TALLINK

YEARBOOK 2016

AS TALLINK GRUPP YEARBOOK 2016

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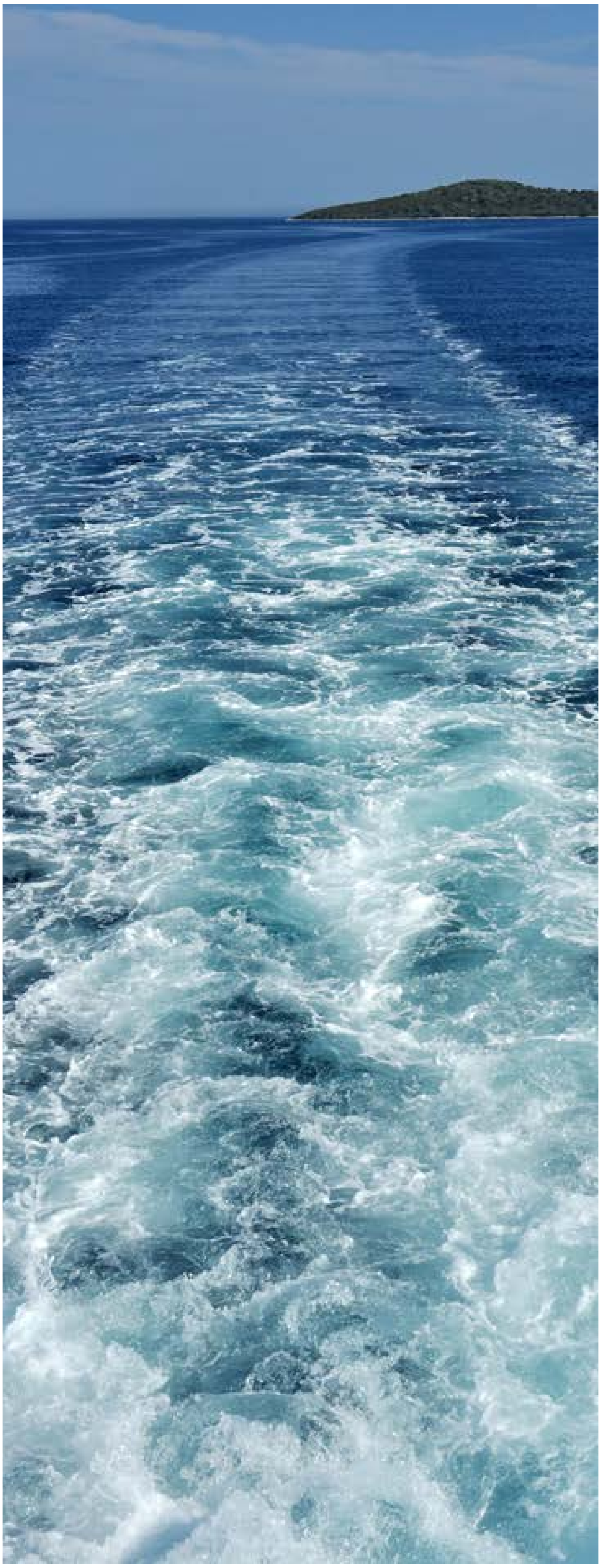


STATEMENT OF THE SUPERVISORY BOARD

Dear shareholders, customers, partners and employees of AS Tallink Grupp,

I am pleased to note that in the year 2016, despite the increasingly competitive environment, AS Tallink Grupp and its subsidiaries (the Group) transported an ever highest number of passengers reaching nearly 9.5 million passengers for the first time in company`s history.

The Group increased the number of passengers on all operated routes as actions were taken to achieve optimal carriage capacity – three cruise ferries were rerouted and previously chartered out Silja Europa returned to Tallinn-Helsinki route. Supported by the larger number of passengers, the Group increased revenue on all operated routes. However, due to expected reduction of charter related revenue, the total annual revenue decreased slightly.

In order to maintain competitive edge, large investments were made both in the new LNG-powered fast ferry Megastar as well as in the renewal of the current fleet. The construction of Megastar continued throughout 2016 and the vessel was delivered in January 2017, setting a new standard for ferries on Helsinki-Tallinn route by customer comfort and environmentally friendly technical sophistication.

In accordance with the Group's strategy, the strong financial position allows to continue paying dividends. The Management Board and Supervisory Board will propose to the shareholders' Annual General Meeting on 13 June 2017 a dividend distribution of EUR 0.03 per share, i.e. EUR 20 096 000 in aggregate.

The Supervisory Board has regularly reviewed the financial results and the Management Board's economic activity overviews of the company. The cooperation with the Management Board has been very good.

During the past financial year, the meetings of the Supervisory Board were held in all together five times and without calling a meeting written resolutions were adapted in all together four times.

The most important resolutions were the following:

- Approving of the budget of 2017 financial year;
- Granting consent to the conclusion of the loan agreement in amount of EUR 280 000 000;
- Increasing the membership of the audit committee and appointing a chairman of the audit committee;
- Completion the second portion of the option program;
- Approving of the renovation plan of the passenger ferry Silja Europa.

The Supervisory Board has examined and approved the Annual Report and profit distribution of the 2016 financial year.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and all the employees of the Group, who have contributed to the success of the company during the past financial year.

Enn Pant
Chairman of the Supervisory Board

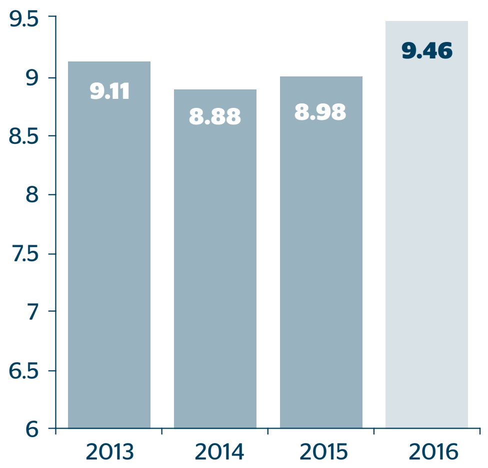
HIGHLIGHTS OF FINANCIAL YEAR 2016

OPERATIONS

- Higher passenger number and revenue
- Lower chartering revenues compared to the year before
- Market share growth on routes
- Cruise ferry Silja Europa's return from charter to the Tallinn-Helsinki route
- A new logistics centre launched in Maardu, Estonia
- New passenger terminals opened in Stockholm and Helsinki
- Ships re-rerouted in December 2016
- Group-wide ship renovation programme continued
- Construction of the new LNG fast ferry Megastar finalised

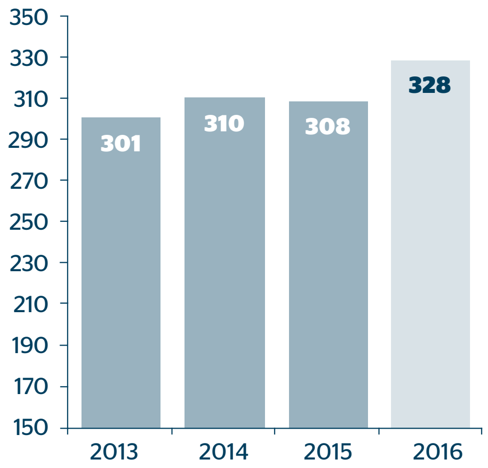
PASSENGERS

Million



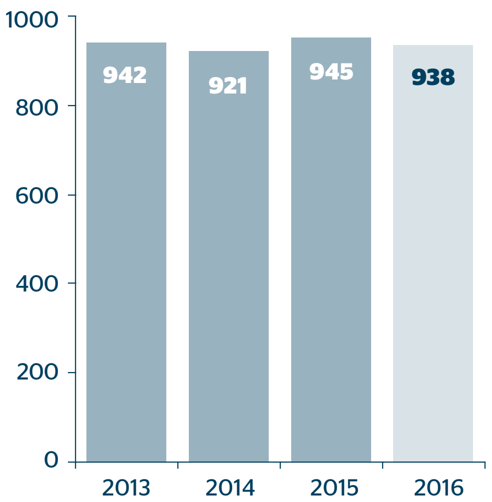
CARGO UNITS

Thousand



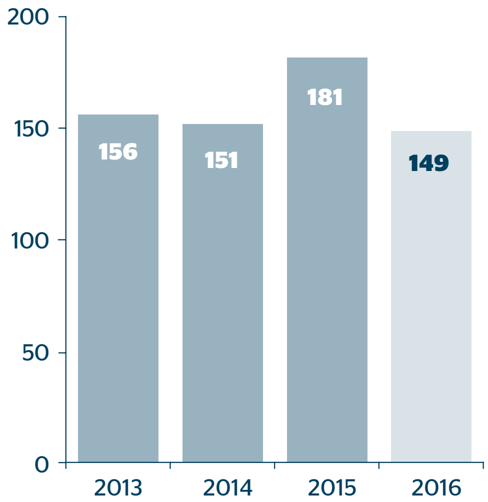
REVENUE

Million EUR



EBITDA

Million EUR



FINANCIAL REVIEW

Million EUR	2012 Jan-Dec	2013 Jan-Dec	2014 Jan-Dec	2015 Jan-Dec	2016 Jan-Dec
Net sales	944	942	921	945	**938**
Gross profit	201	190	182	223	**193**
EBITDA	166	156	151	181	**149**
Net profit	56	43	27	59	**44**
Depreciation	71	73	80	78	**78**
Investments	9	43	49	44	**69**
Total assets	1 742	1 722	1 686	1 539	**1 539**
Total liabilities	981	951	907	714	**725**
Interest-bearing liabilities	840	794	743	549	**559**
Net debt	775	722	678	467	**480**
Total equity	761	771	778	824	**814**
Fleet value	1 510	1 479	1 451	1 270	**1 230**
Weighted average number of ordinary shares outstanding[1]	669 882 040	669 882 040	669 882 040	669 882 040	**669 882 040**
Number of ordinary shares outstanding[1]	669 882 040	669 882 040	669 882 040	669 882 040	**669 882 040**
Earnings per share (EPS) euros[1]	0.08	0.06	0.04	0.09	**0.07**
Shareholders' equity per share euros[1]	1.14	1.15	1.16	1.23	**1.21**
Price-Earnings ratio (P/E)[1]	10	14	16	10	**14**
Gross profit margin	21.3%	20.2%	19.7%	23.6%	**20.5%**
EBITDA margin	17.5%	16.6%	16.3%	19.2%	**15.9%**
Net profit margin	6.0%	4.6%	3.0%	6.3%	**4.7%**
Return on assets (ROA)	5.4%	4.8%	4.1%	6.3%	**4.7%**
Return on equity (ROE)	7.8%	5.7%	3.6%	7.4%	**5.4%**
Return on capital employed (ROCE)	6.4%	5.6%	5.0%	7.7%	**5.4%**
Net debt / EBITDA	4.7	4.6	4.5	2.6	**3.2**
Equity ratio	44%	45%	46%	54%	**53%**
Number of passengers	9 264 561	9 114 812	8 881 732	8 976 226	**9 457 522**
Cargo Units	283 973	301 660	310 492	308 029	**328 190**
Average number of employees	6 868	6 948	6 952	6 835	**7 163**

[1] *the share and per share information has been adjusted with the share bonus issues*

EBITDA – Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization, income from negative goodwill
Gross margin – Gross profit / Net sales
EBITDA margin – EBITDA / Net sales
Net profit margin – Net profit / Net sales
Price-Earnings ratio (P/E) – Market value per share/ Earnings per share
ROA – Earnings before net financial items, taxes, income from negative goodwill / Average total assets
ROE – Net profit / Average shareholders' equity
ROCE – Earnings before net financial items, taxes, income from negative goodwill / Total assets – Current liabilities (average for the period)
Equity ratio – Total equity / Total assets

COMPANY OVERVIEW

AS Tallink Grupp 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 fleet of 16 vessels that includes 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
- To increase the volumes and strengthen the market position in the region
- To develop a wide range of quality services for different customers and to pursue new growth opportunities
- Ensure cost efficient operations
- To maintain an optimal debt level that allows sustainable dividends

Modern fleet, wide route network, 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 operation.

