENT BOARD TO ISSUE AND ACQUIRE SHARES

According to the resolution of the general meeting of 9 June 2015, the Company was granted the right to acquire its own shares subject to the following conditions:

- 1) The Company is entitled to acquire own shares within five years as from the adoption of the resolution.
- 2) The total notional value of the shares owned by the Company may not exceed 10% of share capital.
- 3) The price payable for one share may not be more than the highest price paid on the Tallinn Stock Exchange for a share of Tallink Grupp AS at the day when the share is acquired.
- 4) Own shares will be paid for from assets exceeding share capital, mandatory legal reserve and share premium.

The Management Board has no right to issue the Company's shares.

DISCLOSURE OF INFORMATION

The Company follows the CGR in its information disclosure procedures and treats all shareholders equally. All the released information is published in Estonian and in English on the websites of the Company and the Tallinn Stock Exchange as well as through the OAM system managed by the Estonian Financial Supervision Authority.

Meetings with investors are arranged on an ad hoc basis as and when requested by the investors. The information shared at the meetings is limited to data already disclosed. The Company has published the times and locations of significant meetings with investors. The presentations made to investors are available on the Company's website. However, the Group does not meet the recommendation to publish the time and location of each individual meeting with investors and to allow all shareholders to participate in these events as it would be impractical and technically difficult to arrange (CGR 5.6).

FINANCIAL REPORTING AND AUDITING

Preparation of financial reports and statements is the responsibility of the Company's Management Board. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and relevant Estonian regulations. The Company issues quarterly unaudited interim financial reports and the audited annual report.

The Company's annual report is audited and then approved by the Supervisory Board. The annual report together with the written report of the Supervisory Board is sent for final approval to the shareholders' general meeting.

The notice of the shareholders' general meeting includes information on the auditor candidate. The Company observes the auditors' rotation requirement. The audit fee and the auditors' responsibilities are set out in an agreement concluded between the Company and the auditor.

To the knowledge of the Company, the auditors have fulfilled their contractual obligations and have audited the Company in accordance with International Standards on Auditing.

For better risk management and control, the Company has established an Audit Committee and an Internal Audit Department. The Internal Audit Department took part in the process of preparing the annual report. Internal audits are conducted to check that the information presented in the annual report is reliable.

The consolidated financial statements for 2017 were audited by KPMG Baltics OÜ. In addition to audit services, in 2017 KPMG Baltics OÜ provided to the Group a limited assurance engagement in respect of the packaging report, tax advice and advisory services regarding financial vendor due diligence, EU GDPR directive and other matters that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

AUDIT COMMITTEE

The Audit Committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal control, the process of auditing annual and consolidated accounts, and the independence of the audit firm and the auditor representing the audit firm on the basis of the law. The Audit Committee is responsible for making recommendations and proposals to the Supervisory Board.

At present, the Audit Committee has four members: Mr. Meelis Asi as Chairman of the Audit Committee, Mr. Ain Hanschmidt, Ms. Mare Puusaag and Mr. Luke Staniczek.

SUBSTANTIAL SHAREHOLDERS

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	107 843 230	16.10%
Baltic Cruises Investment L.P.	36 931 732	5.51%

Related party transactions are disclosed in the notes to the financial statements.

KEY MANAGEMENT PERSONNEL

SUPERVISORY BOARD

Mr. Enn Pant (born 1965) - Chairman of the Supervisory Board since 2015

- Chairman of the Management Board from 1996 to 2015, Chief Executive Officer
- Member of the Supervisory Board of AS Infortar
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1990

Mr. Toivo Ninnas (born 1940) - Member of the Supervisory Board since 1997

- Chairman of the Supervisory Board from 1997 to 2016
- Served at ESCO (Estonian Shipping Company) 1973 to 1997 in various positions, Director General since 1987.
- Graduated from the Far Eastern High Engineering Maritime College (FEHEMC), maritime navigation, in 1966.

Ms. Eve Pant (born 1968) - Member of the Supervisory Board since 1997

- Graduated from the Tallinn School of Economics, Estonia, in 1992

Mr. Ain Hanschmidt (born 1961) - Member of the Supervisory Board since 2005, also from 1997 to 2000

- Chief Executive Officer of AS Infortar
- For years he served as Chairman of the Management Board of AS SEB Eesti Ühispank
- Graduated from the Tallinn Polytechnic Institute (Tallinn University of Technology), Estonia in 1984

Mr. Lauri Kustaa Äimä (born 1971) - Member of the Supervisory Board since 2002

- Managing Director of KJK Capital Oy
- Chairman of the Management Board, KJK Management SA, KJK Fund SICAV-SIF and Amber Trust II SCA
- Chairman of the Board of directors, KJK Fund II SICAV-SIF
- Vice-chairman of the Management Board, Amber Trust SCA
- Supervisory Board and Board member of several companies including AS Premia Foods, Kivinoplastika Loz d.d., AS Toode, AS Baltika, AS Riga Dzirnavnieks and AB Baltic Mill
- Holds a Master's degree in Economics from the University of Helsinki, Finland, 1997

Mr. Colin Douglas Clark (born 1974) - Member of the Supervisory Board since 2013

- Managing Director and Head of Central & Eastern Europe, Middle East and Africa for The Rohatyn Group
- Formerly a Partner of CVCI Private Equity, from 2003 to 2013 until the merger of CVCI with The Rohatyn Group in December 2013
- Director of the Supervisory Board of Prestige
- Worked from year 2000 in Citigroup Inc.'s leading emerging markets projects financing team
- Worked for Bank of Scotland in Edinburgh in various positions
- Holds a Bachelor's degree in Accountancy and Management from University of Dundee (Scotland)
- Member of the Institute of Chartered Accountants of Scotland

Mr. Kalev Järvelill (born 1965) - Member of the Supervisory Board since 2007

- Member of the Supervisory Board of AS Infortar
- Member of the Management Board of Tallink Grupp AS from 1998 to 2006
- General Director of the Estonian Tax Board from 1995 to 1998
- Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1993

MANAGEMENT BOARD**Mr. Janek Stalmeister (born 1974)** – Chairman of the Management Board since 2015

- Member of the Management Board since 2009, Chief Financial Officer
- Has been with the Group since 1999 in the positions of Financial Advisor, Treasurer and Financial Director
- Has worked as a stock broker, Deputy CEO and CEO at AS HT Finants
- Head of the External Debt Division at the Estonian Ministry of Finance from 1994 to 1997
- Graduated from the Faculty of Economics, International University "LEX", Estonia, in 1999

Mr. Andres Hunt (born 1966) - Member of the Management Board since 2002

- Has been with the Group since 1998 in the positions of Financial Director and Chief Financial Officer
- Director of Tax Policy Department at the Ministry of Finance of Estonia from 1995 to 1998
- Graduated from the Faculty of Economics, Academy of Agriculture, Estonia, in 1992

Mr. Lembit Kitter (born 1953) - Member of the Management Board, since 2006

- Worked in the banking sector in Estonia since 1992 in leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1976

SAFETY & SECURITY

In the Group's operations the safety and security of people, environment and property are of the utmost importance. Tallink's Safety Management System adheres to the ISM (International Safety Management) and ISPS (International Ship Port Facility Security) Codes and the requirements according to the ISO 14001 environmental management standard to guarantee that the operations of the ships and onshore organization prevent accidents, loss of human lives and environmental damage caused to the marine environment. The Safety Management System is audited by Lloyds Register and the Estonian, Swedish, Latvian, and Finnish Maritime Administrations.

The Group's safety and security management operations are aimed at maintaining and developing safe procedures for ships and creating a safe ship environment for both the crew and passengers. The crew's safety and security management skills are consistently developed, tested and practiced through drills and exercises in cooperation with the authorities. The skills are improved by identifying the known risk factors and areas, and practicing related procedures. In addition, the crew's environmental safety awareness is continuously improved.

The objective of the Group's Safety Management System is to ensure that valid rules and requirements set out by the IMO (International Maritime Organization), the EU (European Union), the maritime authorities, the certification bodies and other maritime organizations as well as their applicable regulations and standards are adhered to.

Ship masters are responsible for the onboard safety and security operations of the ships managed by the Group. The task of the onshore organization is to supervise, support and develop safety and security work.

All the Group's vessels carry lifesaving equipment which meets the highest safety standards and is always ready for immediate use. Nevertheless the Group's highest-level nautical and good-seamanship practices together with top-level safety and security organizations are designed to prevent situations where all this safety equipment should be put in use.

ENVIRONMENTAL & CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that environmental protection and management is one of its highest priorities. Every effort is to be made to preserve and protect the environment from marine and atmospheric pollution and any other form of pollution, including office waste.

The Group's vessels are maintained and operated in accordance with the MARPOL convention (the International Convention for the Prevention of Pollution from Ships). This ensures that air and sea pollution is kept at the lowest practicable level.

The Group operates a zero spill policy. The Group's objective is to eliminate the possibility of pollution at source by ensuring that high standards of safety and awareness are maintained and that all relevant legislation and conventions are followed for both its sea and shore activities. Additionally, the Group is committed to continuous improvement of the methods that are used to carry out and achieve this objective, including the use of equipment and practices that minimise waste generation.

Selection of international certificates held by Group companies:

- ISO 14001:2004 Environmental Certificate by Lloyds Register
- MARPOL Sewage Pollution Prevention Certificate
- MARPOL Air Pollution Prevention Certificate
- IAFS International Anti-Fouling System Certificate
- MARPOL Oil Pollution Prevention Certificate
- Document of Compliance for Anti-fouling System
- MARPOL Garbage Pollution Prevention Attestation

- Document of Compliance by Estonian Maritime Administration
- Document of Compliance by Finnish Maritime Administration
- Document of Compliance by Swedish Maritime Administration
- Document of Compliance by Latvian Maritime Administration

As a major tax-payer in Estonia, Finland and Sweden, the Group believes that financial success can only be guaranteed through responsible and sustainable development. Therefore, each year, the Group gives a significant share of its success back to society and the environment in which the Company operates.

Group entities are actively involved in supporting many public initiatives and events, especially youth and sports organisations. Being one of the largest Estonian companies in terms of the number of employees, it has always been the Group's goal to encourage its employees to participate in social events for the sake of the environment and society.

There are many areas which the Group supports and sponsors. The environment, children and young people, and sports are areas which are considered to be the most important in all the countries in which Tallink has its operations.

A more detailed overview of the environmental and social responsibility policies and activities are provided in the Group's Yearbook.

OUTLOOK

The Group maintains consistent focus on developing the product offering to attract more passengers and increase revenue from retail sales. The ship renovation programme extends over several years and the Group will continue to refurbish the shops, restaurants and cabins in selected ships to develop and improve the total product offering to its customers.

RISKS

The Group's business, financial position and operating results could be materially affected by various risks. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are immaterial or unlikely, could also impair our business. The order of presentation of the risk factors below is not intended to be an indication of the probability of their occurrence or of their potential effect on our business.

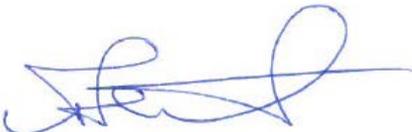
- Accidents, disasters
- Macroeconomic developments
- Changes in laws and regulations
- Relations with trade unions
- Increase in the fuel prices and interest rates
- Market and customer behaviour

MANAGEMENT BOARD'S CONFIRMATION

The Management Board confirms that to the best of their knowledge the management report of Tallink Grupp AS for the 2017 financial year presents a true and fair view of significant events and their impact on the Group's results and financial position and includes an overview of the main risks and uncertainties.