SALES AND MARKETING

Products and Services

We are the market leader in the Nordic and Baltic region with the most modern fleet and a variety of routes and services, from various transport and leisure products to a high speed Tallink Shuttle service between Tallinn and Helsinki. Our offering includes also complete leisure and fun-filled short cruise experiences with possible overnight hotel and spa stays at various destinations. A large proportion of our products are sold as combined services and travel packages. Travel packages are tailored to suit customer preferences in each market as to the type of vessel, length of trip, use of conference services, hotel accommodations and other leisure products. All of our vessels are able to take a large load of passenger vehicles as well as ro-ro cargo. We offer to our customers end-to-end travel experiences, from joyful and easy cruise or transportation between top destinations to hotel accommodation and taxi service.

Cruises

We offer a variety of short cruises on all our routes which include Helsinki-Stockholm, Turku-Stockholm, Helsinki-Tallinn, Stockholm-Tallinn and Riga-Stockholm. We also sell short day cruises to the Aland islands from both Stockholm and Turku.

Our customers are able to have all the experiences in one: shopping, dining and entertainment are delivered by the best team. There are various activities on board of our vessels. High quality international entertainment programs are very well received by our customers and include variety of music and shows, from well-known Broadway musicals and other variety of shows to top chart artists and bands. School and summer holidays are filled with special children’s entertainment programmes on board so that families could experience our special leisure cruise offerings together.

On our short overnight cruises between Stockholm and Helsinki, Tallinn and Riga our passengers can not only enjoy the various restaurants, bars, shops, and excellent on board entertainment but can also purchase the various excursions that are offered in all the cities we visit.

Many of our vessels have been recently renovated and offer today totally new experiences and fresh look with expanded shopping areas, restaurants and upgraded cabins, from traditional to special Moomin character cabins on-board of Silja Symphony and Silja Serenade.

Transportation

Since our vessels leave all our ports at least once a day, the passengers have the flexibility of purchasing one-way trips to our destinations where they can stay longer and return whenever is convenient for them. Our Tallink Shuttle product, which includes our newest vessel Megastar and Star, sails between Tallinn and Helsinki up to 12 times a day. Even though the voyage only lasts for 2 hours, the passengers can enjoy a wide selection of restaurants, bars, cafes and shops. There are also Comfort and Business Lounge facilities for passengers who prefer more quiet and relaxed atmosphere. Megastar and Star accommodate respectively 2800 and 2080 passengers. On Tallinn-Helsinki route alone AS Tallink Grupp transports more than 5 million passengers a year. Tallink Shuttle accommodates cars and trucks from 2000 lane meters on Star to 3650 lane meters on Megastar.

Cargo

Tallink is the biggest cargo service company in the Baltic region and transports close to 330 000 cargo units annually. In our business we operate under a mixed tonnage concept which means that our vessels carry both passengers and cargo. We carry only ro-ro cargo - mainly trucks and trailers - and do not carry container cargo. Our vessels are equipped with separate car decks onto which private cars, buses and ro-ro cargo can drive while passengers are safely embarking. Cargo traffic is related to business logistics and its development is often linked to the overall general economic conditions and trade activities. Our customer base for cargo services consists of a wide range of clients, from large international transport companies to small and medium-sized companies. The goods carried by them vary from building materials to consumer essentials. We work closely with our customers in order to continuously improve our efficiency and service levels offering a flexible, affordable and efficient service on different routes.

City Breaks

We market and sell a variety of services that people can enjoy while taking a city break. Whether it is golf, opera, museums or amusement parks for children, everything we do is to ensure that the cruise experience is a memorable one. Many of our vessels, such as recently renovated Europa, provide itself a city break experience on sea as there are wide areas which include shops, restaurants, coffee places and different kind of entertainment and music shows.

At the same time we can also combine our transport services with overnight stays across all of our markets. We have special deals with leading hotel chains in Finland and Scandinavia. Tallink Hotels is the primary choice for our hotel packages in Tallinn and Riga. During the winter months we also sell hotel ski packages to popular ski resorts in Finland and Sweden.

Tallink Hotels

With 5 hotels and 1300 rooms, Tallink operates the largest hotel chain in Estonia and the second largest hotel chain in the Baltics.

Two trendy business class hotels – Tallink City Hotel and Tallink Spa & Conference Hotel – are situated in the centre of Tallinn. Tallink Express Hotel near the harbour is perfect for budget travellers looking for good value and the Pirita Spa Hotel, which is situated beside the sea in beautiful Pirita caters medical and wellness services to our clients. In Latvia there is Tallink Hotel Riga, which is located close to the business and shopping centres and the historic Old Town of Riga. The hotels are operated under the hotel chain brand Tallink Hotels. It is an extension of our leisure services that we offer to our customers.

Onboard services

Tallink Grupp is ranked as number one ferry company when it comes to the global travel retail revenues and as number 4 in Europe among the leading travel retail outlets. In the Nordic region, we are the number one outlet in terms of sales. Restaurants, bars and shops onboard contribute more than half of our overall revenues. All our cruise and transport passengers can dine for varying price levels ranging from traditional a la carte and buffet restaurants to fast food dining areas and pubs to even trying our exclusive gourmet restaurants run by some of the best chefs in the region. We have developed menus suited for Nordic tastes, accompanied by culinary inspiration from other ethnic cuisines. We focus strongly on the quality of our food and service and many of our chefs and catering staff have won numerous awards reflecting our excellent onboard service. Onboard sales in restaurants and bars are tax-free on almost all our routes.

All our vessels have onboard shops where passengers can purchase consumer goods, alcohol, tobacco, cosmetics, confectionery, clothing, toys and accessories. On all our routes from Estonia and Finland to Stockholm we stop at Aland Island which makes it possible to sell goods with no excise or VAT and therefore makes our products readily available to passengers at very favourable prices.

On all our cruise vessels passengers can enjoy gambling as a means of entertainment. The vessels are equipped with slot machines and on the bigger cruise vessels black jack and roulette tables.

Sales Segments and Channels

With our different routes and wide range of products and services we can truly offer something for everyone. Our travel services are available almost everywhere globally, but most active sales efforts and marketing campaigns are targeted towards our home markets which include Finland, Sweden, Estonia, Latvia as well as our key markets in Germany, Russia and Lithuania. In Norway and Denmark we operate under so called general sales agent concept while in the Far East we have contracts with all major travel agencies. The Far East passenger volumes have shown significant growth and therefore our

COMPANY OVERVIEW

services and products do follow also customer expectations from this part of the world. We have widened payment options and installed new terminals which accept most credit cards from China, Japan and other Far East countries.

The group and conference market is an important segment for the company. We actively target companies, associations, unions and charity clubs to hold their seminars, events and exhibitions onboard our vessels. With our spacious and renovated conference facilities, modern technical equipment and WiFi internet connection, we can accommodate, depending on the vessel, over 500 persons. During the day our showbars can be easily converted to seat up to 1000 people with high-tech sound and lighting possibilities. Combined with our extensive and flexible catering possibilities and onboard entertainment, our vessels are the ideal place to combine business and leisure making any large gathering a success. For large groups we have a separate group sales department which handles special requests offering individual attention and personalised service. We also rent the vessel to companies that want to have exclusive cruises.

All individuals and group and conference passengers can make reservations and special requests through our contact centres. Individuals can also make bookings online. There is continuous development of our online & mobile booking systems to make it more user-friendly and meet growing customer expectations. We have witnessed a noticeable shift from using the contact centre to makings bookings online which include all devices – personal computers, tablets and especially mobile phones. Digitalization is one of the top priorities in the company to meet fast growing customer demands and making the whole booking process much faster and more efficient. Based on customer feedback, our self-service check-in options (either self service kiosk, online or mobile) are highly appreciated.

We see the voice of the customer as a valuable asset and therefore continuously monitor our customers' satisfaction and act on respective findings. Our service standards are in place to welcome our customers with a friendly and professional service throughout the whole journey.

Another important component of our sales channels is our extensive network of travel agencies in all our markets. The travel agencies support our sales and marketing activities and use an easy-to-use online connection to our central booking system.

Customer loyalty programme

Club One is the Group´s customer loyalty programme connecting close to 2.2 million members. Major part of our loyal customers come from Finland, Sweden, Estonia, Latvia and Lithuania. There are also growing Club One member numbers in other parts of Europe and in the Far East.

Loyal customer is recognized in all our service contact points – from the point of booking to on board of Tallink and Silja Line vessels, in Tallink Hotels and in Tallink Takso. On board the vessels, the Club One members can enjoy special benefits in our restaurants, bars and tax-free shops.

There is a wide range of services and products where Club One members can use their points. Club One is designed to offer versatile, high-quality travel services to meet the needs of our frequent passengers. Members receive discounts from ticket prices, they collect bonus points from all ticket or on board purchases which can be redeemed for trips and special offers. Members also receive newsletters and loyal customer magazine containing up-to-date information on the latest special members-only offers and travel opportunities. Cooperation agreements with various onshore shops and restaurants provide customers with added value incentives and bonuses.

Our Brands

Strong brands are the building blocks for the Group's growth in the Finnish, Estonian, Swedish and Latvian cruising routes. The cruising market is very competitive with rivalry between several major cruising companies as well as other providers of leisure-time activities.

Thorough understanding of the consumer and competitive market is crucial for Tallink Grupp's successful brand management and development – with a goal to aim growth.

Our Brand Portfolio consists of two substantial strategic brands – Tallink and Silja Line. Both brands have their strong home markets with loyal fans. Tallink has also several sub-brands (i.e. Tallink Shuttle and Tallink Hotels) that replenish the customer journey with additional offerings.

Club One is an enabler that supports our portfolio of brands and offers benefits from all Tallink Grupp companies, affiliates and many partners. We strive to design each interaction with our brands to delight our guests, create memories, and build brand loyalty.

Tallink Grupp owns also a large protfolio of branded services and concepts – being active both onboard and ashore.

Each of our brands has a clear strategy and relevant objectives which have been attained with the help of deep consumer understanding.

TALLINK

With Tallink our vision is to lead the way becoming the preferred joyful break for everyone. This means we innovate. All the time. It means we find fresh approaches and provide new offerings. It means we continue to be the creative force in our market. It means we look after our customers, always meeting their needs – and anticipating them, if possible.

Tallink brand represents our Group on Tallinn-Helsinki, Tallinn-Stockholm, Tallinn-Vuosaari, Paldiski-Kappelskär and Riga-Stockholm shipping routes.

SILJA LINE

With Silja Line our vision is to provide the best leisure experience in the Nordics – with attention on every detail. True to our Nordic heritage, we focus on superior quality and distinctive design, thoughtfully reflected in our products and experiences.

Silja Line branded ships operate on Helsinki-Stockholm and Turku-Stockholm shipping routes.

Clear, beloved and differentiated brands are even more crucial as we are competing in the wider competitive field of leisure. We are going to continue to grow our industry-leading strategic brands in 2017, as they make their important contributions to the common value stream and form the foundation of our Group.