Janek Stalmeister
Chairman of the Management Board



Andres Hunt
Vice Chairman of the Management Board



Lembit Kitter
Member of the Management Board

Tallinn, 23 April 2018

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December, in thousands of EUR	2017	2016	Notes
Revenue	966 977	937 805	4
Cost of sales	-772 372	-745 223	5
Gross profit	194 605	192 582	
Sales and marketing expenses	-71 339	-72 268	5
Administrative expenses	-53 672	-50 973	5
Other operating income	2 873	2 450	
Other operating expenses	-509	-184	
Result from operating activities	71 958	71 607	
Finance income	12 738	10 514	5
Finance costs	-33 987	-37 289	5
Share of profit of equity-accounted investees	40	13	12
Profit before income tax	50 749	44 845	
Income tax	-4 253	-741	6
Net profit attributable to equity holders of the Parent	46 496	44 104	
Other comprehensive income/expense			
Exchange differences on translating foreign operations	13	-469	
Other comprehensive income/expense for the year	13	-469	
Total comprehensive income attributable to equity holders of the Parent	46 509	43 635	
Basic and diluted earnings per share (in EUR per share)	0.069	0.066	7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, in thousands of EUR	2017	2016 restated ¹	2015 restated ¹	Notes
ASSETS				
Cash and cash equivalents	88 911	78 773	81 976	8
Trade and other receivables	46 466	38 674	36 583	9
Prepayments	5 395	7 926	5 274	10
Prepaid income tax	40	91	1 224	
Inventories	40 675	38 719	29 197	11
Current assets	181 487	164 183	154 254	
Investments in equity-accounted investees	403	363	350	12
Other financial assets	344	348	308	13
Deferred income tax assets	18 722	18 791	19 410	6
Investment property	300	300	300	
Property, plant and equipment	1 308 441	1 304 897	1 311 418	14
Intangible assets	48 900	50 127	52 726	15
Non-current assets	1 377 110	1 374 826	1 384 512	
TOTAL ASSETS	1 558 597	1 539 009	1 538 766	
LIABILITIES AND EQUITY				
Interest-bearing loans and borrowings	159 938	106 112	81 889	16
Trade and other payables	95 548	106 970	92 170	17
Derivatives	29 710	0	0	24
Dividends payable to shareholders	3	4	0	
Income tax liability	34	10	4 567	
Deferred income	31 429	30 895	28 906	18
Current liabilities	316 662	243 991	207 532	
Interest-bearing loans and borrowings	400 968	452 793	467 447	16
Derivatives	4 688	32 359	42 863	24
Other liabilities	0	0	192	
Non-current liabilities	405 656	485 152	510 502	
Total liabilities	722 318	729 143	718 034	
Share capital	361 736	361 736	404 290	19
Share premium	639	639	639	19
Reserves	68 946	68 774	65 083	19
Retained earnings	404 958	378 717	350 720	
Equity attributable to equity holders of the Parent	836 279	809 866	820 732	
Equity	836 279	809 866	820 732	
TOTAL LIABILITIES AND EQUITY	1 558 597	1 539 009	1 538 766	

¹ For further information see also Note 25 Correction of Errors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, in thousands of EUR	2017	2016	Notes
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period	46 496	44 104	
Adjustments for:			
Depreciation and amortisation	86 371	77 858	14, 15
Net loss on disposals of property, plant and equipment	-1 903	-83	
Net interest expense	23 744	27 980	5
Net expense/income from derivatives	5 631	-6 215	5
Profit from equity-accounted investees	-40	-13	12
Net unrealised foreign exchange gain/loss	-7 564	4 889	
Share option programme reserve	0	-910	
Income tax	4 253	741	6
Adjustments	110 492	104 247	
Changes in:			
Receivables and prepayments related to operating activities	-6 707	-4 969	
Inventories	-1 956	-9 522	
Liabilities related to operating activities	-12 140	16 785	
Changes in assets and liabilities	-20 803	2 294	
Cash generated from operating activities	136 185	150 645	
Income tax paid	-7	-3 265	
NET CASH USED IN OPERATING ACTIVITIES	136 178	147 380	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment and intangible assets	-219 207	-68 638	
Proceeds from disposals of property, plant, equipment	132 448	169	
Interest received	1	74	
NET CASH USED IN INVESTING ACTIVITIES	-86 758	-68 395	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	184 000	280 000	
Repayment of loans	-134 321	-313 524	
Change in overdraft	-40 110	36 713	16
Payments for settlement of derivatives	-3 592	-4 289	
Payment of finance lease liabilities	-102	-99	
Interest paid	-20 744	-24 083	
Payment of transaction costs related to loans	-216	-2 989	
Dividends paid	-20 096	-13 398	19
Reduction of share capital	-1	-40 189	
Income tax on dividends paid	-4 100	-330	19
NET CASH USED IN FINANCING ACTIVITIES	-39 282	-82 188	
TOTAL NET CASH FLOW	10 138	-3 203	
Cash and cash equivalents at the beginning of period	78 773	81 976	
Increase/decrease in cash and cash equivalents	10 138	-3 203	8
Cash and cash equivalents at the end of period	88 911	78 773	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of EUR	Share capital	Share premium	Trans-lation reserve ¹	Ships re-valuation reserve ²	Manda-tory legal reserve ¹	Reserve for treasury shares ¹	Share option programme reserve ³	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2015 restated ⁴	404 290	639	458	47 693	20 185	-4 163	910	350 720	820 732	820 732
Net profit for 2016	0	0	0	0	0	0	0	44 104	44 104	44 104
Other comprehensive expense for 2016	0	0	-469	0	0	0	0	0	-469	-469
Total comprehensive income for 2016	0	0	-469	0	0	0	0	44 104	43 635	43 635
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2015	0	0	0	0	2 954	0	0	-2 954	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	0	-13 398	-13 398	-13 398
Share-based payment transactions (Note 20)	0	0	0	0	0	0	-910	0	-910	-910
Cancellation of own shares	-2 361	0	0	0	0	4 163	0	-1 802	0	0
Reduction of share capital	-40 193	0	0	0	0	0	0	0	-40 193	-40 193
Transactions with owners of the Company, recognised directly in equity	-42 554	0	0	-2 047	2 954	4 163	-910	-16 107	-54 501	-54 501
As at 31 December 2016 restated ⁴	361 736	639	-11	45 646	23 139	0	0	378 717	809 866	809 866

In thousands of EUR	Share capital	Share premium	Translation reserve ¹	Ships re-valuation reserve ²	Mandatory legal reserve ¹	Reserve for treasury shares ¹	Share option programme reserve ³	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2016 restated ⁴	361 736	639	-11	45 646	23 139	0	0	378 717	809 866	809 866
Net profit for 2017	0	0	0	0	0	0	0	46 496	46 496	46 496
Other comprehensive income for 2017	0	0	13	0	0	0	0	0	13	13
Total comprehensive income for 2017	0	0	13	0	0	0	0	46 496	46 509	46 509
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2016	0	0	0	0	2 206	0	0	-2 206	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	0	-20 096	-20 096	-20 096
Transactions with owners of the Company, recognised directly in equity	0	0	0	-2 047	2 206	0	0	-20 255	-20 096	-20 096
As at 31 December 2017	361 736	639	2	43 599	25 345	0	0	404 958	836 279	836 279

¹ For further information see also Note 19 Share Capital and Reserves

² For further information see also Note 14 Property, Plant and Equipment and Note 19 Share Capital and Reserves

³ For further information see also Note 20 Share Option Programme

⁴ For further information see also Note 25 Correction of Errors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The consolidated financial statements of Tallink Grupp AS (the "Parent") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2017 were authorised for issue by the Management Board on 23 April 2018.

According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the Management Board must be agreed by the Supervisory Board, and approved by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the Management Board and the right to request that a new annual report be prepared.

Tallink Grupp AS is a public limited company incorporated and domiciled in Estonia, with a registered office at Sadama 5/7 Tallinn. Tallink Grupp AS shares have been publicly traded on the Tallinn Stock Exchange since 9 December 2005.

The principal activities of the Group are related to marine transportation in the Baltic Sea (passenger and cargo transportation). Further information on the principal activities of the Group is presented in Note 4 Segment Information. As at 31 December 2017 the Group employed 7 311 people (7 234 as at 31 December 2016).

Note 2 BASIS OF PREPARATION

2.1. Statement of compliance

The consolidated financial statements of Tallink Grupp AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (hereinafter: IFRS EU).

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- derivative financial instruments are measured at fair value (Note 24)
- available-for-sale financial assets are measured at fair value (Note 13)
- investment property is measured at fair value
- ships are measured at revalued amounts (Note 14)
- deferred income (Club One points) (Note 18)

2.3. Changes in accounting policies

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising from obtaining or losing control of subsidiaries, changes in fair value).

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2017 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity’s risk management and hedging activities are required.

The Group does not expect IFRS 9 (2014) to have a material impact on the financial statements. The classification and measurement of the Group’s financial instruments are not expected to change under IFRS 9 because of the nature of the Group’s operations and the types of financial instruments that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the expected credit loss model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

Effective for annual periods beginning on or after 1 January 2018.

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Group’s performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group’s financial statements, management does not expect that the new standard, when initially applied, will have material impact on

the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

It is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since it will require the Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee.

Contractual arrangements disclosed in Note 2.5, Operating lease – the Group as lessee, would be in the scope of the new standard. The Group has not yet prepared an analysis of the expected quantitative impact of the new standard.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group, because there are currently no intentions to enter into share-based payment transactions.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an Group initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

2.4. Functional and presentation currency

The figures reported in the financial statements are presented in euros, which is the Parent company's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise indicated.

2.5. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS (EU) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Operating leases – the Group as lessee

As at 31 December 2017, the Group had entered into lease agreements for five hotel buildings, three office buildings and one warehouse building (31 December 2016: five hotel buildings, three office buildings and one warehouse building). Management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 21 for more detailed information on the minimum lease payments of the lease agreements.

Supplier contracts - whether an arrangement contains embedded derivatives

As at 31 December 2017, the Group had entered into a fixed-price fuel delivery contract. Management has determined that, although the contract contains an embedded derivative, this derivative should not be separated from the host contract as the economic characteristics and risks of the embedded derivative are closely related to those of the host contract.

Assumptions and estimation uncertainty

The following assumptions and estimation uncertainties have a risk of resulting in a material adjustment in the next financial year:

Fair value of ships

For the purpose of revaluation, the Group determined the fair value of its ships as at 31 December 2017. The fair value of ships depends on many factors, including the year of construction, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Management is of the opinion that as at 31 December 2017 the carrying value of ships as a group did not materially differ from their fair value. Therefore, no revaluation was performed as at 31 December 2017. Further details are given in Note 3.4 and Note 14.

Determination of useful life of property, plant and equipment and intangible assets

Management has estimated the useful lives and residual values of property, plant and equipment and intangible assets, taking into consideration the volumes of business activities, historical experience in this area and future outlook. Management's opinion of the useful lives of the Group's property, plant and equipment and the Group's intangible assets is disclosed in Notes 3.4 and 3.5 respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2017 amounted to EUR 11 066 thousand (31 December 2016: EUR 11 066 thousand). Further details are given in Note 15.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

A deferred tax asset is recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. Further details are given in Note 6.

Fair value of derivatives

The fair values of all derivative financial instruments have been determined by using the Bloomberg Professional valuation functions. Valuation methods are Hull White Model, Black76 – Model and Jarrow – Yildirim – Model. Inputs used are EUR interest rates term structure, EUR swaption and cap volatilities, inflation swap rates, EURIBOR and NIBOR FRA rates. Inputs used are mainly unobservable.

Customer loyalty programme

Customer loyalty programme (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group recognises the credits that it awards to customers as a separately identifiable component of revenue, which is deferred at the date of the initial sale. The credits are recognised at fair value based on the actual use and the estimated timing and value of realisation. Further details are given in Note 18.

Note 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3.1. Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed or has rights to variable returns from its involvements with the investee and it has the ability to affect those returns through its power over the investee and there is a link between power and returns. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as at the same reporting date. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Investments in equity-accounted investees

Equity-accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Equity-accounted investees are accounted for using the equity method (equity-accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign currency

Foreign currency transactions

The Parent's functional currency and presentation currency is the euro. Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference

between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

3.3. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents are cash on hand, call deposits, short-term bank deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the financial liability. A financial liability is derecognised when the underlying obligation is discharged or cancelled or expires.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and cash equivalents, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

The Group's investments in equity and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses and foreign currency differences on available-for-sale instruments, are recognised in other comprehensive income and presented in equity.

Derivative financial instruments

The Group uses derivative financial instruments such as swaps, options and forwards to manage its risks associated with changes in exchange rates and interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value; changes therein are recognised in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate derivative contracts is determined using generally accepted valuation methods such as Hull White Model, Black76 – Model and Jarrow – Yildirim – Model.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for treasury shares. When treasury shares are subsequently sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3.4. Property, plant and equipment

Recognition and measurement

Property, plant and equipment, except ships, are measured at cost, less accumulated depreciation and any impairment.

Cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs (see 3.8). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Ships are measured at revalued amounts (i.e. fair value less depreciation charged subsequent to the date of the revaluation). Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

At the revaluation date, the carrying amount of ships is replaced with their fair value at the date of revaluation and accumulated depreciation is eliminated. Any revaluation surplus is recognised in other comprehensive income and presented in the revaluation reserve in equity. A revaluation deficit is recognised in loss, except that a deficit offsetting

a previous surplus on the same asset, previously recognised in other comprehensive income, is offset against the surplus in the “revaluation of ships”.