BRAND ARCHITECTURE

TALLINK GRUPP		Corporate level
CLUB ONE		Customer loyalty
TALLINK Short cruises Shuttle Hotels	SILJA LINE Short cruises	Strategic Customer Brands
Restaurants Bars Shops Cafeterias etc.		Branded concepts and services

COMPANY OVERVIEW

BRANDED SERVICES AND CONCEPTS

Restaurants	Grill House Restaurant; The Chef's Kitchen; Tavolàta Ristorante Italiano; Happy Lobster; Sushi & Co.; Aleksandra; Gourmet Baltic Queen; Gourmet Victoria; The Dining Room
Quick Service / Buffet / Cafe	Grande Buffet; Delight Buffet; Fast Lane; Coffee & Co.
Bars / Pubs / Nightclubs	Sea Pub; Victory; Manhattan Piano Bar; Corner; Cigar Club; Starlight Palace
Shops	tax free Superstore; traveller Superstore; Luxury; Step & Shine; Kids & Toys; Fashion; Gifts; Electronics; Tobacco Shop; Trend Shop
Hotel Facilities	Nero Restaurant & Bar; Elements Restorans; Balance Kafejnīca; Cellar Ooklubi · Night Club; Piano Bar; Fidel Cigar Bar; Aqua Spa; Nautica Hall Pirita Spa Hotel; Regatta Pirita Spa Restoran; Tempo Resto & Bar; Sume restaurant
Other Services	hera salongid; business lounge; comfort lounge; DISCOVER **NEW**
Franchise	Burger King; Iskelmä; Spice Ice; Desigual; Moomin; Lotte; Official Supplier of Santa Claus

Our business philosophy is based on sustainable economic, environmental, labour and ethical performance. Those are put into practice by compliance with legislation, regulations, best practices and ethical norms. Group-wide internal policies, guidelines and standards are in use and we also require our supplier's performance on the same level. Our business philosophy is built around the recognition that everything we do in connection with our work will be, and should be, measured against the highest standards of ethical business conduct. We set the bar that high for practical as well as aspirational reasons – our commitment to the highest standards helps us to create great products, attract loyal customers and hire the best people. Trust and mutual respect among employees and customers are the foundation of our success, and they are something we need to earn every day.

WE SERVE OUR CUSTOMERS

"Customer is in the heart of everything we do" is our slogan. Every phase of our customer path, from the first steps of booking and checking-in to the trip to the final greetings at the end of the voyage should be in compliance with our Travel Experience principles gathering the best practices in our customer service. Our customers value our brands not only because we deliver great products and services, but because we hold ourselves to a higher standard in how we treat customers and operate our business.

WE RESPECT EACH OTHER

We are committed to a supportive work environment, where employees have the opportunity to reach their potential. Each of us is expected to do their utmost to create a respectful workplace culture that is free of harassment, intimidation, bias and unlawful discrimination of any kind.

WE PROMOTE SAFETY, SECURITY AND ENVIRONMENTAL PROTECTION

We care about our customers, employees and surrounding nature. We are committed to operate our business in an environmentally and socially responsible manner as well to ensure highest safety and security standards. To achieve this, we strive to comply with all applicable rules and regulations with our best efforts in shipping operation as well as in our working and service environments to minimize any adverse impact to humans and environment.

WE AVOID CONFLICTS OF INTEREST

In our work, we have an obligation to always do what is best for our customers and the Group. It is imperative in all situations in which competing, loyalties or other conflicts of interest could cause to pursue a private benefit at the expense of the Group or our customers.

WE PRESERVE CONFIDENTIALITY AND DATA PRIVACY

Our responsibilities extend beyond not revealing confidential material of the Group – we are also strictly committed to safeguard confidential information of our customers and partners we deal with. We are committed to respecting the privacy of any personal data which we process. We ensure that we collect, process and use personal data only to the extent which is necessary for the lawful and defined purposes and adhere to applicable laws on the use of personal data. We are also committed to uphold appropriate level of information security to safeguard the confidentiality and privacy of data and to prevent unauthorized use of such data.

WE PROTECT COMPANY ASSETS

The Group has a well-earned reputation for generosity with our employee benefits and openness with confidential information shared within the company. Our ability to continue these practices depends on how well we conserve company resources and protect company assets and information.

WE ENSURE FINANCIAL INTEGRITY AND RESPONSIBILITY

Financial integrity and fiscal responsibility are core aspects of corporate professionalism. This is more than accurate reporting of our financials, though that is certainly important. The money we spend on behalf of the Group is not ours personally; it is the company's and, ultimately, of our shareholders. Each person in the Group has a role in making sure that money is appropriately spent, our financial records are complete and accurate and internal controls are honored. This matters every time we hire a new vendor, expense something to the Group, sign a new business contract or enter into any deals on behalf of the Group. To make sure that we get this right, the Group maintains a system of internal controls and audits to reinforce compliance with legal, accounting, tax and other regulatory requirements in every location in which we operate.

BUSINESS PHILOSOPHY

WE OBEY THE LAW

The Group takes responsibility to comply with laws and regulations very seriously and each of us is expected to comply with applicable legal requirements and rules. While it is impossible for anyone to know all aspects of every applicable law, every employee has the responsibility to understand the laws and regulations applying to his or her work. We also urge any employee having a concern or question about the compliance of laws to take advantage of the Legal team to assist there.

The Group aspires to be a corporation providing excellence. It is impossible to spell out every possible ethical scenario we might face. Instead, in addition to having our policies, procedures and training in place to ensure ethical business conduct, we also rely on one another's good judgment to uphold a high standard of integrity for ourselves and our company. We expect all of our employees to be guided by both the letter and the spirit of this business philosophy. And we always remember... **Customer is in the heart of everything we do!**

OUR VALUES ARE INSPIRING AND SUPPORTING

Our core values are common for the entire corporation staff, regardless of the brands we serve, our position or the roles within the Group. We always align our actions and behaviors according to our values.

Commitment:

- We are inspired by our common goals and work towards them with dedication and passion.
- We deliver our promises to customers and colleagues.
- We do that little extra to positively surprise our customers and exceed their expectations.
- We strive for efficiency and economical gain in all our activities to secure sustainable profitability growth for the company.

Professionalism:

- We serve our customers with care, confidence and integrity in all circumstances.
- We have the courage to give and take responsibility and are accountable for our actions.
- We implement decisions with discipline, follow up on results and learn from the experience.
- We value learning and development and take initiative towards better performance.

Cooperation:

- We are always available for our customers; we listen to them actively and serve them with respect to their needs and requests.
- We are honest and loyal towards ourselves, our colleagues, clients, partners and shareholders.
- We build teamwork with colleagues; we help and encourage each other.
- We share our own knowledge and are open to ideas from others.

Joy:

- We believe that results are the most important but the process must be enjoyable as well.
- We keep good mood and positive atmosphere at workplace.
- We cherish good humour as our tool of communication.

VESSELS AND OPERATED ROUTES

The Group's main revenue-generating assets are vessels, which account for approximately 80% of total assets. During the financial year the Group owned 15 vessels. Fast ferry Superstar was operated under a charter agreement until the delivery of the new LNG fast ferry Megastar in January 2017. 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
Superstar	High-speed ro-pax	2008	Finland-Estonia	shuttle service
Star	High-speed ro-pax	2007	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 VII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VII"
Superfast VIII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VIII"
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed "Atlantic Vision"

As at 31 December 2016 the book value of the ships amounted to EUR 1 230 million (EUR 1 270 million at the end of 2015). The Group's vessels are regularly valued by 2 to 3 independent international shipbrokers, who are also approved by mortgagees.

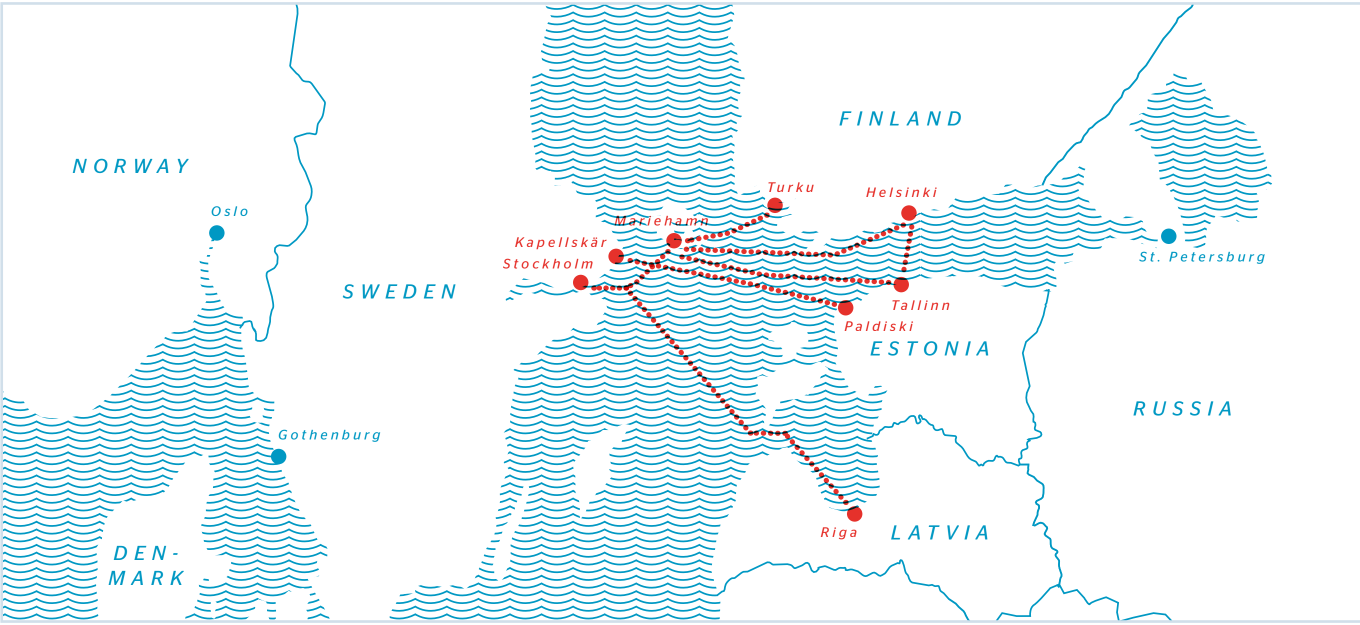
On 24 January 2017 Tallink Grupp AS's subsidiary Tallink Line Ltd. took delivery of the new LNG fast passenger ferry Megastar from Meyer Turku Oy shipyard in Turku, Finland. The 212-metre long Megastar has capacity for 2 800 passengers and a car deck for 800 passenger vehicles. The ship has modern dual-fuel engines capable of running on LNG (liquefied natural gas) and marine diesel oil. Using LNG as a main fuel enables to lower emissions and reduce energy consumption. Megastar will comply with the current and known future emission regulations for the ECAs (Emission Control Area), including the Baltic Sea.

All of the Group's vessels have protection and indemnity insurance (P&I), 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.

VESSELS AND OPERATED ROUTES

ROUTEMAP



LNG POWERED FAST FERRY MEGASTAR – THE MEGA-PROJECT FOR DECREASING THE AIR-EMISSIONS AND PROVIDING EXCELLENT CUSTOMER EXPERIENCE

Megastar is 212 meters long, can accommodate altogether 2800 passengers and started operating on Tallinn-Helsinki route in January 2017. She is a 49 000 gross tonnage ship with a service speed of 27 knots. Megastar will comply with the new and stricter emission regulations for the ECA areas including the Baltic Sea. The godmother of the ship is Tarja Halonen, 11th President of Finland.

Safety

Ships today are becoming increasingly seaproof. Due to the Safe Return to Port (STrP) Megastar has been designed and constructed to be able to reach safely the closest port on its own should an accident happen. Megastar has four sections – if an incident occurs in one of them, people can be evacuated to other secure sections and the ship is able to safely return to port.

Environment

Several innovations result in environmentally friendly outcome:

- Using liquefied natural gas (LNG) as fuel will reduce noise and exhaust gas emissions. Dual-fuel engines in gas mode produce 25% less CO_2, 85% less NO_x and practically zero SO_x and particles, compared to traditional diesel or heavy fuel oil burning engines.
- Her hull has been designed exclusively for Megastar by using CFD tools (Computational Fluid Dynamics) – the model tests confirm the results from very low hull resistance and high propulsion efficiency from the chosen hull form and making it an advanced and environmentally sound one. These extremely good hydrodynamic characters decreased fuel consumption and air emissions amount, minimizing the environmental impact.
- She has been built specially for Tallinn-Helsinki route. Considering prevailing weather conditions (e.g. to be smoother in icy conditions) and other unique characteristics of the route allowed to build a ship that maximizes its operating efficiency and energy-efficiency and minimizes fuel consumption.
- The ship also exploits all excess heat. The heat that functioning engines release is used to warm the docked ship.
- Very light materials have been used to build the ship to make it lighter, so it requires less fuel.
- The ship's Green Passport maps all materials classified as hazardous that have been used for building the ship, enabling their effective and safe recycling after the ship's lifecycle ends.

There are more than 10 000 sensors around the ship to inform the computer about different conditions and help it calculate the most effective regimes for the engines.

VESSELS AND OPERATED ROUTES

Passengers
Megastar has plenty of options for a meal at sea – be it a quick bite or a hearty breakfast, a business lunch or a cosy family dinner in an a la carte restaurant – Delight Buffet and Chef`s Kitchen, self-service café Coffee & Co, Victory Bar, Sea Pub, Fast Lane and Burger king. All the restaurants, cafés and bars are on decks 8 and 9 in an area designed by Finnish studio dSign Vertti Kivi & Co and Aprocos.

Passenger areas include Sitting Lounge (quiet, private area with comfortable armchairs, TV and luggage lockers), Winter Garden (light, airy and green with relaxing interior design), Business Lounge (quiet, refined area, with Premium WiFi, newspapers and catering), Comfort Lounge (comfortable separate area with extra services), Driver`s Lounge (separate lounge for cargo drivers) and a modern, fresh, inspiring children's playroom.

Shopping
Besides significant improvements in energy efficiency the new generation fast ferry brings new innovative solutions to the service on board. In Megastar Nordic design and user comfort by local interior designers has been kept in mind.

The largest shopping area (2 800 square meters) Traveller Superstore is located on decks 7 and 8 in the aft of the ship. The product selection includes perfume and cosmetics, accessories, fashion, toys, sweets, deli, alcohol, and gifts.

There is a seperate garage for 100 passenger cars with access to the cars also during the voyage. Shuttle pre-order counter has a Take a Number Dispenser, and allows to order items directly to car deck where crew members are ready to assist in loading purchased goods into your car. The garage has direct access to 2nd level Traveller Superstore, which is a convenient possibility to carry bought goods directly to the car.

There is also a self-service solution – Q-Shopping – that makes shopping more comfortable by using self-service scanners and automatic payment. Megastar is a symbol for new era in the fast ferry services on the Baltic Sea.

Traveller Superstore is opened while the ship is docked. At the port of Helsinki and in Finnish waters, there is a limitation on alcohol and tobacco sales.

„Your name on board"
In collaboration with WWF Finland, Tallink has started a donation campaign to collect funds for Baltic ringed seal conservation. With the donations collected, experts can find ways to help the pups survive through warmer winters. Everyone who makes a donation to this project is invited to digitally write their name on board Tallink's new vessel Megastar. The Tallink Shuttle image on the screen consists the names of the people who have donated to the project.
More about Megastar: http://megastar.tallink.com/

FLEET

BALTIC QUEEN

Built	2009
Length	212 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

SUPERSTAR

Built	2008
Length	177 m
Passengers	2080
Lanemetres	1930
Ice class	1 A

BALTIC PRINCESS

Built	2008
Length	212 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

STAR

Built	2007
Length	186 m
Passengers	1860
Lanemetres	2000
Ice class	1 A

GALAXY

Built	2006
Length	212 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

VICTORIA I

Built	2004
Length	193 m
Passengers	2500
Lanemetres	1030
Ice class	1 A Super

ROMANTIKA

Built	2002
Length	193 m
Passengers	2500
Lanemetres	1030
Ice class	1 A Super

SILJA EUROPA

Built	1993
Length	202 m
Passengers	3123
Lanemetres	932
Ice class	1 A Super

SILJA SYMPHONY

Built	1991
Length	203 m
Passengers	2852
Lanemetres	950
Ice class	1 A Super

SILJA SERENADE

Built	1990
Length	203 m
Passengers	2852
Lanemetres	950
Ice class	1 A Super

FLEET

ISABELLE

Built	1989
Length	171 m
Passengers	2480
Lanemetres	850
Ice class	1A Super

SUPERFAST VII / VIII / IX

Built	2001 / 2001 / 2002
Length	203 m / 203 m / 203 m
Passengers	717 / 717 / 728
Lanemetres	1900
Ice class	1 A Super

REGAL STAR

Built	1999
Length	157 m
Passengers	80
Lanemetres	2087
Ice class	1 A

SEA WIND

Built	1972 / 1984 / 1989
Length	155 m
Passengers	260
Lanemetres	1100
Ice class	1 B

GROUP STRUCTURE

At the reporting date, the Group consisted of 45 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:

AS TALLINK GRUPP
Holding & Operating company

Ship owning companies

- Baltic SF IX Ltd "Superfast IX"
- Baltic SF VIII Ltd "Superfast VIII"
- Baltic SF VII Ltd "Superfast VII"
- Tallink Hansaway Ltd "Star"
- Tallink Superfast Ltd Dormant
- Tallink Sea Line Ltd "Galaxy"
- Tallink High Speed Line Ltd "Baltic Queen"
- Tallink Autoexpress Ltd "Silja Serenade" "Silja Europa"
- Hansalink Ltd "Isabelle"
- Tallink Fast Ltd "Baltic Princess"
- Tallink Victory Line Ltd "Victoria I"
- Tallink Ltd "Romantika"
- Tallinn Stockholm Line Ltd Dormant
- Tallinn Swedish Line Ltd "Silja Symphony" "Sea Wind"
- Tallink Line Ltd "Megastar"
- Vana Tallinn Line Ltd Dormant
- Tallinn-Helsinki Line Ltd "Regal Star"

Sales & Operations

- AS Tallink Baltic Dormant
- AS Tallink Latvija Sales & Marketing and crewing in Latvia
- OOO Tallink-Ru Sales & Marketing in Russia
- AS Hansatee Cargo Dormant
  - Tallink Finland OY Dormant
- AS Tallink Riga-Stockholm route
- Tallink Silja Ab Sales & Marketing in Sweden

Service companies

- AS Tallink Duty Free Supply of goods
  - OÜ HT Hulgi Tolliladu Public customs warehouse
- OÜ TLG Hotell Hotel operator
  - SIA TLG Hotel Latvija Hotel operator
- OÜ Hera Salongid Beauty services
- OÜ HT Laevateenindus Technical ship Management & crewing
  - SIA HT Shipmanagement Technical ship management in Latvia
- AS HTG Invest Stevedoring services
- HTG Stevedoring OY Stevedoring services
- OÜ Hansaliin Crewing
- OÜ Hansatee Kinnisvara Lease of vehicles
- OÜ HT Meelelahutus Entertainment on ships
- OÜ Mare Catering Catering services
- OÜ Tallink Travel Club Travel services
- OÜ Baan Thai Catering services
- Ingleby (1699) Ltd Process agent

AS Tallink Scandinavian Holding company

- Tallink Silja Oy Sales & Marketing in Finland Finland-Sweden route operations
  - Sally Ab Sales agent in Åland
  - Tallink Silja Gmbh Sales agent in Germany

The Group also owns 34% of AS Tallink Takso.

SHARES AND SHAREHOLDERS

As at 31 December 2016 Tallink Grupp AS had a total of 669 882 040 (31 December 2015: 673 817 040) 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.

Shares without nominal value of Tallink Grupp AS were registered on 1 July 2016 in the Commercial Register according to the resolutions adopted by the annual general meeting of shareholders of the company on 14 June 2016. In addition, the annual general meeting decided to reduce share capital by EUR 40.2 million or EUR 0.06 per share. The calculated value of each share after the share capital reduction is EUR 0.54. The share capital reduction was registered in the Commercial Register on 22 September 2016 and related payments to the shareholders were made on 23 December 2016.

The cancellation of own shares held was registered on 1 July 2016 in the Commercial Register according to the resolutions adopted by the annual general meeting of shareholders of the company on 14 June 2016. Prior to the cancellation, Tallink Grupp AS held 3 935 thousand own shares with the total cost of share buyback of EUR 4.2 million.

On 8 February 2011, the annual general meeting of Tallink Grupp AS approved the terms of an employee share option programme that allowed issuing options for up to 15 million shares until 31 August 2013. In accordance with the programme the Group issued options during the 2011 and 2012 financial years. At 31 December 2015, the Group had outstanding 7 276 903 share options. Each option gave the right to purchase one share in Tallink Grupp AS. In the case of issue of new shares, the exercise price was EUR 0.858 and in the case of purchase of shares from the market the exercise price was the average acquisition cost. Pursuant to the terms of the option programme, the Supervisory Board of Tallink Grupp AS had the right to decide the method of fulfilment of the options. In accordance with the terms and conditions of the option programme, the options were exercisable between 21 December 2015 and 21 June 2016.

The value of the options issued at the end of 2012 in the amount of EUR 951 thousand was recorded as an expense during the vesting period of 36 months from the beginning of 2013. On 2 June 2016 the Supervisory Board of Tallink Grupp AS has decided not to fulfil the option agreements. The Supervisory Board has authorized the Management Board to pay to the option holders compensation of EUR 0.15 per share option.

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 2016 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 nominal values of the shares owned by the company may not exceed 10% of the share capital.
3) The price payable for one share may not be more than is the highest price paid on the Tallinn Stock Exchange for the share of Tallink Grupp AS at the day when the share is acquired.
4) Own shares will be paid for from the assets exceeding the share capital, mandatory legal reserve and issue premium.

No share buybacks have been performed since the adoption of this resolution. The Supervisory Board is authorized within three years as from 1 January 2016 to increase the share capital by EUR 25 000 000 to up to EUR 429 290 224. 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).