An annual transfer from the revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets’ original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Subsequent costs

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised (e.g. replacements of parts of some items, dry-dockings with intervals of two or five years) are added to the carrying amount of the assets, if the recognition criteria are met, i.e. (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognised. All other expenditures are recognised as an expense in the period in which they are incurred.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is discontinued when the carrying value of an asset equals its residual value. The residual value of ships is based on their estimated realisable value at the end of their useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of assets as follows:

- | | |
|-----------------------|----------------|
| ▪ buildings | 5 to 50 years |
| ▪ plant and equipment | 3 to 10 years |
| ▪ ships | 17 to 35 years |
| ▪ other equipment | 2 to 5 years |

Land is not depreciated.

Depreciation is calculated separately for two components of a ship: the vessel itself and dry-docking expenses as a separate component. This is based on the industry accounting practice.

The depreciation charge is calculated for each part of a ship on a straight-line basis over the estimated useful life as follows:

- | | |
|------------------------------------|----------------|
| ▪ ships | 17 to 35 years |
| ▪ capitalised dry-docking expenses | 2 to 5 years |

The residual values, depreciation methods and useful lives of items of property, plant and equipment are reviewed at least at each financial year-end and, if an expectation differs from previous estimates, the change is accounted for as a change in an accounting estimate.

The residual value is calculated as a percentage of the gross carrying amount of the ship.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss (in “other operating income” or “other operating expenses”) in the financial year the asset is derecognised.

3.5. Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition see Note 3.1.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is capitalised only when the Group can demonstrate (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete and its ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure attributable to the asset during development.

Following the initial recognition of development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project. Amortisation of the asset begins when development is completed and the asset is available for use.

Trademark

The cost of a trademark acquired as part of an acquisition of a business is its fair value as at the date of acquisition. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets

Other intangible assets (the licences and development costs of IT programs, acquired customer contracts) are initially recognised at cost. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category according to the function of the intangible asset.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated on a straight-line basis over the estimated useful life of an intangible asset as follows:

- trademarks 20 years
- other intangible assets 5 to 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

3.6. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, rather than for sale in the ordinary course of business, use in the supply of goods or services, or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified to property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

3.7. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The costs of inventories, consisting mostly of fuel, and merchandise purchased for resale are assigned by using the weighted average cost method and include expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing the inventories to their existing location and condition.

3.8. Borrowing costs

Borrowing costs are recognised as an expense when incurred, except those, which are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale (e.g. new ships). Borrowing costs related to the building of new ships are capitalised as part of the cost of related assets up to the delivery date.

3.9. Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than ships, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10. Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus plan if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.11. Share-based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees became unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share purchase plan is measured by independent appraisers. The fair value of the employee share-options and share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the spot price on the measurement date, the exercise price of the instrument, expected volatility, the option maturity date, the risk-free interest rate and expected dividends.

3.12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where discounting is used, the increase in the provision due to the passage of time is recognised in "finance costs".

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.13. Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

The Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and lease payments are recognised as operating lease expenses on a straight-line basis over the lease term.

The Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

3.14. Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates and sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods – sales in restaurants and shops

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, i.e. at the time of selling the goods to the customer at the retail stores, bars and restaurants, generally for cash or by card payment.

Ticket sale and sale of cargo transport

Revenue from tickets and cargo transport is recognised as the services are rendered. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to prepaid tickets and cargo shipments.

Sales of hotel accommodation

Revenue from sales of hotel accommodation is recognised when the rooms have been used by the clients. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to prepaid room days.

Revenue from travel packages

The Group sells packages, which consist of a ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognises the sales of packages in its revenue in full instead of recognising only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of the package; (2) has discretion in selecting the suppliers for the service; and (3) bears credit risk. Revenue from sales of packages is recognised when the package is used by the client.

Charter income

Charter income arising from operating charters of ships is accounted for on a straight-line basis over the charter terms. In these financial statements the term 'charter' refers to 'lease' as defined in IFRS (EU).

Customer Loyalty Programme

For the customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (Club One points) and ticket sale. The amount allocated to the loyalty programme is deferred, and recognised as revenue when the Group has fulfilled its obligation to supply the services under the terms of programme or when it is no longer probable that the points under the programme will be redeemed. For further information, see Note 18.

3.15. Government grants

Government grants are initially recognised as deferred income where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants related to an expense item are recognised as a reduction of the expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

3.16. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on derivative instruments that are recognised in profit or loss.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on derivative instruments that are recognised in profit or loss. Borrowing costs not directly attributable to the acquisition or construction of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

3.17. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or expense, in which case income tax is also recognised in other comprehensive income or expense.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the distribution of dividends. See below, Group companies in Estonia.

With the exception of Group companies domiciled in Estonia, deferred tax is recognised providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Group companies in Estonia

According to the Estonian Income Tax Act, for Group companies registered in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax (calculated as 20/80 of the net dividends to be paid in 2018; 20/80 in 2017). The potential tax liability from the distribution of the entire retained earnings as dividends is not recorded in the statement of financial position for Estonian group companies. The amount of the potential tax liability from the distribution of dividends depends on the time, amount and sources of the dividend distribution.

From 1 January 2018 there is an updated dividend taxation regime in Estonia including a lower income tax rate of 14% (or 14/86 on net amount of the distribution) for regular profit distributions. The lower tax rate may be applied if the amount of the distribution does not exceed the company's last three years' average profit distributions subject to taxation in Estonia. The portion of the distribution exceeding this threshold remains taxable at 20%.

In practice, a lower tax rate can be applied to dividends distributed in annual periods beginning on or after 2019. However, as dividends paid to individuals will be subject to an additional 7% income tax withholding, the change does not lighten the tax burden of shareholders who are individuals.

Income tax from the payment of dividends is recorded as income tax expense in the period in which the dividends are declared. The maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 21.

Group companies in Cyprus

According to the income tax law of Cyprus, the net profit of shipping companies registered in Cyprus and operating with ships registered in the Cyprus ship register or/and having their business outside Cyprus, and the dividends paid by these companies, are not subject to income tax. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause deferred income tax.

Other foreign Group companies and permanent establishments

In accordance with the income tax laws of other jurisdictions, the company's net profit and the profit from permanent establishments adjusted for temporary and permanent differences determined by the local income tax acts is subject to current income tax in those countries in which the Group companies and permanent establishments have been registered (see Note 6).

Tax to be paid is reported under current liabilities and deferred tax positions are reported under non-current assets or liabilities.

According to tax law changes that came into force from 1 January 2018, in Latvia profits of companies derived in 2018 and in subsequent periods will be taxed similarly to Estonia at the moment of distribution with corporate income tax at a rate of 20% (or 20/80 of the net amount). There are certain rules for the transition period for taking into account tax losses carried forward, tax prepayments made etc.

3.18. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

3.19. Segment reporting

The Group determines and presents operating segments based on the information that is provided internally to the Group's Management Board that is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Management Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing related products or services (operating segment), and which is subject to risks and returns that are different from those of other segments.

Segment information is presented in respect of the Group's geographical segments (by routes).

Inter-segment pricing is determined on an arm's length basis.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of expenses that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include administrative expenses, interest expense, income tax expense and other expenses that arise at the Group level and are related to the Group as a whole. Expenses incurred at the Group level on behalf of a segment are allocated to the segment on a reasonable basis, if these expenses relate to the segment's operating activities and can be directly attributed or allocated to the segment.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not

include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are those liabilities that are incurred by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Expenses, assets and liabilities which are not directly related to a segment or cannot be allocated to a segment are presented as unallocated expenses, assets and liabilities of the Group.

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.20. Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Ships (Level 3)

The market value of ships is the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The Group uses independent appraisers to determine the fair value of the ships. The frequency of revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required.

Intangible assets (Level 3)

The fair value of patents and trademarks acquired in a business combination is determined using the relief from royalty method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Investment property (Level 3)

Fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

The Group uses independent appraisers having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Share-based payments (Level 2)

The fair value of the employee share options has been measured using Black-Scholes formula. Services were taken into account in measuring fair value.

Derivatives (Level 3)

The fair value of interest rate swaps is based on independent appraisers' valuations. Fair values reflect the credit risk, interest rate risk and foreign exchange risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Non-derivative financial liabilities (Levels 1 and 2)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Deferred income (Level 3)

The amount allocated to the Club One points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the Club One points themselves is not directly observable. The fair value of the services for which the Club One points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. Such amount is recognised as deferred income.

3.21. Separate financial statements of the Parent company

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate primary financial statements (i.e. statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, collectively referred to as primary financial statements) of the Parent. The separate primary financial statements of Tallink Grupp AS are disclosed in Note 27 Primary Financial Statements of the Parent. These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries which are stated at cost in the separate primary financial statements of the Parent.

Note 4 SEGMENT INFORMATION

The Group's operations are organized and managed separately according to the nature of the different markets. As at 31 December 2017 the Group operated in the following business segments:

- Estonia - Finland route: 4 ships (31 December 2016: 4 ships)
- Estonia - Sweden route: 3 ships (31 December 2016: 3 ships)
- Latvia - Sweden route: 2 ships (31 December 2016: 2 ships)
- Finland - Sweden route: 4 ships (31 December 2016: 4 ships)
- Other segment
 - Ships chartered out by the Group: 1 ship (31 December 2016: 3 ships)
 - Hotels in Estonia: 4 hotels (31 December 2016: 4 hotels)
 - Hotels in Latvia : 1 hotel (31 December 2016: 1 hotel)
 - Shops in Estonia: 7 shops (31 December 2016: 7 shops)
 - Restaurants in Estonia: 1 restaurant (31 December 2016: 0 restaurants)

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 December 2017 and 31 December 2016.

Geographical segments – by the location of assets

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
2017							
Sales to external customers	354 497	117 246	66 453	344 833	83 948	0	966 977
Intersegment sales	0	0	0	0	10 237	-10 237	0
Revenue	354 497	117 246	66 453	344 833	94 185	-10 237	966 977
Segment result	77 877	10 578	-1 200	18 475	17 536	0	123 266
Unallocated expenses							-51 308
Net financial items							-21 249
Share of profit of equity-accounted investees							40
Profit before income tax							50 749
Income tax							-4 253
Net profit for the period							46 496
Segment's assets	450 273	279 270	128 303	518 053	78 965	-430	1 454 434
Unallocated assets							104 163
Assets							1 558 597
Segment's liabilities	48 103	18 009	8 134	64 339	7 870	-430	146 025
Unallocated liabilities							576 293
Liabilities							722 318
Capital expenditures							
Segment's property, plant and equipment	190 558	6 445	5 568	9 520	1 241	0	213 332
Unallocated property, plant and equipment							1 002
Segment's intangible assets	0	0	3	5	155	0	163
Unallocated intangible assets							4 757
Depreciation	17 392	11 410	7 399	29 431	12 608	0	78 240
Unallocated depreciation							1 984
Amortisation	1 155	250	99	725	167	0	2 396
Unallocated amortisation							3 751

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
2016							
Sales to external customers	353 290	110 062	44 576	337 352	92 525	0	937 805
Inter-segment sales	0	0	0	0	9 944	-9 944	0
Revenue	353 290	110 062	44 576	337 352	102 469	-9 944	937 805
Segment result	75 444	11 563	6 909	15 317	11 081	0	120 314
Unallocated expenses							-48 707
Net financial items							-26 775
Share of profit of equity-accounted investees							13
Profit before income tax							44 845
Income tax							-741
Net profit for the period							44 104
Segment assets	229 652	282 230	128 642	537 549	221 639	-2 103	1 397 609
Unallocated assets							141 400
Assets							1 539 009
Segment liabilities	33 706	12 036	6 345	67 143	9 430	-2 103	126 557
Unallocated liabilities							598 896
Liabilities							725 453
Capital expenditures							
Segment's property, plant and equipment	21 680	1 365	292	14 080	852	0	38 269
Unallocated property, plant and equipment							27 514
Segment's intangible assets	91	0	4	25	334	0	454
Unallocated intangible assets							2 621
Depreciation	12 946	9 424	2 502	29 946	14 810	0	69 628
Unallocated depreciation							2 634
Amortisation	1 059	222	108	614	72	0	2 075
Unallocated amortisation							3 521