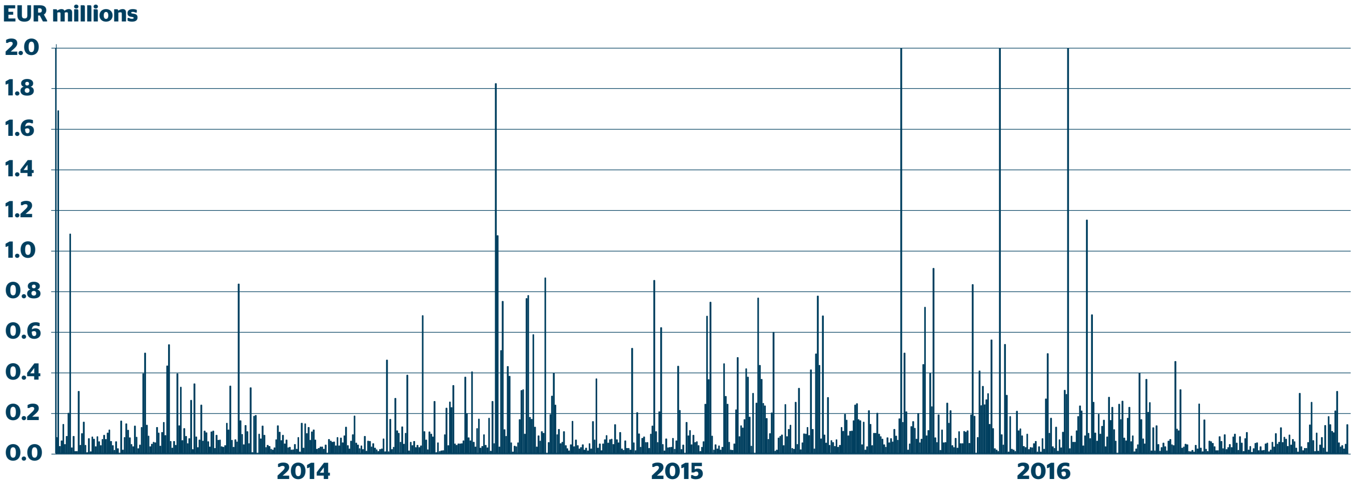
During the 2016 financial year, there were transactions with 72 905 733 Tallink Grupp AS shares on the Tallinn Stock Exchange. The highest daily average share price on the Tallinn Stock Exchange was EUR 1.04 and the lowest daily average share price was EUR 0.833. The average daily turnover of Tallink Grupp AS shares on the Tallinn Stock Exchange was EUR 239.3 thousand.

SHARES AND SHAREHOLDERS

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 2014 to 31 December 2016. The market capitalization in the end of the 2016 financial year was EUR 611.6 million.

HISTORICAL STOCK PRICE

HISTORICAL TURNOVER



The table below presents the distribution of share capital by size of share ownership as at 31 December 2016:

Ownership size	Shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	667	6.00%	26 225	0.00%
100 - 999	3 216	28.92%	1 481 249	0.22%
1 000 - 9 999	6 296	56.62%	14 060 584	2.10%
10 000 - 99 999	790	7.11%	20 190 736	3.02%
100 000 - 999 999	100	0.90%	28 991 056	4.33%
1 000 000 - 9 999 999	43	0.39%	121 873 407	18.19%
10 000 000 +	7	0.06%	483 258 783	72.14%
Total	**11 119**	**100.00%**	**669 882 040**	**100.00%**

As at 31 December 2016, 7.04% of the Group's shares were held by individuals.

SHARES AND SHAREHOLDERS

SHARES AND SHAREHOLDERS

The table below presents the investors of the Group by investor type at 31 December 2016:

Investor type	Shareholders	Number of shares	% of share capital
Principal shareholder, Infortar AS	1	254 776 164	38.03%
Institutional investors	1 074	367 923 220	54.92%
Private individuals	10 044	47 182 656	7.04%

The table below presents the 10 largest shareholders of the Group at 31 December 2016:

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	121 693 230	18.17%
Baltic Cruises Investment L.P.	36 931 732	5.51%
ING Luxembourg S.A. AIF Acc.	24 829 806	3.71%
ING Luxembourg Client Acc.	19 262 260	2.88%
State Street Bank Trust Omnibus Acc. A Fund OM01	13 866 887	2.07%
Clearstream Banking Luxembourg S.A. Clients	11 898 704	1.78%
Nordea Bank Finland Plc. clients	7 577 415	1.13%
Skandinaviska Enskilda Banken Finnish Clients	6 669 637	1.00%
BNYM Clients	6 490 251	0.97%

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 published 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.

TAKEOVER BIDS

The Group has not concluded any agreement with its management or employees that contains the provisions of 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. The management estimates that for the coming years the distribution per share will be at least EUR 0.02 or higher.

In June 2016 the shareholders' annual general meeting decided to pay a dividend of EUR 0.02 per share from net profit for 2015. The total dividend amount of EUR 13.4 million was paid out on 5 July 2016. In addition to the dividend payment the annual general meeting decided the reduction of share capital of EUR 40.2 million or EUR 0.06 per share. The share capital reduction payments to the shareholders were made on 23 December 2016.

To the annual shareholders' meeting in 2017 the Management Board will propose a dividend of EUR 0.03 per share from net profit for 2016.

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 14 June 2016. 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 526 978 130 votes, i.e. 78.67% of all votes. The resolutions adopted were: approval of the Annual Report, distribution of profits, introduction of a share without nominal value and amendment of the Articles of Association, reduction of share capital, extension of authorities of the members 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 5 to 7 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 five times during the 2016 financial year. The Company's operations, development, strategies, targets and budget were discussed. Four 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 2016 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	1 276 800

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 3 to 7 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 2016 the remuneration of the members of the Group's Management Board was in total EUR 1.3 million. The remuneration of the members of the Management Board does not include compensation of the share option programme.

CORPORATE GOVERNANCE REPORT

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 2016 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 nominal values of the shares owned by the company may not exceed 10% of the share capital.
3) The price payable for one share may not be more than is the highest price paid on the Tallinn Stock Exchange for the share of Tallink Grupp AS at the day when the share is acquired.
4) Own shares will be paid for from the assets exceeding the share capital, mandatory legal reserve and issue 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 EFSA.

Meetings with investors have been 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 the 2016 financial year were audited by KPMG Baltics OÜ.

AUDIT COMMITTEE

According to the Supervisory Board resolution of 4 October 2016 Mr. Meelis Asi and Mr. Luke Staniczek were elected as members of the Audit Committee in addition to Mr. Ain Hanschmidt and Ms. Mare Puusaag. It was resolved to appoint Mr. Meelis Asi as Chairman of the 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.

SUBSTANTIAL SHAREHOLDERS

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	121 693 230	18.17%
Baltic Cruises Investment L.P.	36 931 732	5.51%

The related party transactions are disclosed in the notes to the financial statements.

EXECUTIVE COMMITTEE

The Executive Committee of the Group is formed by the Management Board members and the top management of the Group to actively discuss and decide upon the projects, processes and results of the company from the point of view of all internal and external stakeholders. Sustainability is a major factor in all business decisions met by the Executive Committee, which summons monthly.

OCCUPATIONAL HEALTH AND SAFETY COMMITTEES

These committees are formed to secure, that the Operational Health and Safety principles based on Group`s Occupational Health and Safety Policy and local legislation are followed. The respective committees are formed in all larger units and entities of the Group on shore and on sea.

IT COMMITTEE

The IT Committee is a working group consisting of the members of the Management Board and the management of the IT department and Sales and Marketing department. This committee is in charge for determining the needs for future IT development projects observe the processes of on-going IT projects and evaluate the outcome of IT projects carried out. All substantial focus areas are taken into consideration to make decisions in terms of securing the sustainability of the projects from external and internal stakeholders` point of view. The IT Committee meets at least once in a quarter, but in case of demand, also up to once every month.

SALES AND MARKETING COMMITTEE

This committee works with developing and leading the sales and marketing strategy of the Group. It consists of the members of the Management Board and the sales and marketing executives from the different entities of the Group. The committee summons every month.

KEY MANAGEMENT PERSONNEL

Standing, from the left:
Kalev Järvelill,
Enn Pant,
Ain Hanschmidt,
Colin Douglas Clark

Sitting, from the left:
Lauri Kustaa Äimä,
Eve Pant,
Toivo Ninnas

SUPERVISORY BOARD

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
- Direct shareholding of 3 951 913 shares

EVE PANT
(born 1968)

Member of the Supervisory Board since 1997

- Graduated from the Tallinn School of Economics, Estonia, in 1992
- Direct shareholding of 603 500 shares

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
- Direct shareholding of 1 800 000 shares

TOIVO NINNAS
(born 1940)

Member of the Supervisory Board since 1997

- Chairman of the Supervisory Board from 1997 to 2015
- 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.
- Direct shareholding of 19 200 shares

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
- Direct shareholding of nil shares

KEY MANAGEMENT PERSONNEL

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
- Direct shareholding of 1 276 800 shares

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, Kovinoplastika 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
- Direct shareholding of 237 000 shares

MANAGEMENT BOARD

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
- Direct shareholding of 45 000 shares

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
- Direct shareholding of 860 000 shares

LEMBIT KITTER (born 1953)

Member of the Management Board since 2006

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

STAKEHOLDER ENGAGEMENT AND MATERIAL ASPECTS

As a large enterprise listed on the stock exchange, we have a wide range of stakeholders, whom we engage in the dialogue as often as we can. Tallink Grupp has defined employees, customers, shareholders, suppliers, partners, governmental institutions, educational organizations, community, NGO-s, and media as its major stakeholder groups. These groups have the most significant impact on the Group and are themselves affected by the activities of the Group the most.

In the recent years, we have put much effort into making the communication even more effective and giving feedback as easy as possible. Information, feedback, ideas and proposals are valued highly. Whereas meeting face to face is of course the best way to exchange information, the digital tools and online communication are also high on the list.

To provide different stakeholder groups with relevant information and receive feedback on a regular basis, the Group`s different units and departments have appointed to work together with the stakeholder groups related to their functions and responsibilities.

1) Human Resources departments are the cooperation partners for Employees. There are regular meetings taking place between the employees, their representatives (including Trade Unions) and the departments have established additional feedback channels to enhance the communication.
   - **Employee Commitment Survey** – is carried out every 2 years (next to follow in 2018). The main goal of the survey is to gather feedback to organizational changes that have taken place in Tallink Group in the past years and to see how these changes have influenced employee's commitment.
     - 2016 survey shows that employee's commitment in Tallink Group has strengthened significantly (TRI*M index has increased from 62 points to 70). In order to continue achieving high level of commitment, our strenghts should be maintained. According to survey our strengths are highly valued managers and a clear picture of the company's future is clearly understandable for most of our valued employees.
     - The survey pointed out also key areas, where improvement is needed, especially career development opportunities within the Group. The survey has shown clear organizational mindset change toward "Customer is in heart of everything we do" organization – most of our employees (ca 55% in 2016 vs ca 20% in 2014) have noticed colleagues behavioral changes based on Travel Experience training program. Also our customers have noticed this and are highly satisfied with our services as seen by NPS.
   - **Tallink Group Staff Festival and Family Day** are networking events for our employees from six different countries. As a new tradition from 2016, Staff Festival was first time held outside Estonia – in Stockholm, Sweden. Next year the Staff Festival will be in... (let it be surprise for staff). Ca 900 persons participated in Staff Festival in Stockholm and ca 1200 person participated in Family Day in Lotte Village, Estonia.
   - **Tallink Silja Awards** – takes place annually in the beginning of the year – the nominees are proposed by the good colleagues and managers by the online survey. Ca 1100 employees participated at 2016 Tallink Silja Awards event in Saku Suurhall Arena.

2) Financial department is responsible for the cooperation with shareholders of the Group. The Group has both private and institutional investors. There are regular meetings with the shareholders as well as roadshows for meeting up the potential new investors arranged by the department. The representatives are actively involved in the events organized for the shareholders by Nasdaq OMX Tallinn Stock Exchange and other organizations involved in investor relations in Estonia.
   - Every year after the financial results have been audited and published, the Annual Shareholders` Meeting is organized by the Group following the regulations for listed companies in Estonia. There the annual results are discussed and the plans for the future are put to the vote including the distribution of dividends.

3) The dialogue with non-governmental organizations has been divided in the Group following the functions and expertise. Though, the majority of the cooperation is done with the lead or participation of the Communication department of the Group. There are regular meetings with the organizations.

4) The cooperation with the suppliers is divided according to supply chain responsibilities in the Group. The subsidiary Tallink Duty Free is responsible for the provision suppliers (both ships and hotels) communication, the Administrative department is cooperating with the office suppliers and the subsidiary HT Shipmanagement with the technical suppliers of the fleet. There are regular communication plans with the supplier groups.
   - Tallink Duty Free Fair is organized annually bringing together all major suppliers around the world.

STAKEHOLDER ENGAGEMENT AND MATERIAL ASPECTS

5) Educational organizations are the cooperation partners for the HR departments and HT Ship management. The main partners in that field are maritime and service oriented educational organizations/training providers whom we cooperate with in all countries we have ships, hotels and land staff manning operations. There are regular meetings to discuss the cooperation regarding the training programs, exchange of know-how and organizing of internships in the company`s various positions.

6) Marketing and sales department, customer service department and cargo department are in charge of developing the cooperation with the customers from B2B and B2C areas. There are well-established communication channels to enable effective communications between the parties.
   - Participation in fairs on all major markets;
   - Open-door days for customers on board of our ships;
   - Customer satisfaction surveys are carried out regularly.

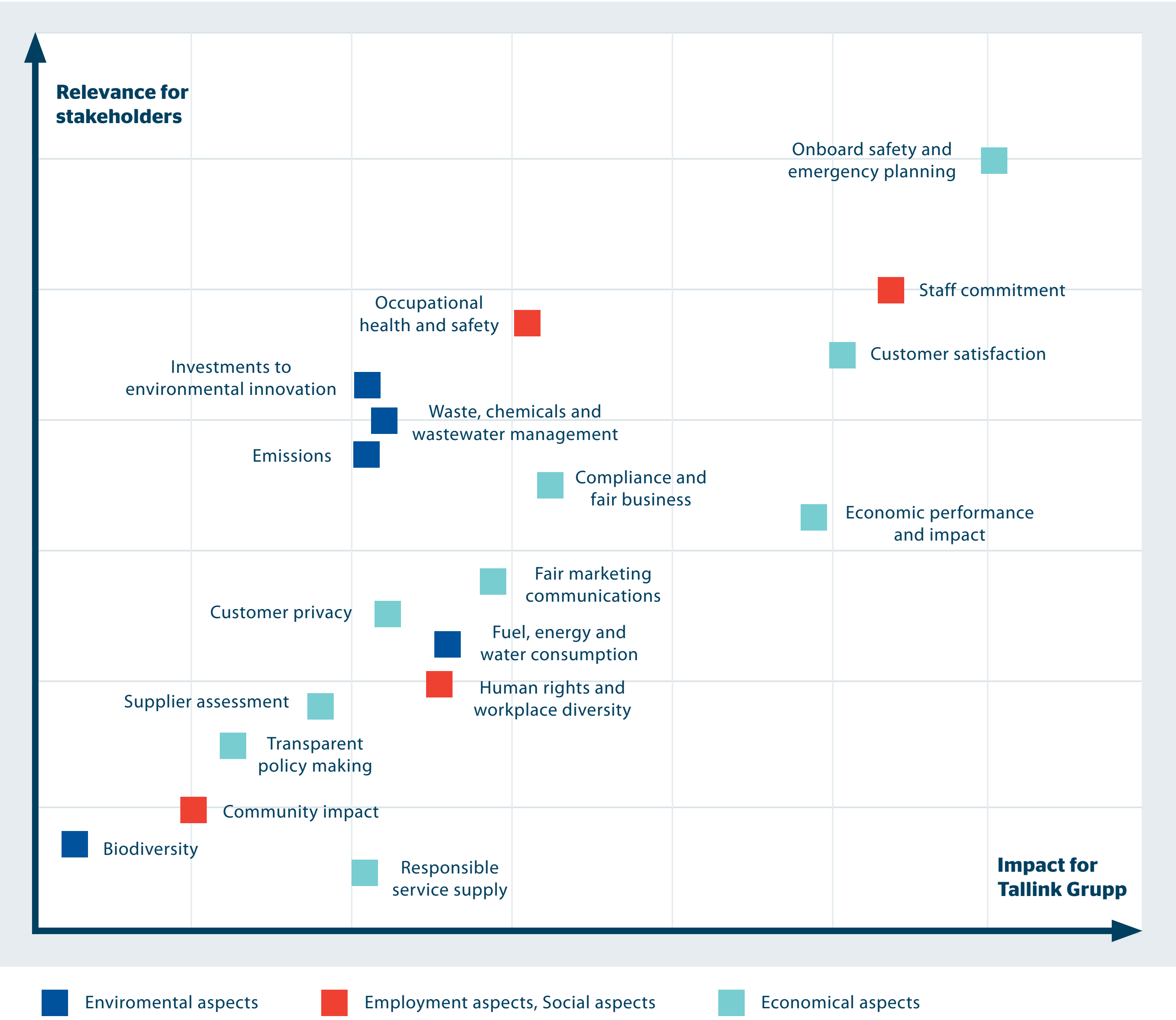
7) Cooperation with media is organized by the Communication department and Marketing and Sales department of the Group. In addition to press conferences, press trips and meetings, there are also everyday contacts to answer the press requests and deliver information about the Group`s activities.

DEFINING THE SCOPE FOR SUSTAINABILITY DISCLOSURES

In 2015 Tallink Grupp conducted a thorough analysis of stakeholder expectations in order to find out which social and environmental sustainability and responsible behavior aspects are most relevant for major stakeholders and have the biggest impact on the business. The goal of the process was to get input for management decisions and to support the selection of data that should be disclosed in Group`s sustainability report – with an aim to respond to stakeholders' expectations.

Through online survey among major internal and external stakeholder groups, stakeholder symposium, and management symposium the materiality of different sustainability and responsibility aspects was evaluated. In order to ensure completeness of the scope of the reporting, the analysis was led by independent external consultants. The outcome of the engagement was a materiality matrix that prioritizes the relevance of different aspects and has been used as the basis for defining the content of current report.

STAKEHOLDER ENGAGEMENT AND MATERIAL ASPECTS



For setting the scope of current report, the matrix has been reviewed and possible changes in stakeholder expectations have been discussed internally. As no major changes have been defined compared to the previous report, the scope and content, materiality of aspects, and aspect boundaries of sustainability information remain the same.

Key topics from our stakeholders` perspective are all included to the material aspects of this report. Fortunately, according to all stakeholders they were not having any concerns related to those topics, but they have stressed the importance of those areas to be further developed and communicated about.

Onboard safety aspects are relevant for entities that are related to operating vessels and taking care of passengers on ships. Environmental impacts are the major concern also for entities which operate ships, but to some extent also for other companies. All other defined aspects are relevant within the whole Group.

The materiality of certain aspects outside the Group depends on the interest of certain stakeholder group. None of the given aspects was defined as not-material by any stakeholder group. The materiality matrix takes into account the weighted average of the opinion of different stakeholder groups in different aspects.

Detailed information about the process of stakeholder engagement and materiality matrix creation can be found from Tallink Grupp`s Sustainability Report 2015 available on the Group's website (www.tallink.com).

WORKPLACE MANAGEMENT AND INDICATORS

EMPLOYMENT

The Group carried 9.5 million passengers in 2016 and the average number of employees was 7163. The Group works with and for people and the responsibility to offer safety, security and excellent conditions both from service as well as employment point of view are among our top priorities.

According to the employers` brand survey carried out by the research company TNS Emor, the Group ranked as one of the most preferable employers in Estonia rising from the third position in 2015 to the 2nd position in 2016 and being the first private owned company in the list.

Employee Commitment Survey conducted in 2016 shows that The Group's employees' commitment has increased significantly and is placed in top of 30% Northern Europe businesses.

For keeping the advantages in the labor market, the concrete action plans are not disclosed, but these plans are dealing with further improvement of overall working conditions, staff development and benefits.

- Our core values commitment, professionalism, cooperation and joy, are there for the entire corporation and regardless of our position or role in the company; we align our actions and behaviors according to our values.
- Setting aside the strict requirements to the status of health of the potential employees, everybody has equal possibilities for working in the Group.
- Safety and Security Policy – securing the safety and security of people, environment and property comes first.
- The safety management system adheres to the ISM and ISPS Codes in order to guarantee the operations of the ships and onshore organization, prevent accidents, loss of human lives and environmental damages caused to marine environment.
- The safety management operations objective is to maintain and develop safe procedures for ships and creating a safe ship environment for both the crew and passengers. Crew's safety management skills are continuously developed, assessed, practiced and improved by identifying the known risk factors and areas, and practicing related procedures. In addition, crew environmental safety awareness is continuously improved.
- The Group does not allow for persons less than 16 years of age to be employed or engaged in work onboard ships. Persons between the age of 16 and 18 are not allowed to do night work or any other work where their health and safety may be jeopardized.
- The objective of the Company Safety Management System is to ensure that the valid rules and requirements set out by IMO maritime authorities, certification bodies and other maritime organizations as well as their applicable regulations and standards are adhered to.
- Work environment risk assessments are carried out continuously based on legislative requirements and ongoing analyses of work accidents and work environment internal audits.
- The Group cooperates closely with the trade unions for the employees of the maritime sector in Estonia, Finland, Sweden and Latvia – all the countries where the company employs crew members for the ships. The company also cooperates with the trade unions for onshore personnel in the countries where there are such organizations. This however does not mean that the employer always agrees with the opinion or actions of the unions, but tries to find solutions best for both parties and what is most important, for our employees.
- The Group employees' development is based on adherence to the 70/20/10 philosophy, which is based on the idea that a person develops the most through work performance and practical experience, i.e. 70% from real life and on-the-job experiences, tasks and problem solving; 20% from feedback and from observing and working with role models; 10% from formal training. We assume that training leads to learning, which leads to doing better in our lives and work – and it leads to increased performance.
- We pay special attention to the physical fitness of our employees by providing medical services and check-ups for the crew members as well as ensuring the availability of gyms on board our vessels and in our hotels.

The employment in maritime sector has been mapped thoroughly and following the respective laws, regulations, ILO and IMO conventions is on top of our list of responsibilities as an employer.

WORKPLACE MANAGEMENT AND INDICATORS

OUR COLLEAGUES IN 2016

	2013	2014	2015	2016
Average age of personnel on board	41.0	39.5	40.6	42.1
Average age of personnel ashore	37.5	37.1	41.0	37.3

	% ashore	% onboard	% ashore	% onboard	% ashore	% onboard	% ashore	% onboard
20 or younger	3.4	3.3	3.6	4.7	4.5	3.5	5.0	2.3
21-30	28.5	29.7	29.6	30.8	29.0	29.3	31.6	23.4
31-40	28.9	17.4	17.1	29.7	17.2	28.5	26.6	25.1
41-50	17.8	21.6	20.7	19.7	18.9	19.8	19.2	21.8
51-60	11.9	20.5	21.2	13.3	21.8	13.2	13.0	20.6
61 or older	3.6	7.4	8.2	5.2	8.5	5.8	4.6	6.9
male	29.2	43.8	28.8	43.1	28.6	41.6	31.9	46.4
female	70.8	56.2	74.7	57.3	71.4	58.4	68.1	53.6

BENEFITS OF OUR EMPLOYEES

The Group offers its employees a wide range of special offers for products and services both on board of ships as well as in our hotels – related to travelling, accommodation, shopping and catering. There are many cooperation partners, who make special offers for our employees.