Revenue by service

For the year ended 31 December, in thousands of EUR	2017	2016
Ticket sales	242 748	236 028
Sales of cargo transport	117 718	103 900
Sales of accommodation	20 810	19 592
Restaurant and shop sales on-board and on mainland	536 742	521 456
Income from charter of vessels	18 802	25 507
Other	30 157	31 322
Total revenue of the Group	966 977	937 805

Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

Cost of sales

For the year ended 31 December, in thousands of EUR	2017	2016	Note
Cost of goods sold	-227 803	-225 047	
Port & stevedoring costs	-104 756	-101 010	
Fuel costs	-85 870	-74 250	
Staff costs	-160 041	-152 446	
Ships' operating expenses	-79 723	-89 877	
Depreciation and amortisation	-78 169	-69 510	14, 15
Cost of package sales	-11 165	-9 420	
Other costs	-24 845	-23 663	
Total cost of sales	-772 372	-745 223	

Sales and marketing expenses

For the year ended 31 December, in thousands of EUR	2017	2016	Note
Advertising expenses	-34 372	-34 821	
Staff costs	-32 071	-33 114	
Depreciation and amortisation	-2 467	-2 193	14, 15
Other costs	-2 429	-2 140	
Total sales and marketing expenses	-71 339	-72 268	

Administrative expenses

For the year ended 31 December, in thousands of EUR	2017	2016	Note
Staff costs	-23 050	-24 469	
Depreciation and amortisation	-5 735	-6 155	14, 15
Other costs	-24 887	-20 349	
Total administrative expenses	-53 672	-50 973	

Specification of staff costs included in the cost of sales, sales and marketing expenses and administrative expenses

For the year ended 31 December, in thousands of EUR	2017	2016
Wages and salaries	-187 990	-183 844
Government grants	38 583	39 886
Social security costs	-60 521	-61 006
Staff training costs	-1 906	-2 246
Other staff costs	-3 328	-2 819
Total staff costs	-215 162	-210 029

During the reporting period EUR 38 583 thousand was deducted from the cost of sales in connection with government grants related to seamen's salaries in Finland and Sweden (2016: EUR 39 886 thousand). The grants are received according to law. The government grants receivable are disclosed in Note 9.

The average number of the Group's employees and specification according to employment relationship are presented in the table below.

For the year ended 31 December	2017	2016
Employees under employment contract	7 048	6 855
Employees under service contract	355	305
Members of the Management Board	3	3
Total average number of employees	7 406	7 163

Finance income and finance costs recognised in profit or loss

For the year ended 31 December, in thousands of EUR	2017	2016
Net foreign exchange gains	8 126	0
Income from interest rate swaps	4 611	3 336
Income from foreign exchange derivatives	0	7 168
Interest income on financial assets not measured at fair value through profit or loss	1	10
Total finance income	12 738	10 514
Net foreign exchange losses	0	-5 010
Expenses from interest rate swaps	-3 592	-4 289
Expenses from foreign exchange derivatives	-6 650	0
Interest on financial liabilities measured at amortised cost	-23 745	-27 990
Total finance costs	-33 987	-37 289
Net finance costs	-21 249	-26 775

Note 6 INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, Latvian and Russian subsidiaries and Canadian and Australian permanent establishments

In accordance with the Swedish, Finnish, Latvian, Russian, Canadian and Australian tax laws, the company's net profit adjusted for temporary and permanent differences determined in the income tax acts is subject to income tax in Finland, Sweden, Latvia, Russia, Canada and Australia. In Finland the tax rate as at 31 December 2017 was 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 38% and in Australia 30% (as at 31 December 2016 in Finland 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 38% and in Australia 30%).

Income tax expense

Major components of the Group's income tax expense for the years ended 31 December:

For the year ended 31 December, in thousands of EUR	2017	2016
Latvian subsidiaries	0	-17
Finnish subsidiaries	-78	-53
German subsidiary	-6	-7
Estonian subsidiaries and Parent company	-4 100	-330
Permanent establishments ¹	0	285
Current period tax expense	-4 184	-122
Swedish subsidiaries	283	-477
Finnish subsidiaries	-287	-160
German subsidiaries	-8	11
Latvian subsidiaries	-57	7
Deferred tax expense	-69	-619
Total tax expense	-4 253	-741

¹ During 2015 Tallink Grupp AS chartered out two ships providing accommodation services in Canada and Australia that gave rise to permanent establishments for taxation purposes. Therefore Tallink Grupp AS was subject to Canadian and Australian corporate income tax on its activity in these countries. In April 2015 in Canada and in December 2015 in Australia the permanent establishments ceased to exist. The fiscal year in Australia is from 1 July to 30 June. In 2016 the corporate income tax returns to the Canadian and Australian Tax Authorities were finalized giving rise to corporate income tax income as provisions had been made using conservative principles.

Reconciliation of the effective tax rate

For the year ended 31 December, in thousands of EUR	2017	%	2016	%
Profit before tax	50 749		44 845	
Tax using the Company's domestic rate	0	0.00	0	0.00
Tax arising on dividends declared in Estonia ¹	-4 100	-8.08	-330	-0.74
Current income tax expense in foreign jurisdiction	-84	-0.17	208	0.46
Change in recognised tax losses	-587	-1.16	-1 220	-2.72
Change in temporary differences	518	1.02	601	1.34
Income tax expense	-4 253	-8.39	-741	-1.65

¹ Corporate income tax paid in Australia decreased tax arising on dividends declared in Estonia in 2017 by EUR 2 386 thousand (2016: EUR 3 019 thousand).

Deferred tax assets and liabilities

According to Russian, Latvian, Finnish and Swedish legislation it is permissible to use higher depreciation and amortisation rates for taxation purposes and thereby defer tax payments. These deferrals are shown as a deferred tax liability. The Finnish and Swedish subsidiaries have also carry-forwards of tax losses, which are considered in the calculation of the deferred tax asset.

Deferred tax assets and liabilities are attributable to the following

As at 31 December, in thousands of EUR	Assets	Liabilities	Assets	Liabilities
	2017	2017	2016	2016
Tax loss carry-forward ¹	23 670	0	24 257	0
Property, plant and equipment	3	0	68	0
Intangible assets	0	-4 951	0	-5 534
Tax assets / liabilities	23 673	-4 951	24 325	-5 534
Offset of assets and liabilities	-4 951	4 951	-5 534	5 534
Tax assets	18 722	0	18 791	0

¹ Deferred tax assets of EUR 21 399 thousand (2016: EUR 22 269 thousand) in Finland and of 2 271 thousand (2016: EUR 1 988 thousand) in Sweden have been recognised in respect of the losses carried forward. The recognised Finnish tax losses will expire from 2023 to 2027 (2016: 2023-2026) and the Swedish tax losses have no expiration date. The tax losses of the Finnish subsidiary that will expire before 2023 have not been recognised due to estimation uncertainty. Such unrecognised tax losses amounted to EUR 116 947 thousand as at 31 December 2017 (EUR 101 447 thousand as at 31 December 2016).

The Group has recognised deferred tax assets to the extent that the losses carried forward will be offset against projected future taxable profits. According to the Group management's estimations, the Finnish subsidiary will be profitable from 2020 onwards. The estimations are based on the business plan of the Finnish operations. The revenue growth rate of the Finnish operations for the years 2018-2027 used in the calculations is 2-2.5% and the growth rate used for the cost increase is 0.5-2% (as at 31 December 2016, the revenue growth rate for the years 2017-2026 of the Finnish operations used in the calculations was 2% and the growth rate used for the cost increase was 0-2%).

The sensitivity of the value of recognised deferred tax assets to the main assumptions of the projected future taxable profits is as follows: 1) +/- 1 percentage point change in average revenue growth rate for the years 2018-2027 would change the value of recognised tax assets by EUR +9 336 thousand / EUR -15 179 thousand respectively; 2) +/- 1 percentage point change in average costs' growth rate for the years 2018-2027 would change the value of recognised tax assets by EUR -11 912 thousand / EUR +9 336 thousand respectively.

Movements in deferred tax balances

As at 31 December, in thousands of EUR	Balance	Recognised	Balance
	As at 31 December 2017	in profit/loss in 2017	As at 31 December 2016
Tax loss carry-forward	23 670	-587	24 257
Property, plant and equipment	3	-65	68
Intangible assets	-4 951	583	-5 534
Net deferred tax (asset)/liability	18 722	-69	18 791

Note 7 EARNINGS PER SHARE (EPS)

EPS are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

As at 31 December, in thousands	2017	2016
Shares issued	669 882	669 882
Shares outstanding	669 882	669 882

For the year ended 31 December, in thousands of EUR	2017	2016
Weighted average number of ordinary shares outstanding (in thousands)	669 882	669 882
Net profit attributable to equity holders of the Parent	46 496	44 104
EPS (EUR per share)	0.069	0.066

Note 8 CASH AND CASH EQUIVALENTS

As at 31 December, in thousands of EUR	2017	2016
Cash at bank and in hand	88 048	77 012
Short-term deposits	863	1 761
Total cash and cash equivalents	88 911	78 773

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2017 the rates were in the range of 0.00-0.01% and in 2016 in the range of 0.00-0.07%).

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the statement of financial position as at 31 December 2017 range up to 10 January 2018. As at 31 December 2017 and 31 December 2016 short-term deposits of EUR 863 thousand and EUR 1 761 thousand respectively could only be used for repayment of bank loans.

The Group's exposure to currency risk is disclosed in Note 24.

Note 9 TRADE AND OTHER RECEIVABLES

As at 31 December, in thousands of EUR	2017	2016
Trade receivables	28 510	25 060
Allowance for doubtful trade receivables	-698	-685
Government grants receivable	14 495	11 410
Other receivables	4 159	2 889
Total trade and other receivables	46 466	38 674

During the reporting period EUR 660 thousand of the trade receivables was expensed as doubtful and uncollectible (2016: EUR 468 thousand).

The Group's exposure to the credit and currency risks of receivables (excluding government grants receivable) is disclosed in Note 24. Additional information about government grants is disclosed in Note 5.

Note 10 PREPAYMENTS

As at 31 December in thousands of EUR	2017	2016
Prepaid expenses	4 328	5 663
Tax prepayments	1 067	2 263
Total prepayments	5 395	7 926

As at 31 December in thousands of EUR	2017	2016
Tax prepayments		
VAT	872	1 405
Other prepayments	195	858
Total tax prepayments	1 067	2 263

The balance of prepaid expenses includes mostly prepayments for insurance.

Note 11 INVENTORIES

As at 31 December, in thousands of EUR	2017	2016
Raw materials (mostly fuel)	3 502	2 790
Goods for sale	37 173	35 926
Prepayments to suppliers	0	3
Total inventories	40 675	38 719

In 2017 the write-down of inventories to net realisable value amounted to EUR 374 thousand (2016: EUR 281 thousand). The write-downs are included in cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of fuel price increases. At 31 December 2017 (as well as at 31 December 2016) there were no derivative contracts for fuel outstanding. For more information, see Note 24.

Note 12 INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2017 the Group had a 34% interest in the equity-accounted investee Tallink Takso AS, incorporated in Estonia (as at 31 December 2016: 34%).

In thousands of EUR	2017	2016
Investments at the beginning of financial year	363	350
Share of profit of equity-accounted investee	40	13
Investments at the end of financial year	403	363

The key figures of the equity-accounted investee Tallink Takso AS are below. The figures as at 31 December 2017 and for the year ended 31 December 2017 are unaudited. The figures reflect 100% of the assets, liabilities and result of the associate.