Taking into consideration the specialty of maritime jobs, the time resource management for onboard employees is beneficial in comparison to a common job on shore. The working time is shorter throughout a year-long period and vacation conditions are especially good by providing a longer vacation time per year compared to the usual work conditions on land.

The Group also secures the employees with the healthcare services to monitor the health conditions and provide medical assistance. The healthcare services for the Group`s employees are provided by professional occupational health medical professionals.

TRAINING AND EDUCATION

Tallink Silja Line Training Center operations are based on Quality Manual approved by Bureau Veritas based on ISO 9001:2008 quality system standards. The main focus area of training center is to provide and deliver occupational maritime trainings governed by international regulations (STCW – International Convention on Standards of Training, Certification and Watchkeeping for Seafarers). The STCW Convention requires that training leading to certification is 'approved' by Maritime Administration. Estonian Maritime Administration has accredited Tallink Silja Line Training Center to provide following maritime trainings:

1) Security Awareness training;
2) Crowd and Crisis Management;
3) Security training for seafarers with designated security duties;
4) Ship Security Officer (SSO);
5) Dangerous, hazardous and harmful cargoes;
6) Basic Safety Training.

The Convention also requires that those responsible for training and assessment of competence of seafarers are appropriately qualified in accordance with the provisions of the Code. In order to comply with that requirement all Training Center instructors delivering the training programs have passed appropriate training program and are certified instructors. Their skills and competencies are continuously assessed and developed. In 2016, training instructors from Finland and Latvia have started to train.

In 2016, a high number of Group's employees participated in trainings provided by the Training Center, such as Basic Safety Training – more than 600; Crowd and Crisis management – more than 900; Security Awareness – almost 900.
The Group's e-learning environment has been developed.

A number of e-courses in combination with classroom trainings were provided in an efficient way. E-learning environment version 2 is expected to be launched during 2017 based on experience gained during 2016.

Despite having own Training Center for STCW required trainings, the Group is cooperating with other Maritime training providers to offer employees high quality trainings.

TRAINING PROGRAMS

The training calendar for 2016 was full and included a variety of different trainings for a significant part of the employees on board, in hotels and on shore. The skills the employees either enhanced or learned as completely new ones, will be with them for the rest of their lives, enriching their professional portfolio valuable for competing in the labour market. There is number of trainings we focused during this period:

- Travel Experience for better customer service;
- Learning programs for more than 700 active in-house trainers and STCW instructors;
- Specialized professional trainings for different areas (e.g cleaning, restaurant and bars, shops, call centers staff and others);
- Regular language courses for English, Finnish, Latvian and Swedish language skills.

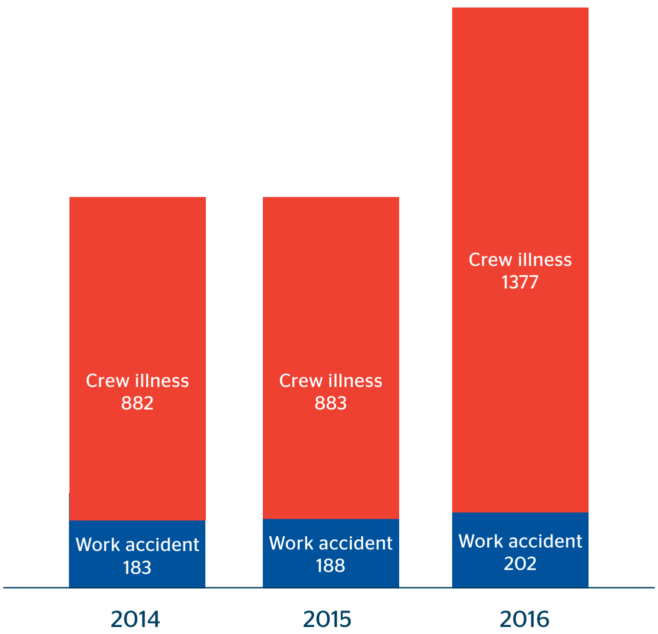
Among the crew members of our fleet, 90% have participated in the regular trainings developing their professional skills and enhancing their competence.

More than 75% of the onshore personnel have received regular training enhancing their career development.

OCCUPATIONAL HEALTH AND SAFETY

The Group is a responsible employer in all countries, by managing the occupational health and safety as well as developing great work conditions. During 2016, continuous risk assessments of occupational health and work conditions were carried out in all units and entities – on ships, hotels and land based units. The risk assessment is one of the basis for the health monitoring of the employees and developing of the supporting activities related to it and preventative measures together in cooperation with occupational health medical professionals. This helps the Group to better design the main frames of the work environment ergonomics.

Every crew on board of our ships have their own work health and safety management team, which consists of the ships senior and middle management officers, crewmembers and occupational health representatives. The management teams meet on regular basis. Also there are respective committees in Tallink Grupp's subsidiaries, who work continuously on the analysis of the work environmental and occupational health system and processes. As all employees are represented in the committees by the elected members, we can say that close to 100% of the employees are represented in those entities.



In 2016, there were no work-related fatalities among the employees of the Group. Increase of crew illnesses and work accidents is due to improved reporting routines. Also the cruise ferry Silja Europa started operating in 2016 and that increased the number of employees.

HUMAN RIGHTS AND WORKPLACE DIVERSITY

Labour and management relations

The management often reaches out to the employees to have a good dialogue between the employees and the management as well as to secure the good information flow necessary for sustainable operations. There are regular meetings and larger events organized, also the management participates in the free time activities organized for the Group`s employees several times per year.

All of our employees have the right to belong to trade unions.

WORKPLACE MANAGEMENT AND INDICATORS

The percentage of total employees covered by collective bargaining agreements is close to 80% due to the high percentage of employees covered by collective bargaining agreements. There is no evidence of the right to exercise the freedom of association and collective bargaining being violated or at significant risk.

The minimum notice periods regarding the operational changes are determined by the Group`s responsibilities towards the current and potential shareholders, as significant operational changes must be reported via stock exchange to all stakeholders at the same time (excluding the registered insiders, who then have additional confidentiality responsibilities) to diminish the risk of illegal transactions in the stock exchange. Still, the conditions of any significant changes in the employees workplace and/or conditions are handled according to the local and international legislation and trade union agreements.

In 2016, there were no reports on discrimination by gender, age, race, etc.

DIVERSITY AND EQUAL OPPORTUNITIES

The Group is the Equal Opportunity Employer. All people can apply for a job or a promotion in our company, set aside the regulatory specifics related to the safety matters (language barriers and special needs – see STCW convention).

The salaries are determined by the local labour market developments and the Group follows the equal and leading market position dependant to the availability and skills of the vacant employees. The salaries of ships and hotel employees are subject to collective agreements with the trade unions and there are no differences between the salaries of different genders – the salary rates are connected to the concrete position and responsibilities.

TRAININGS ON HUMAN RIGHTS

Our regular, annual training for all security personnel also includes by default the training on human rights topic. Without passing it, it is not possible to be employed on board of our ships. Every year, the security personnel has to carry out the renewed training.

CUSTOMER SERVICE AND SATISFACTION

CUSTOMER SERVICE AND SATISFACTION

The common goal of the employees of the Group is to provide the best experience to our customers – jointly agreed service identity is in the focus of everybody's actions. Our passenger numbers are growing and from one side this means increasing accountability but on the other hand also demonstrates the trust of our customers.

We value the trust highly. Customer care and the care for our employees have the same high importance for the company. There is no one without the other.
"We offer an enjoyable travel experience that exceeds customer's expectations and makes them want to return." – this is the promise of the Group to the customers.

Customer Care in 2016:

- Bookings: 2 137 009 (2015: 2 057 841, change +3,7%)
- Passengers: 9 457 522 (2015: 8 976 226, change +5,4%)

CLUB ONE MEMBERSHIP

Club One is Tallink Silja's Frequent Traveller Program. Customers get rewarded for travelling with Tallink Silja's ships. Club One customers accrue bonus points from ticket and onboard purchases as well as from accommodation in Tallink Hotels booked via Tallink Silja. Club One is a three-level Loyal Customer Program. The levels are from lowest to highest Bronze, Silver and Gold level. Even a Bronze customer get many different benefits and the benefits get better when higher level is reached.
In the end of 2016, the Group had 2.2 million Club One customers (increased 10% since 2015).

CREATING QUALITY CUSTOMER EXPERIENCE

This is how we ensure high level customer experience for all our customers and development in service area:

- Guidelines of appearance and behavior are mandatory to every employee, irrespective of their position on customer service environment.
  - The entire customer journey, beginning from the travel information search, booking and buying, check-in, the travel or stay itself, until leaving the ship or hotel and getting the feedback questionnaire, is mapped. Based on that Travel Experience (Customer Service standard) has been created. The latter is valid from the end of 2015 replacing the earlier version of customer service standards. Travel Experience standard is used as the basis for employee training and development plans.
- Customer experience trainings and workshops are held regularly.
  - All new employees participate in a training program, which includes customer service topics.
  - Employees who are connected to customer service take part of special training program.
  - Travel Experience trainings are mandatory for all employees who relate to customers. This training program is divided into 6 modules (Travel Experience, Service Identity, Leadership and Cooperation, Service Standards, Active Selling, Challenging Customer Situations). In 2016 the 6th module was developed and appropriate training courses were organized. In 2016 more than 400 training sessions took place.
  - Regularly held Quality Service Workshops give middle level managers an opportunity to discuss all service related topics (measurement results, shortcomings, positive feedback) and make action plans to improve the quality. In 2016 30 Quality Service Workshops were held.
- Service quality related audits are held on ships regularly by internal Service Advisers. Those audits give a great possibility for the ships teams to have real time feedback right after the journey.
- Customer feedback is measured on a daily basis by combining NPS method questions and service quality measurement criterias.
- Regular mystery shopping evaluation program measures the fulfillment of customer service standards.

EXPERIENCE FOR EVERYONE

Our aim is that a disabled or handicapped person can travel on board our ships as independently, smoothly and easily as possible. The assistance provided by the terminals and/or cruise line, is for passengers, whose mobility is reduced due to a physical injury or disability, for visually and hearing impaired, for temporarily disabled and for all passengers who need special assistance. The service is free of charge.

There are special cabins for handicapped people and people with allergies, offering more comfortable and safe journey for those passengers who need special attention and/or travelling conditions.

CUSTOMER SERVICE AND SATISFACTION

CUSTOMER FEEDBACK AND SATISFACTION

Consistent monitoring of customer satisfaction allows us to find out which parts of our offerings are more important for our customers and where we should put more attention to.

Ships monitor customer satisfaction surveys for their daily operations to make prompt decisions on eliminating shortcomings and improving service quality. The marketing department uses the data for monitoring consumer preferences, analyzing marketing performance and as a basis for developing action plans. The management uses the data for planning long-term strategic investments.

In 2016, the Group started to use new customer experience measurement program where NPS method (Net Promoter Score, 0-10 scale) is combined with service quality criteria questions (1-5 scale).

In 2016, the Group started and continued with several innovations to improve customer service:

- implemented new customer experience measurement and reporting system;
- developed further Travel Experience trainings and trained our employees;
- standardized all customer journey service processes;
- highlighted an additional customer journey contact point – car deck (service processes and guidelines were updated accordingly);
- made preparations for implementing new complaint management system that will be launched in 2017.