In thousands of EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2017	1 119	677	1 796	369	243	612
			Revenues	Expenses	Profit	Equity
For the year ended 31 December 2017			4 159	4 049	110	1 184

In thousands of EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2016	1 086	707	1 793	388	336	724
			Revenues	Expenses	Profit	Equity
For the year ended 31 December 2016			3 998	3 958	40	1 069

Note 13 OTHER FINANCIAL ASSETS

As at 31 December, in thousands of EUR	2017	2016
Available-for-sale financial assets	168	168
Other receivables (Note 24)	176	180
Total other financial assets	344	348

Note 14 PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total
Book value as at 31 December 2015	2 942	1 270 102	10 160	28 214	1 311 418
Additions	527	25 960	18 638	20 658	65 783
Disposals	0	0	-42	0	-42
Depreciation for the year	-944	-65 625	-5 693	0	-72 262
Book value as at 31 December 2016	2 525	1 230 437	23 063	48 872	1 304 897
Additions	223	193 645	18 426	2 040	214 334
Reclassification	101	46 341	-101	-46 341	0
Disposals	0	-130 289	-277	0	-130 566
Depreciation for the year	-541	-71 530	-8 153	0	-80 224
Book value as at 31 December 2017	2 308	1 268 604	32 958	4 571	1 308 441
As at 31 December 2016					
Gross carrying amount	13 661	1 577 886	50 705	48 872	1 691 124
Accumulated depreciation	-11 136	-347 449	-27 642	0	-386 227
As at 31 December 2017					
Gross carrying amount	5 927	1 633 053	67 060	4 571	1 710 611
Accumulated depreciation	-3 619	-364 449	-34 102	0	-402 170

Revaluation of ships

The Group used the valuations of three independent appraisers to determine the fair value of the ships. Fair value was determined by reference to market-based inputs, which are mainly unobservable (level 3 under the fair value hierarchy). The Group's management also take into consideration the expected cash flows for the chartered ships if needed. The following table shows the valuation techniques used in measuring the ships' fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
<p>Market comparison technique, cost approach: The independent appraisers consider both approaches. They scan the market and look at second-hand sales of similar ships taking place, as well as analyse the general demand for the particular ship in various parts of the world. Also they look at the construction cost of the ship less reasonable depreciation and at the new construction prices of similar ships today.</p>	<p>Sales prices of similar ships Level of the demand for particular ships Construction prices of ships Maintenance and repair programme of ships</p>

The frequency of revaluations depends on changes in fair values which are assessed at each year-end. When fair value differs materially from the carrying amount, further revaluation is performed. As at 31 December 2017 there were no material differences between the carrying amounts and fair values (as well as at 31 December 2016).

If the ships were measured using the cost model, the carrying amounts would be as follows:

As at 31 December 2017	In thousands of EUR
Cost	1 758 135
Accumulated depreciation	-533 130
Net carrying amount	1 225 005

As at 31 December 2016	In thousands of EUR
Cost	1 728 405
Accumulated depreciation	-543 614
Net carrying amount	1 184 791

Due to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as at 31 December 2017 by EUR 2 047 thousand (2016: EUR 2 047 thousand) and retained earnings were increased by the same amount.

As at 31 December 2017 the Group's ships with a book value of EUR 1 076 791 thousand (2016: EUR 911 713 thousand) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 16).

Contractual commitments

As at 31 December 2017 the Group didn't have substantial contractual commitments. As at 31 December 2016 the Group had a contractual commitment to pay for the new passenger ferry Megastar EUR 187 202 thousand. Megastar was delivered to the Group in January 2017.

Note 15 INTANGIBLE ASSETS

In thousands of EUR	Goodwill ¹	Trademark ²	Other ³	Assets under construction	Total
Book value as at 31 December 2015	11 066	30 586	9 084	1 990	52 726
Additions	0	0	78	2 997	3 075
Reclassification	0	0	2 954	-2 954	0
Disposals	0	0	-78	0	-78
Amortisation for the year	0	-2 916	-2 680	0	-5 596
Book value as at 31 December 2016	11 066	27 670	9 358	2 033	50 127
Additions	0	0	200	4 720	4 920
Reclassification	0	0	2 839	-2 839	0
Disposals	0	0	0	0	0
Amortisation for the year	0	-2 916	-3 231	0	-6 147
Book value as at 31 December 2017	11 066	24 754	9 166	3 914	48 900

As at 31 December 2016					
Cost	11 066	58 288	30 507	2 033	101 894
Accumulated amortisation	0	-30 618	-21 149	0	-51 767

As at 31 December 2017					
Cost	11 066	58 288	26 329	3 914	99 597
Accumulated amortisation	0	-33 534	-17 163	0	-50 697

Intangible asset classes

¹ Goodwill in the amount of EUR 11 066 thousand is related to the Estonia-Finland route segment. In the impairment test of goodwill related to the Estonia-Finland routes, the recoverable amount was identified based on value in use. Management calculated value in use using the results and margins achieved in the 2017 financial year, a revenue growth rate of 0% p.a. (2016: 0%) and a discount rate of 6% (2016: 6%). Five-year cash flow to perpetuity value was used. There was no need to recognise an impairment loss.

² A trademark of EUR 58 288 thousand was recognised in connection with the acquisition of Silja OY Ab in 2006. The fair value of the trademark at the acquisition date was determined using the relief from royalty method. As at 31 December 2017, the book value of the trademark was tested for impairment. For testing purposes the average annual revenue growth rate of 2.3% (2016: 2.0%), a royalty rate of 2.25% (2016: 2.25%) and a discount rate of 5.8% (2016: 6.0%) were used. There was no need to recognise an impairment loss.

³ Other intangible assets include mostly the licences and development costs of IT programs of EUR 12 232 thousand. The licenses have finite lives and are amortised over 5 to 10 years. Amortisation of intangible assets is recorded in profit or loss under cost of sales, sales and marketing expenses and administrative expenses.

Note 16 INTEREST-BEARING LOANS AND BORROWINGS

As at 31 December 2017, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	84	203	287
Unsecured bonds ¹	2018	91 288	0	91 288
Long-term bank loans	2016-2029	68 566	400 765	469 331
Total borrowings		159 938	400 968	560 906

As at 31 December 2016, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	92	281	373
Unsecured bonds ¹	2018	0	98 627	98 627
Overdraft	2017	40 110	0	40 110
Long-term bank loans	2016-2022	65 910	353 885	419 795
Total borrowings		106 112	452 793	558 905

¹ The change in the bond balance is attributable to movements in the exchange rate of NOK. A senior unsecured bond of NOK 900 million has a floating interest rate of 3-month NIBOR +5% and a maturity date of 18 October 2018.

As at 31 December 2017 the Group had the right to use bank overdrafts of up to EUR 75 000 thousand (2016: EUR 75 000 thousand). Bank overdrafts are secured with a commercial pledge of EUR 20 204 thousand (2016: EUR 20 204 thousand) and mortgages on ships (see Note 14). In the year ended 31 December 2017 the average effective interest rate of bank overdrafts was EURIBOR + 2.23% (2016: EURIBOR + 2.23%). As at 31 December 2017 the balance of overdrafts in use was zero (2016: EUR 40 110 thousand).

In the year ended 31 December 2017 the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 2.28% (2016: EURIBOR + 2.96%).

As at 31 December 2017 Tallink Grupp AS had given guarantees to Nordea Bank Plc and Danske Bank A/S for loans of EUR 226 903 thousand (2016: EUR 130 849 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc for the loan granted to Tallink Grupp AS. As at 31 December 2017 the book value of the loan was EUR 242 428 thousand (31 December 2016: EUR 288 946 thousand). Primary securities for the loans are the ships belonging to the overseas subsidiaries and a pledge of the shares in these subsidiaries.

The Group has issued counter guarantees to the commercial banks that have issued guarantees to several governmental authorities in favour of Group entities required to perform the Group's daily operations. As at 31 December 2017 the total amount of the guarantees was EUR 9 754 thousand (2016: EUR 7 694 thousand). The guarantees issued are not recognised in the statement of financial position as, according to historical experience and the Group management's estimations, none of them is expected to turn into an actual liability.

In the loan agreements signed with banks, the Group has agreed to comply with financial covenants related to ensuring certain equity, liquidity and other ratios. During the financial year 2017 (as well as in 2016) the Group complied with all financial covenants.

Reconciliation of liabilities arising from financing activities

In thousands of EUR	Bank overdrafts	Long term bank loans	Unsecured bonds	Finance leases	Derivatives	Reserves	Retained earnings	Total
Balance as at 1 January 2017, restated	40 110	419 795	98 627	373	32 359	68 774	378 717	1 038 755
Changes from financing cash flows								
Proceeds from loans	0	184 000	0	0	0	0	0	184 000
Repayment of loans	0	-134 321	0	0	0	0	0	-134 321
Change in overdraft	-40 110	0	0	0	0	0	0	-40 110
Payments for settlement of derivatives	0	0	0	0	-3 592	0	0	-3 592
Payment of finance lease liabilities	0	0	0	-102	0	0	0	-102
Interest paid	0	0	0	0	0	0	-20 744	-20 744
Payment of transaction costs related to loans	0	-216	0	0	0	0	0	-216
Dividends paid	0	0	0	0	0	0	-20 096	-20 096
Reduction of share capital	0	0	0	0	0	0	-1	-1
Income tax on dividends paid	0	0	0	0	0	0	-4 100	-4 100
Total changes from financing cash flows	-40 110	49 463	0	-102	-3 592	0	-44 941	-39 282
The effect of changes in foreign exchange rates	0	0	-7 567	-10	0	13	0	-7 564
Changes in fair value	0	0	0	0	5 631	0	0	5 631
Liability-related changes								
New finance leases	0	0	0	47	0	0	0	47
Transfer from retained earnings	0	0	0	0	0	2 206	-2 206	0
Transfer from revaluation reserve	0	0	0	0	0	-2 047	2 047	0
Termination of old finance leases	0	0	0	-21	0	0	0	-21
Amortization of capitalized borrowing costs	0	1 503	228	0	0	0	0	1 731
Capitalised borrowing costs	0	-1 430	0	0	0	0	0	-1 430
Reduction of share capital	0	0	0	0	0	0	1	1
Income tax on dividends paid	0	0	0	0	0	0	4 100	4 100
Interest paid	0	0	0	0	0	0	20 744	20 744
Total liability-related changes	0	73	228	26	0	159	24 686	25 172
Total equity-related changes	0	0	0	0	0	0	46 496	46 496
Balance as at 31 December 2017	0	469 331	91 288	287	34 398	68 946	404 958	1 069 208

Note 17 TRADE AND OTHER PAYABLES

As at 31 December, in thousands of EUR	2017	2016 restated ¹
Trade payables	43 097	53 514
Other payables	2 078	2 822
Payables to employees	24 421	24 487
Interest payable	3 323	2 071
Tax liabilities	18 046	18 725
Other accruals	4 583	5 351
Total trade and other payables	95 548	106 970

¹ For further information see also Note 25 Correction of Errors

The Group's exposure to currency and liquidity risks (excluding tax liabilities and other accruals) is disclosed in Note 24. Additional information about tax liabilities is disclosed below.

As at 31 December, in thousands of EUR	2017	2016
Salary-related taxes	12 933	14 063
Excise duties	1 618	1 902
VAT	3 485	2 759
Other taxes	10	1
Total tax liabilities	18 046	18 725

Note 18 DEFERRED INCOME

The Group measures the liability for outstanding Club One points in combination with the value of its services and the averages of the Club One points used to redeem the services, taking into account the pattern of use of the points by the customers and the expiry rates of the points. The calculations are performed for each segment.

As at 31 December, in thousands of EUR	2017	2016
Club One points	12 105	12 013
Prepaid revenue	19 324	18 882
Total deferred income	31 429	30 895

Note 19 SHARE CAPITAL AND RESERVES

As at 31 December, in thousands	2017	2016
The number of shares issued and fully paid	669 882	669 882
Total number of shares	669 882	669 882
As at 31 December, in thousands of EUR		
Share capital (authorised and registered)	361 736	361 736
Total share capital	361 736	361 736
Share premium	639	639
Total share premium	639	639

According to the articles of association of the Parent the maximum number of ordinary shares is 2 400 000 000. Each share grants one vote at the shareholders' general meeting. Shares acquired by the transfer of ownership are eligible for participating in and voting at a general meeting only if the ownership change is recorded in the Estonian Central Registry of Securities at the time used to determine the list of shareholders for the given shareholders' general meeting.

Ordinary shares grant their holders all the rights provided for under the Estonian Commercial Code – the right to participate in the general meeting, the distribution of profits, and the distribution of residual assets upon the dissolution of the Company; the right to receive information from the Management Board about the activities of the Company; a pre-emptive right to subscribe for new shares in proportion to the sum of the par values of the shares already held when share capital is increased, etc.

Tallink Grupp AS has 669 882 040 registered shares (31 December 2016: 669 882 040) without nominal value.

Reserves

As at 31 December, in thousands of EUR	2017	2016
Translation reserve	2	-11
Ships' revaluation reserve	43 599	45 646
Mandatory legal reserve	25 345	23 139
Total reserves	68 946	68 774

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Ships' revaluation reserve

The revaluation reserve relates to the revaluation of ships. The ships' revaluation reserve may be transferred directly to retained earnings when the ship is disposed of. However, some of the revaluation surplus may be transferred when the ship is used by the Group. In such a case, the amount of surplus transferred is the difference between depreciation based on the revalued carrying amount of the ship and depreciation based on the original cost of the ship. The Group uses the latter alternative.

Mandatory legal reserve

The mandatory legal reserve has been formed in accordance with the Estonian Commercial Code. The mandatory legal reserve is formed by means of yearly net profit transfers. At least 1/20 of net profit must be transferred to the mandatory legal reserve, until the reserve amounts to 1/10 of share capital. The mandatory legal reserve may be used to cover losses and to increase share capital but it may not be used for making distributions to owners.

Dividends

Dividends declared and paid by the Company in 2017 amounted to EUR 20 097 thousand (2016: EUR 13398 thousand), i.e. 0.03 EUR per ordinary share (2016: 0.02 EUR). This gave rise to income tax expense of EUR 4 100 thousand (2016: EUR 330 thousand). About income tax on dividends see also Note 6.

Note 20 SHARE OPTION PROGRAMME

In December 2012 the Group issued 7 610 000 share options of which 3 850 000 to the Management Board and Supervisory Board and 3 760 000 to certain other Group employees. Each option gave the right to purchase one share in Tallink Grupp AS. The terms and conditions of the issued share options were the following: exercisable not earlier than 36 months from issue or 21 December 2015 and not later than 21 June 2016; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case of existing shares purchased from the market; the options were to be settled by physical delivery of shares.

Share option programme

On 2 June 2016 the Supervisory Board of Tallink Grupp AS decided not to fulfil the option agreements. The Supervisory Board has authorized the Management Board to pay the option holders compensation of EUR 0.15 per share option, i.e. EUR 1 092 thousand in total.

Description	Number of options	Weighted average exercise price
Outstanding at 1 January 2016	7 276 903	0.858
Forfeited during the year 2016	-7 276 903	0.858
Exercisable at 31 December 2016	0	0.000
Outstanding at 1 January 2017	0	0.000
Forfeited during the year 2017	0	0.000
Exercisable at 31 December 2017	0	0.000

At 31 December 2017 0 (2016: 0) share options were valid and outstanding.

Note 21 CONTINGENCIES AND COMMITMENTS

Legal claims

Disputes with former seafarers of Superfast vessels

The claims filed by the former German seafarers of the Superfast VII, VIII and IX vessels were reviewed by German and Finnish courts during the years 2006-2011 and 2012-2017 respectively. On 15 March 2017 the Finnish Supreme Court validated the Helsinki Court of Appeal judgement according to which the maritime labour contracts of the German seafarers have been transferred to the purchasers of the vessels, the Baltic Superfast companies. According to the final judgment and in order to avoid any further disputes with former German seafarers, the Group decided to agree with the representative of German seafarers a compensation settlement of EUR 3 690 thousand.

Regardless of the compensation paid and according to the vessels' sales agreement, the Superfast vessels were bought by the Group without a crew and therefore the former shipowners are responsible for all the claims that the seafarers might have regarding their employment relations. The Group expects the sellers of the vessels to indemnify the Group for the compensation paid of EUR 3 690 thousand and has brought a legal claim against the former shipowners.

Key Management Personnel's termination benefits

Some members of the Management Board are entitled to termination benefits if their service agreement is terminated by the Group's Supervisory Board. At 31 December 2017 the maximum amount of such benefits was EUR 2 268 thousand (EUR 2 268 thousand in 2016) (see Note 22). The Group has no formal plan for termination of service agreements with the Key Management Personnel.

Income tax on dividends

The Group's retained earnings as at 31 December 2017 were EUR 404 958 thousand (restated 2016: EUR 378 717 thousand). As at 31 December 2017, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 80 992 thousand (restated 2016: EUR 75 743 thousand). The maximum income tax liability has been calculated using the income tax rate effective for dividends on the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as at 31 December 2017 (2016: 31 December 2016).

Non-cancellable operating leases

The Group as the lessee

The Group leases five hotel buildings under operating leases. The leases typically run for a period of ten years, with the Group's option to renew the lease for a further 5 years. Some lease payments are increased every year and some leases provide for additional rental payments that are based on the result of hotel operations. The lease expenses from 1 January 2017 to 31 December 2017 were EUR 13 375 thousand (2016: EUR 13 211 thousand) including contingent lease expense of EUR 1 381 thousand (2016: EUR 1 211 thousand).

The Group also leases four office buildings, one warehouse and one restaurant. The lease expenses from 1 January 2017 to 31 December 2017 were EUR 4 187 thousand (2016: EUR 3 086 thousand). The lessor has the right to increase lease payments by up to 6% per year.

On 1 December 2015 the Group sold the fast ferry Superstar and chartered it back until the beginning of 2017. The charter payment from 1 January 2017 to 31 January 2017 was EUR 868 thousand (1 January 2016 to 31 December 2016: EUR 10 248 thousand).

Minimum non-cancellable operating lease payments are as follows:

As at 31 December, in thousands of EUR	2017	2016
< 1 year	14 592	17 025
1-5 years	34 779	43 512
> 5 years	23 864	28 617
Total minimum lease payments	73 235	89 154

The Group as the lessor

The Group's charter income from 1 January to 31 December 2017 was EUR 18 803 thousand (2016: EUR 25 507 thousand).

Minimum non-cancellable charter payments are as follows:

As at 31 December, in thousands of EUR	2017	2016
< 1 year	6 688	18 311
1-5 years	0	18 569
Total minimum charter payments	6 688	36 880

All charter agreements used by the Group are based on BIMCO Standard Bareboat Charter and BIMCO Time Charter Agreement.

Note 22 RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are related if one controls the other or exerts significant influence on the other party's operating decisions.

The companies controlled by the Key Management Personnel

The Key Management Personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

Associated companies

The Key Management Personnel are members of the Group's Supervisory Board and Management Board.

The Group has conducted transactions with related parties and has outstanding balances with related parties.

For the year ended 31 December 2017, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
The companies controlled by the Key Management Personnel	327	24 573	20	2 178
Associated companies	3	185	2	13
Total	330	24 758	22	2 191

For the year ended 31 December 2016, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
The companies controlled by the Key Management Personnel	450	18 414	17	1 736
Associated companies	5	150	5	14
Total	455	18 564	22	1 750

During the reporting period, the following goods and services were purchased from related parties:

- leases - EUR 16 541 thousand (2016: EUR 15 695 thousand)
- fuel - EUR 5 027 thousand (2016: 0)
- other goods and services – EUR 3 190 thousand (2016: EUR 2 869 thousand)

Key Management Personnel's compensation

Tallink Grupp AS's members of the Management Board and members of the Supervisory Board are defined as the Key Management Personnel. The Key Management Personnel's compensation was EUR 1 185 thousand (2016: EUR 1 412 thousand). Key Management Personnel's compensation does not include compensation of the share option programme.

Some members of the Key Management Personnel are entitled to termination benefits (refer to Note 21). At 31 December 2017 the maximum amount of such benefits was EUR 2 268 thousand (31 December 2016: EUR 2 268 thousand).

The Key Management personnel's benefits are presented without social security tax.

Note 23 GROUP ENTITIES

Group entities	Interest as at 31 December 2017	Interest as at 31 December 2016	Country of incorporation	Parent company
Baan Thai OÜ	100%	100%	Estonia	Tallink Grupp AS
Hansaliin OÜ	100%	100%	Estonia	Tallink Grupp AS
Hansatee Cargo AS	100%	100%	Estonia	Tallink Grupp AS
Hansatee Kinnisvara OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Laevateenindus OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Meelelahutus OÜ	100%	100%	Estonia	Tallink Grupp AS
HTG Invest AS	100%	100%	Estonia	Tallink Grupp AS
Mare Catering OÜ	100%	100%	Estonia	Tallink Grupp AS
Tallink AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Baltic AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Duty Free AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Scandinavian AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Travel Club OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Hotell OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Hulgi Tolliladu OÜ	-	100%	Estonia	Tallink Duty Free AS
Hera Salongid OÜ	100%	100%	Estonia	TLG Hotell OÜ
Baltic SF IX Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VII Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VIII Ltd	100%	100%	Cyprus	Tallink Grupp AS
Hansalink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Autoexpress Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Fast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Hansaway Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink High Speed Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Sea Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Superfast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Victory Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn - Helsinki Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Swedish Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Vana Tallinn Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
HTG Stevedoring OY	100%	100%	Finland	Tallink Grupp AS
Tallink Finland OY	100%	100%	Finland	Tallink Grupp AS
Tallink Silja OY	100%	100%	Finland	Tallink Scandinavian AS
Sally AB	100%	100%	Finland	Tallink Silja OY
Tallink Silja GMBH	100%	100%	Germany	Tallink Silja OY
Tallink Latvija AS	100%	100%	Latvia	Tallink Grupp AS
HT Shipmanagement SIA	100%	100%	Latvia	HT Laevateenindus OÜ
TLG Hotell Latvija SIA	100%	100%	Latvia	TLG Hotell OÜ
Tallink-Ru OOO	100%	100%	Russia	Tallink Grupp AS
Tallink Silja AB	100%	100%	Sweden	Tallink Grupp AS
Ingebly (1699) Ltd.	100%	100%	UK	Tallink Grupp AS

Note 24 FINANCIAL RISK MANAGEMENT

Overview

Through use of financial instruments the Group is exposed to the following risks:

- a) credit risk
- b) liquidity risk
- c) market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial department is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss that the Group would suffer if the counterparty failed to perform its financial obligations, and arises principally from the Group's receivables from customers and cash. The credit risk concentration related to accounts receivable is reduced due to the high number of customers.

Maximum credit risk was as follows:

As at 31 December, in thousands of EUR	2017	2016
Cash and cash equivalents (Note 8)	88 911	78 773
Trade and other receivables (Notes 9, 13)	32 147	27 444
Total	121 058	106 217

The Group's exposure to credit risk for trade receivables is mainly influenced by the characteristics of each customer. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are individuals or legal entities, whether they are travel agents or customers with credit limits, and considering their geographic location, receivable aging profile, and existence of previous financial difficulties. Trade receivables relate mainly to travel agents and customers with credit facilities. The credit risk concentration related to trade receivables is reduced by the high number of customers.

The Group's management has established a credit policy under which each new customer with a credit request is analysed individually for creditworthiness before the Group's payment terms and conditions are offered. Some customers are obliged to present a bank guarantee to meet the credit sale criteria. Customers are assigned credit limits, which represent the maximum exposure that does not require approval from the Group's management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only. Charterers hiring the Group's vessels have provided bank guarantees to cover their payment risk.

The Group establishes an allowance for impairment that represents its estimate of losses incurred on trade and other receivables. The main components of this allowance are a specific loss component that relates to trade receivables (individually significant exposures) and a collective loss component (established for groups of similar assets in respect of losses that have been incurred but not yet identified).

The aging of receivables at the reporting date was:

As at 31 December 2017, in thousands of EUR

	Gross	Impair- ment	Net
Not past due	26 482	0	26 482
Past due 0-30 days	4 310	0	4 310
Past due 31-90 days	907	-20	887
Past due 91 days - one year	855	-278	577
Past due over one year	291	-400	-109
Total	32 845	-698	32 147

	Gross	Impair- ment	Net
As at 31 December 2016, in thousands of EUR			
Not past due	23 220	0	23 220
Past due 0-30 days	3 649	0	3 649
Past due 31-90 days	372	-33	339
Past due 91 days - one year	190	-127	63
Past due over one year	698	-525	173
Total	28 129	-685	27 444

Movements in the impairment allowance for trade receivables was:

In thousands of EUR

	2017	2016
Balance at 1 January	685	804
Amounts written off	-431	-152
Impairment loss recognised	660	468
Reversal of prior period impairment loss	-216	-435
Balance at 31 December	698	685

Financial derivatives with a positive fair value for the Company, taking into account legal netting agreements (ISDA agreements), also represent a credit risk. Credit risk arising from financial transactions is reduced through diversification and accepting counterparties with high credit ratings only (BBB or higher).

The Group holds cash and cash equivalents with banking groups that have investment grade credit ratings (BBB or higher).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Groups' reputation.

The Group's low current ratio represents the normal course of business. The majority of sales are conducted by prepayment, bank card or cash payment, therefore the cash conversion cycle is negative and in general the Group receives cash from sales before it has to pay to its vendors.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and bonds. The Group has established Group account systems (the Group's cash pools) in Estonia and Finland to manage the cash flows in the Group as efficiently as possible. Excess liquidity is invested in short-term money market instruments. Tallink Grupp AS maintains three committed bank overdraft facilities to minimize the Group's liquidity risk (see Note 16 for details).

The following tables illustrate liquidity risk by periods when financial liabilities as at 31 December will fall due or may fall due based on contractual cash flows.

In thousands of EUR, 2017	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Overdraft	0	0	0	0	0
Finance lease liabilities	-84	-203	0	0	-287
Trade and other payables	-72 919	0	0	0	-72 919
Secured bank loan repayments	-69 667	-66 000	-239 000	-99 667	-474 333
Bond repayment	-91 461	0	0	0	-91 461
Interest payments ⁽¹⁾	-15 072	-9 050	-21 902	-8 190	-54 214
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-3 557	-793	0	0	-4 350
Foreign exchange derivative inflow	91 461	0	0	0	91 461
Foreign exchange derivative outflow	-120 000	0	0	0	-120 000
Total	-281 299	-76 046	-260 902	-107 857	-726 104

In thousands of EUR, 2016	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Overdraft	-40 110	0	0	0	-40 110
Finance lease liabilities	-92	-281	0	0	-373
Trade and other payables	-82 894	0	0	0	-82 894
Secured bank loan repayments	-74 762	-129 238	-184 667	-220 000	-608 667
Bond repayment	0	-98 627	0	0	-98 627
Interest payments ⁽¹⁾	-16 366	-16 388	-25 586	-16 342	-74 682
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-3 755	-3 786	-792	0	-8 333
Foreign exchange derivative inflow	0	98 627	0	0	98 627
Foreign exchange derivative outflow	0	-120 000	0	0	-120 000
Total	-217 979	-269 693	-211 045	-236 342	-935 059

⁽¹⁾ – expected, based on the interest rates and interest rate forward curves

⁽²⁾ – net cash flow, expected, based on the interest rates and interest rate forward curves

Guarantees issued are not recognised in the statement of financial position as, according to historical experience and the Group management's estimations, none of them has turned into an actual liability.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Groups' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

Foreign exchange rate risk

The Group is exposed to exchange rate risk arising from revenues, operating expenses and liabilities in foreign currencies, mainly in the US dollar (USD), the Swedish krona (SEK) and the Norwegian krone (NOK). Exposure to USD results from the purchase of ship fuel and insurance, exposure to NOK derives from the bond issued in that currency and exposure to SEK arises from the fact that it is the operational currency on some routes.

The Group seeks to minimize currency risk by matching foreign currency inflows with outflows. Currency risk from the NOK nominated bond is hedged with a cross currency swap.

The following tables present the Group's financial instruments by currency denomination:

In thousands of EUR, 2017	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	85 308	0	3 523	0	80	88 911
Trade receivables, net of allowance	25 634	0	2 187	0	14	27 835
Other financial assets	2 143	0	2 160	0	9	4 312
Total	113 085	0	7 870	0	103	121 058
						-159
Current portion of borrowings	-68 574	0	-76	-91 288	0	938
Trade payables	-39 121	-129	-3 613	-1	-233	-43 097
Other current payables	-25 096	0	-6 926	-1 113	-1 273	-34 408
Interest rate swaps	-4 688	0	0	0	0	-4 688
	-125					
Foreign exchange derivatives	864	0	0	96 154	0	-29 710
Non-current portion of borrowings and other liabilities	-400					-400
	765	0	-203	0	0	968
	-664					-672
Total	108	-129	-10 818	3 752	-1 506	809
	-551					-551
Net, EUR	023	-129	-2 948	3 752	-1 403	751

In thousands of EUR, 2016	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	52 107	455	25 909	5	297	78 773
Trade receivables, net of allowance	23 038	0	1 335	0	2	24 375
Other financial assets	1 395	0	1 674	0	0	3 069
Total	76 540	455	28 918	5	299	106 217
	-106					-106
Current portion of borrowings	033	0	-79	0	0	112
Trade payables	-46 760	-247	-6 172	-1	-334	-53 514
Other current payables	-21 705	0	-8 079	-1 261	0	-31 045
Interest rate swaps	-9 299	0	0	0	0	-9 299
	-131					
Foreign exchange derivatives	832	0	0	108 772	0	-23 060
Non-current portion of borrowings and other liabilities	-353					-452
	885	0	-281	-98 627	0	793
	-669					-675
Total	514	-247	-14 611	8 883	-334	823
	-592					-569
Net, EUR	974	208	14 307	8 888	-35	606

A 10 percent strengthening of the euro against the following currencies at the end of the financial year would have increased (decreased) profit or loss and equity by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

As at 31 December, in thousands of EUR	2017 Profit or loss	2016 Profit or loss
USD	13	-21
SEK	295	-1 431
NOK	-375	-889
Other	13	4

Interest rate risk

The Group is exposed to interest rate risk through funding and cash management activities. The interest rate risk – the possibility that the future cash flows from a financial instrument (cash flow risk) will change due to movements in market interest rates – applies mainly to bank loans and the bond. There are no material interest rate risks related to the assets of the Group.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

As at 31 December, in thousands of EUR	2017	2016
Fixed rate financial liabilities	175 267	373
Variable rate financial liabilities	420 037	590 891
Total	595 304	591 264

A change of 10 basis points in the interest rates of interest bearing financial instruments at the reporting date would have increased (decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

In thousands of EUR	2017	2016
10 basis point increase	-299	-370
10 basis point decrease	299	370

Fair values of financial instruments

In the opinion of the Group's management there are no significant differences between the carrying values and fair values of financial assets and liabilities. The fair value for derivatives has been determined based on accepted valuation methods.

Hedge activities

All derivative financial instruments are recognised as assets or liabilities. They are stated at fair value regardless of their purpose. Many transactions constitute economic hedges but do not qualify for hedge accounting under IAS 39. Changes in the fair value of these derivative financial instruments are recognised directly in profit or loss: fair value changes on forward exchange contracts and currency options are recorded in exchange gains and losses and those on interest rate swaps and interest rate options in interest income and expense.

The fair values of hedged transactions at the end of the year were as follows:

As at 31 December, in thousands of EUR	Hierarchy	Maturity	2017		2016	
			Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 3	2019	100 000	-4 688	100 000	-9 256
Interest rate swap	Level 3	2018	70 000	0	70 000	-43
Foreign exchange derivative ⁽¹⁾	Level 3	2018	60 000	-14 855	60 000	-11 530
Foreign exchange derivative ⁽¹⁾	Level 3	2018	60 000	-14 855	60 000	-11 530
Total derivatives with negative value				-34 398		-32 359

⁽¹⁾ Foreign exchange derivatives

At the effective date the Group exchanged the NOK notional amount (NOK 450 000 thousand) against the EUR notional amount (EUR 60 000 thousand) and at the termination date there is an exchange back. During the life of the derivative the Group pays EURIBOR based EUR and receives NIBOR based NOK every three months.

The fair values of all derivative financial instruments have been determined by using the Bloomberg Professional valuation functions. Valuation methods are Hull White Model, Black76 Model and Jarrow-Yildirim Model. Inputs used are EUR interest rates' term structure, EUR swaption and cap volatilities, inflation swap rates, EURIBOR and NIBOR FRA rates. Inputs are mainly unobservable (level 3 under fair value hierarchy). The following table shows the valuation techniques used in measuring derivatives' fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
- Hull White Model	- EUR interest rates' term structure	The estimated fair value would increase (decrease) if:
- Black76 Model	- EUR swaption and cap volatilities	- EUR interest rates were higher (lower)
- Jarrow-Yildirim Model	- inflation swap rates	- inflation swap rates increase (decrease)

Capital Management

The Group considers total shareholders' equity as capital. As at 31 December 2017 the shareholders' equity was EUR 836 279 thousand (2016: EUR 809 866 thousand). The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group has made significant investments in the recent past where strong shareholders' equity has been a major supporting factor for the investments. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

At the annual general meeting held on 8 February 2011, management introduced the strategic target of reaching the optimal debt level which would allow the Group to start paying dividends. In management's opinion, a comfortable level for the Group's equity ratio is between 40% and 50% and for the net debt to EBITDA ratio an indicator below 5. As at 31 December 2017 the Group's equity ratio was 53.7% and the net debt to EBITDA ratio was 3.0 (2016: 52.9% and 3.2 respectively).

The Group may purchase its own shares on the market; the timing of these purchases may depend on the market prices, the Group's liquidity position and business outlook. Additionally, legal factors may limit the timing of such decisions. Repurchased shares are intended to be cancelled. Currently the Group does not have a defined share buyback plan.

Note 25 CORRECTION OF ERRORS

During the reporting period Group paid the former seafarers of Superfast vessels operating on the Finnish-German route compensation of 3 690 thousand euros due to the inactivity of the former shipowners. The Finnish Supreme Court decision of 15 March 2017 is disclosed in Note 21.

By analysing the course of the proceedings, the Group concluded that it would have been correct to recognise the possible outcome of the legal dispute, which started in 2006, as a cost and a liability before the 2016 reporting period.

Due to the above, the Group decided to recognise the compensation paid of 3 690 thousand euros as a correction of a prior period error. The correction of the prior period error has no effect on the current and comparative period income statements. Despite the correction of the prior period error, the Group seeks full reimbursement of the abovementioned compensation from the former shipowners.

The tables below give an overview of the correction of the error in the consolidated financial statements.

In thousands of EUR	As previously reported	Adjustments	As restated
As at 1 January 2016			
LIABILITIES AND EQUITY			
Interest-bearing loans and borrowings	81 889	0	81 889
Trade and other payables	88 480	3 690	92 170
Income tax liability	4 567	0	4 567
Deferred income	28 906	0	28 906
Current liabilities	203 842	3 690	207 532
Interest-bearing loans and borrowings	467 447	0	467 447
Derivatives	42 863	0	42 863
Other liabilities	192	0	192
Non-current liabilities	510 502	0	510 502
Total liabilities	714 344	3 690	718 034
Share capital	404 290	0	404 290
Share premium	639	0	639
Reserves	65 083	0	65 083
Retained earnings	354 410	-3 690	350 720
Equity attributable to equity holders of the Parent	824 422	-3 690	820 732
Total equity	824 422	-3 690	820 732
TOTAL LIABILITIES AND EQUITY	1 538 766	0	1 538 766

As at 31 December 2016
LIABILITIES AND EQUITY

Interest-bearing loans and borrowings	106 112	0	106 112
Trade and other payables	103 280	3 690	106 970
Payables to owners	4	0	4
Income tax liability	10	0	10
Deferred income	30 895	0	30 895
Current liabilities	240 301	3 690	243 991

Interest-bearing loans and borrowings	452 793	0	452 793
Derivatives	32 359	0	32 359
Non-current liabilities	485 152	0	485 152
Total liabilities	725 453	3 690	729 143
Share capital	361 736	0	361 736
Share premium	639	0	639
Reserves	68 774	0	68 774
Retained earnings	382 407	-3 690	378 717
Equity attributable to equity holders of the Parent	813 556	-3 690	809 866
Total equity	813 556	-3 690	809 866
TOTAL LIABILITIES AND EQUITY	1 539 009	0	1 539 009

In thousands of EUR	As previously reported	Adjustments	As restated
As at 31.12.2015			
Retained earnings	354 410	-3 690	350 720
Equity attributable to equity holders of the Parent	824 422	-3 690	820 732
Total equity	824 422	-3 690	820 732
As at 31.12.2016			
Retained earnings	382 407	-3 690	378 717
Equity attributable to equity holders of the Parent	813 556	-3 690	809 866
Total equity	813 556	-3 690	809 866

Note 26 SUBSEQUENT EVENTS

Changes on the Management Board

On 23 March 2018, the Supervisory Board of the Group decided to elect and to appoint Mr. Paavo Nõgene as the Chairman of the Management Board. The mandate of Mr. Paavo Nõgene begins on 1 May 2018 and lasts for a period of 3 years. The Supervisory Board of the Group extended the term of office of Member of the Management Board Mr. Lembit Kitter for another term as from 2 May 2018. Starting from 1 May 2018 the Group will have a four-member Management Board, including Mr. Paavo Nõgene, Mr. Janek Stalmeister, Mr. Andres Hunt and Mr. Lembit Kitter.

Termination of the exploration of potential strategic options

On 23 March 2018, the Supervisory Board of the Group decided to end the exploration of potential strategic options for the Group that was started in July 2017. In the course of the process various strategic options were considered with the purpose of supporting the long-term strategy and development of the Group. The Group will take the proposals and feedback received during the process into account in further planning and development of its business. One-off costs related to the exploratory process have been included in administrative expenses for 2017 in an amount of EUR 3.6 million.

Changes in the Group structure

In January 2018, Baltic Retail OÜ, a new subsidiary of Tallink Grupp AS, was registered in the Commercial Registry. The main activity of the subsidiary is retail sales. In January 2018, TLG Agent OÜ and TLG Stividor OÜ, new subsidiaries of Tallink Grupp AS, were registered in the Commercial Registry. The subsidiaries were established by the division of the Group company HTG Invest AS, which was deleted from the Commercial Registry.

Note 27 PRIMARY FINANCIAL STATEMENTS OF THE PARENT

Statement of comprehensive income

For the year ended 31 December, in thousands of EUR	2017	2016
Revenue	457 589	455 667
Cost of sales	-368 820	-379 728
Gross profit	88 769	75 939
Sales and marketing expenses	-41 923	-40 909
Administrative expenses	-25 482	-22 835
Other operating income	7 274	612
Other operating expenses	-133	-37
Result from operating activities	28 505	12 770
Finance income	12 437	10 504
Finance costs	-36 753	-56 235
Share of profit of subsidiaries	357 750	0
Share of profit of equity-accounted investees	40	13
Profit/loss before income tax	361 979	-32 948
Income tax	0	-45
Net profit/loss for the year	361 979	-32 993

Statement of financial position

As at 31 December, in thousands of EUR	2017	2016
ASSETS		
Cash and cash equivalents	26 116	3 106
Receivables from subsidiaries	142 997	112 297
Receivables and prepayments	23 429	19 917
Tax assets	0	62
Inventories	10 386	9 411
Current assets	202 928	144 793
Investments in subsidiaries	467 390	405 104
Receivables from subsidiaries	219 396	281 330
Investments in equity-accounted investees	403	363
Other financial assets and prepayments	54	54
Property, plant and equipment	142 592	312 894
Intangible assets	12 589	10 995
Non-current assets	842 424	1 010 740
TOTAL ASSETS	1 045 352	1 155 533
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings	199 785	181 241
Derivatives	29 710	0
Payables and deferred income	124 752	291 141
Dividends payable to shareholders	3	4
Tax liabilities	3 783	3 385
Current liabilities	358 033	475 771
Interest-bearing loans and borrowings	290 276	596 931
Derivatives	4 688	32 359
Non-current liabilities	294 964	629 290
Total liabilities	652 997	1 105 061
Share capital	361 736	361 736
Share premium	639	639
Reserves	25 345	23 139
Retained earnings	4 635	-335 042
Equity attributable to equity holders of the Parent	392 355	50 472
Equity	392 355	50 472
TOTAL LIABILITIES AND EQUITY	1 045 352	1 155 533

Statement of cash flows

For the year ended 31 December, in thousands of EUR	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	361 979	-32 993
Adjustment for:		
Depreciation and amortisation	41 421	52 216
Net gain/loss on disposals of tangible and intangible assets	57	-1
Net interest expense	31 801	40 161
Net unrealised foreign exchange gain/loss	-7 567	5 321
Income from subsidiaries	-357 750	0
Income tax	0	45
Other adjustments	-2 717	-2 574
Adjustments	-294 755	95 168
Changes in:		
Receivables and prepayments related to operating activities	84 150	-60 380
Inventories	-975	-107
Liabilities related to operating activities	151 749	18 759
Changes in assets and liabilities	234 924	-41 728
Cash generated from operating activities	302 148	20 447
Income tax paid/repaid	64	-2 875
NET CASH FROM OPERATING ACTIVITIES	302 212	17 572
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-13 117	-34 993
Proceeds from disposals of property, plant, equipment	0	1
Increase in share capital of subsidiaries	-58 800	-3
Loans granted to subsidiaries	-56 000	0
Dividends received from subsidiaries	16 400	0
Interest received	1	0
NET CASH USED IN INVESTING ACTIVITIES	-111 516	-34 995
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	0	280 000
Proceeds from loans from subsidiaries	12 400	0
Repayment of loans	-46 988	-284 858
Change in overdraft	-94 804	87 066
Payments for settlement of derivatives	-3 592	-4 289
Interest paid	-14 444	-19 058
Payment of transaction costs related to loans	-161	-2 988
Dividends paid	-20 096	-13 398
Reduction of share capital	-1	-40 189
Income tax on dividends paid	0	-330
NET CASH USED IN/FROM FINANCING ACTIVITIES	-167 686	1 956
NET CASH FLOW	23 010	-15 467
Cash and cash equivalents at the beginning of period	3 106	18 573
Increase/decrease	23 010	-15 467
Cash and cash equivalents at the end of period	26 116	3 106

Statement of changes in equity

In thousands of EUR	Share capital	Share premium	Mandatory legal reserve	Reserve for treasury shares	Share option programme reserve	Retained earnings	Total equity
As at 31 December 2015	404 290	639	20 185	-4 163	910	-283 895	137 966
Net loss for 2016	0	0	0	0	0	-32 993	-32 993
Transfer from retained earnings	0	0	2 954	0	0	-2 954	0
Dividends	0	0	0	0	0	-13 398	-13 398
Contributions and distributions	0	0	0	0	-910	0	-910
Cancellation of own shares	-2 361	0	0	4 163	0	-1 802	0
Reduction of share capital	-40 193	0	0	0	0	0	-40 193
As at 31 December 2016	361 736	639	23 139	0	0	-335 042	50 472
Net profit for 2017	0	0	0	0	0	361 979	361 979
Transfer from profit for 2016	0	0	2 206	0	0	-2 206	0
Dividends	0	0	0	0	0	-20 096	-20 096
As at 31 December 2017	361 736	639	25 345	0	0	4 635	392 355

In thousands of EUR	2017	2016 restated ¹
Unconsolidated equity at 31 December	392 355	50 472
Interests under control and significant influence:		
Carrying amount	-467 793	-405 467
Value under the equity method	911 717	1 164 861
Adjusted unconsolidated equity at 31 December	836 279	809 866

¹ For further information see also Note 25 Correction of Errors

STATEMENT BY THE MANAGEMENT BOARD

We hereby take responsibility for the preparation of the consolidated financial statements of Tallink Grupp AS (in these consolidated financial statements referred to as “the Parent”) and its subsidiaries (together referred to as “the Group”).

The Management Board confirms that:

- The consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
- The consolidated financial statements give a true and fair view of the financial position of the Group and the Parent and the results of their operations and cash flows.
- Tallink Grupp AS and its subsidiaries are able to continue as going concerns for at least one year of the date of approval of these consolidated financial statements.


Janek Stalmeister
Chairman of the Management Board
Andres Hunt
Vice Chairman of the Management Board
Lembit Kitter
Member of the Management Board

Tallinn, 23 April 2018



Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallink Grupp AS and its subsidiaries (collectively, the Group) as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the consolidated financial statements of the Group, which comprise:

- the consolidated statement of financial position as at 31 December 2017,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements of the Auditor's Activities Act of the Republic of Estonia and with the ethical requirements of the ethics standards for professional accountants as set in the same act, and we have fulfilled our other ethical responsibilities in accordance with these requirements.



Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of work to be performed on the financial information of the entities (components) within the Group based on their financial significance and/or the other risk characteristics.

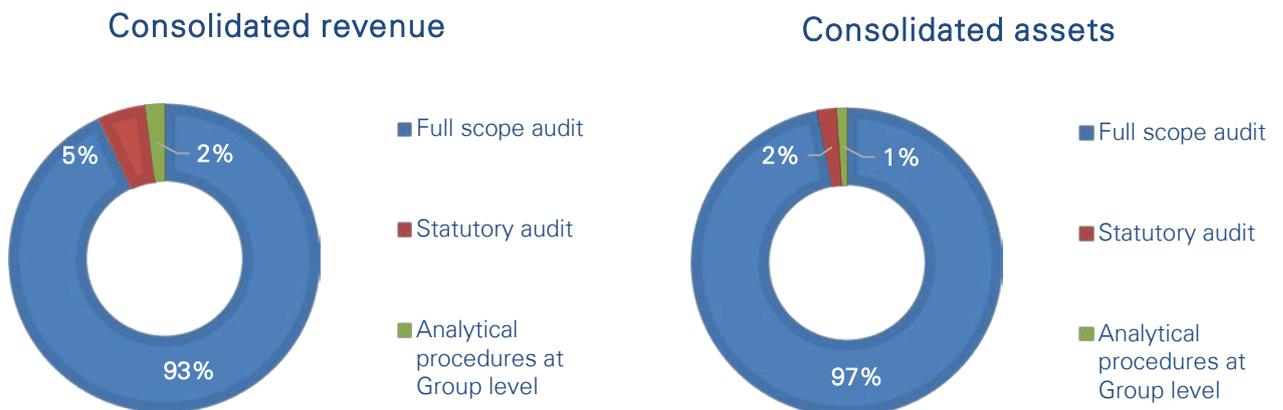
We, as group auditors, determined 17 of the Group's 45 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink AS, Tallink Ltd, Tallink Fast Ltd, Tallink Victory Line Ltd, Tallink Autoexpress Ltd, Tallink High Speed Line Ltd, Tallink Sea Line Ltd, Tallink Hansaway Ltd, Baltic SF VII Ltd, Baltic SF VIII Ltd, Baltic SF IX Ltd, Tallinn – Helsinki Line Ltd, Tallink Line Ltd, Hansalink Ltd, Tallinn Swedish Line Ltd.

We have used the results of statutory audits of financial statements of Tallink Duty Free AS, HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

For the remaining 24 non-significant components, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

We also performed procedures over the consolidation process at Group level.

Coverage of the Group's consolidated revenue and consolidated total assets with procedures performed:



The audit work on the financial information of the significant Group components was performed by the Group audit team in Estonia, except for the audit work of Tallink Silja Oy, which was performed by KPMG component auditor in Finland. The Group audit team instructed the component auditor as to the areas to be covered and determined the information required to be reported to the Group audit team. We had regular communications with the component auditor and executed audit file reviews, where necessary.

By performing the procedures mentioned above over the Group entities, together with additional procedures at the Group level, we have been able to obtain sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of ships	
Refer to Note 14 to the consolidated financial statements for further information.	
The key audit matter	How the matter was addressed in our audit
<p>The Group's property, plant and equipment include ships, which are measured at revalued amounts (i.e. fair value less depreciation charged subsequent to the date of the revaluation). The carrying value of the Group's ships as at 31 December 2017 was EUR 1 269 million.</p> <p>The fair value of ships depends on many factors, including changes in the fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. In order to assess the fair value of the ships, the Group's management used independent appraisers.</p> <p>We have identified the carrying value of ships as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's ships as well the depreciation charge for the current year and future years.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the methodologies used by the external appraisers to estimate the fair values of the ships; • evaluating the independent external appraisers' competence, capabilities and objectivity; • evaluating the historical accuracy of the Group's assessment of the fair values of the ships by comparing them to transaction prices in prior years; • testing the adequacy of the capitalized expenditures of the ships; • analysing the estimates of useful lives and residual values and comparing them to published estimates of other international ship operators; and • assessing the adequacy of the consolidated financial statement disclosures.



Recognition of deferred tax assets

Refer to Note 6 to the consolidated financial statements for further information.

The key audit matter

The Group has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable.

The recoverability of recognised deferred tax assets is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses (before the latter expire).

We have determined this to be a key audit matter, due to the inherent uncertainty of forecasting the amount and timing of future taxable profits and the reversal of temporary differences.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- evaluating the Group's process to prepare the deferred tax calculation, including the Group's budgeting procedures upon which the forecasts are based;
- using our own tax specialists to evaluate the tax strategies the Group expects will enable the successful recovery of the recognised deferred tax assets;
- assessing the accuracy of forecast future taxable profits by evaluating the historical forecasting accuracy and comparing the assumptions, such as projected growth rates, with our own expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during our audit, including where applicable their consistency with business plans; and
- evaluating the adequacy of the consolidated financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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



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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 13 June 2017 to audit the financial statements of Tallink Grupp AS for the year ended 31 December 2017. Our total uninterrupted period of engagement is 11 years, covering the periods ending 31 August 2007 to 31 December 2017.

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee of the Company and we have not provided to the Company the prohibited non-audit services (NASs) referred to in local equivalent of Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 23 April 2018

Eero Kaup

Certified Public Accountant, Licence No 459

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