NPS AND SERVICE QUALITY RESULTS IN 2016

Since the NPS method was just implemented in 2015, in 2016 no NPS goals had been set. For service quality criteria questions the expected average level was 4,0. In 2016 more than 52 000 responses were collected. Response rate for the questionnaire was 18%, which is considered as a good result.

After some ups and downs, the NPS score was 26 for both brands in the end of 2016, peaking over 30 in a number of months. As global practice indicates that around 30 and above is considered as a good score, the Group`s result can be seen as a positive feedback from our customers.

Service quality feedback is measured and presented by service units and criteria level. In 2016 the average Customer Satisfaction level for service onboard was at 3.9. Result around 4.0 is considered as expected results, however, the quality service goal is to pursue for higher satisfaction rates. In 2016 there were positive developments in check-in, boarding and “Meet & Greet” sections.

MYSTERY SHOPPING

In 2016, there were more than 300 mystery shopping operations held. Mystery shopping measures the fulfilment of service standards on three different levels (as shown on the graph below). The results are used for developing service capabilities of our employees.

OUR DIALOGUE WITH MARKET

The tourism and transportation sector is very thoroughly regulated in order to ensure fair and good quality services to the customers. We take those regulations seriously and do even more to make our passengers feel safe and at home in our hotels and on board our ships.

For ensuring the ethical and fair marketing communications, the structure of the organization and clear roles and responsibilities are utmost important. We have strong presence in the market through marketing and PR activities – well-visible, active, innovative. Innovativeness and quality in both, product offering and marketing, and also in marketing communication channels. In the marketing guidelines, we underline the importance of „using appropriate advertising language and tone-of-voice – confident, trustworthy, friendly, intelligent, exciting. In marketing messages talking about own virtues, not confronting competitors".

The same rule applies to all other employees, especially working with advising the customers and/or selling the products and services.

We follow relevant and compulsory European Council Directives regarding commercial practices, consumer relations, sales, and marketing, also legislation on consumer rights at national level – consumer protection, advertising, food, alcohol and tobacco, personal data protection and other acts.

MARINE SAFETY MANAGEMENT AND INDICATORS

MARINE SAFETY MANAGEMENT AND INDICATORS

The first priority of the Group, both on land and at sea, is the safety of its passengers and we shall not hesitate to invest money and time in increasing safety. The safety of the ships is also securing the low risk of hazards to the environment such as oil pollution.

Security is an important part of overall safety. The competence and experience in the Company in regards to security is very high and it is continuously being further updated partly also with the help of national and international security organizations.

In the Group, there is a Safety Management System in place – it is the basis for everything related to marine safety, security and environmental safety. The objective of the system is to ensure that the valid rules and requirements set out by the IMO maritime authorities (the International Maritime Organization), flag states, various certification bodies, and other maritime organizations, as well as their applicable regulations and standards, are adhered to. The system is reviewed regularly and renewed if there is a need.

The system includes a set of documents and it has been agreed which employees (based on their role and position in the company) have to be familiar with certain information. Internal communication channel reminds employees about approaching deadline and requires signed confirmation once needed documents have been gone through.

Ships` 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.

Both the Group`s fleet as well as hotel management monitors the health and safety related impacts fully in all product and service categories.

There are no incidents to report related to the noncompliance's with regulations and voluntary codes concerning health and safety impacts of products and services in 2016.

ONBOARD SAFETY MANAGEMENT AND EMERGENCY PLANNING

In Tallink marine safety management is based on the following aspects:

1) Compliance with safety and security related laws and regulations

Tallink complies with international safety regulations and with the requirements of the International Environmental Management System standard ISO 14001 in order to protect the environment and minimize the risk of any unexpected situations creating danger to people and the environment. Tallink commits to comply with the regulations of the International Maritime Organization (IMO) and to safeguard that our operations are safe for passengers as well as crew members. There are a number of very important international regulations to ensure safe and secure passenger shipping (including International Convention for the Safety of Life at Sea, International Ship and Port Facility Security Code, and national laws, e.g Estonian Maritime Safety Act). Tallink follows these regulations with the utmost punctuality. The risk assessments (safety critical equipment, occupational risks, environmental aspects) are performed systematically, involving relevant external organisations as required.

2) Independent audits

Our safety management system is audited every year by the experts of the third party organization Lloyd's Register, and Estonian, Latvian, Swedish and Finnish maritime administrations. In 2016 there were no major deficiencies identified as a result of performed audits.

3) Life-saving and survival equipment

All our vessels are equipped with life-saving and survival equipment which meet all relevant requirements and is ready for use all day, every day, and all year round. Even so, the crews of Tallink and Silja Line vessels use their great expertise and long-term work experience, combined with an efficient safety system, in order to prevent the need to ever use the life-saving equipment.

MARINE SAFETY MANAGEMENT AND INDICATORS

4) Training and exercises

Since our employees are the key to safeguarding the safety, we are constantly developing their skills by training them. There are certain training requirements for different positions in the company / roles on vessels – in 2016 all required trainings were passed by the employees accordingly.

Tallink carries out joint training exercises with the authorities of all flag states, including maritime rescue organizations. Every year numerous training exercises of sea- and air rescue, helicopter, fire, spill prevention and cleanup, equipment, security, and other training exercises are carried out on our vessels.

Once a week on all our vessels fire drills, testing of operations of the watertight doors and lifeboat drills are carried out. Once every three months, emergency steering drills, emergency flooding drills, SOPEP (ship oil pollution emergency plan) drills and MOB (man overboard) drills are carried out. Additionally, every 6 months company`s joint exercises take place – in 2016 two major exercises took place, also with an involvement of Police and Border Guard Board, Rescue Board and Medical Emergency. The compliance with the Convention is additionally controlled by the designated company, maritime authorities relevant to the ship`s flag and host state.

If an incident has happened on one of the vessels, there is a Safety Alert created by the company for all other vessels too. The crews have an obligation to analyse the incident/alert. Often an additional exercise or training is carried out based on the incident.

5) Medical emergency

Medical assistance provided on board of Group`s vessels is exceeding the requirements set by the respective regulations. Although the regulation requires the operator to employ medical personnel on international trips lasting at least 72 hours, most of the Group`s vessels (excluding the cargo transportation vessels and fast ferries having just a 2-hour crossings) have professional medical personnel on board both for passengers as well as crew members.

The passenger ships have the surgery on board equipped with first aid supplies and drugs to provide first aid as well to support passengers with severe health problems and/or disability.

All deck officers and department heads have received medical training to provide first aid. All crew members have passed a first aid course.

6) Emergency plans

Our security plans approved by the flag administrations are tied to the overall security levels in the destination countries (Estonia, Finland, Sweden, Latvia) and the authorities will inform us immediately in case the level is changed.

Our employees have been instructed and trained properly.

We have very close cooperation with the local police, customs and border guard and other security related authorities. The information flow is good and all parties have detailed activity plans. Security plans that have been agreed appoint roles and set information flow between involved organizations working together in crisis situation. Regular exercises are carried out for practicing that. Our employees have been instructed and trained properly. Due to security reasons we cannot disclose more information about the security plans, which also include a set of preventative measures.

ENVIRONMENTAL MANAGEMENT AND INDICATORS

ENVIRONMENTALLY SOUND AND AWARE OPERATIONS OF THE GROUP

The Baltic Sea and its numerous picturesque sceneries with archipelagos and rich life above and below the water level are among the most important reasons why people choose to travel by sea in this region.

- The countries around the Baltic Sea as well as most of the organizations working here have recognized the importance of the environmental protection in regards to this very specific and fragile sea environment.
- Tallink is aware of risks that it might have on surrounding nature and has identified around 20 significant environmental aspects that result from its activities (reviewed annually) – the most highly prioritized impact categories are waste, fuel consumption and the usage of chemicals.
- The expectations of the interested parties towards Tallink`s environmental behaviour are high and the public awareness overall about the responsible travelling and environmental aspects have increased significantly throughout the recent decade.
- Tallink operates in a highly regulated sector and non-compliance would be a direct risk to the continuity of daily operations, possible financial sanctions and revenue, and the loss of reputation.

Those four pillars are crucial for carrying out activities and investing additionally into minimizing the impact that the Group's operations have on the environment.

The Company recognizes environmental protection and management as one of its highest priorities and that every effort is to be made to conserve and protect the environment from marine, atmospheric and other forms of pollution, including office based waste.

**In the heart of Tallink`s environmental management approach is a zero spill policy.** Tallink`s Safety Management Systems also cover environmental safety aspects and are created to ensure compliance with relevant regulations and standards. The Company's objective is to minimize the possibility of an unpredictable pollution at source by ensuring high standards of latest technology, safety and awareness are maintained and that all relevant legislation and conventions are followed for both its sea and shore based activities. The Company is also committed to the continual improvement of methods used to carry out and achieve this objective, including the usage of equipment and practices that minimize emission and waste generation. Environmental Management System based on ISO 14001 standard is implemented to support the execution of environmental management ambitions.

By adopting the Company procedures, the Company does:

- Comply with mandatory rules and regulations, takes into account codes, guidelines and standards from maritime organizations.
- Actively promote environmental awareness by training and educating employees – general guidelines come centrally from the office and detailed implementation is carried out on ships.
- Operate its office and ships taking into consideration the efficient usage of energy and materials.
- Wherever practicable, adopt the principles of re-use and recycling.
- Require that suppliers and contractors working under its direct control and affiliated companies apply environmental standards consistent with its own (supplier evaluation).
- Participate in discussions with relevant authorities with a view of being aware of current environmental issues and topics and to develop measures to minimize our environmental impact.
- Ensure compliance by undertaking regular inspections and audits along with the timely correction of any non-conformity.

Selection of international certificates held by Group's companies and ships:

- ISO 14001:2004 Environmental Management System Certificate issued 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

ENVIRONMENTAL MANAGEMENT AND INDICATORS

ENVIRONMENTAL LEADERSHIP AND DEVELOPMENTS

In 2016, the most important developments and highlights of ensuring environmentally friendly operations were the following:

- There were no pollution incidents to surrounding natural environment from Group`s operated ships.
- The completion of a new LNG ship Megastar – an innovative and environmentally friendly ferry that started operating on Tallinn-Helsinki route in the beginning of 2017.
- Investments were made to renovate current fleet – the biggest project in 2016 was the retrofit of Silja Europa with one of the aims to create energy efficient solutions.

The precautionary approach is applied in the Group to avoid incidents or accidents of the existing fleet and invest in the advanced technologies for the current and future fleet. The Group is cooperating closely with scientific organizations, universities and companies, who work towards more environmentally friendly solutions suitable for decreasing the environmental footprint of the Group – for example, we have participated in European Commission Project "Low energy and near to zero emissions ships" (a project where a group of organizations is looking for opportunities to develop new software to be used on ships that would allow to make better calculated decisions for more effective fuel consumption) and cooperated with Marine Systems Institute at Tallinn University of Technology. As the market leader, the company understands its additional responsibility of setting the example for the whole market and raise the awareness of the customers to choose the more environmentally sound service providers.

The direct investments related to environmental protection are made in following areas:

- Onboard waste handling;
- Onboard sewage handling and shore discharge
- Implementing of onboard Fuel Consumption Monitoring systems
- Regular cleaning of ships` hulls
- Maintenance of ships Selective Catalytic Reduction systems (SCR is an advanced active emissions control technology system for NOx reduction)
- DWI systems` maintenance of Silja Symphony and Silja Serenade (NOx reduction in emissions)

Due to the confidentiality of the agreements signed with the service providers, it is not possible to disclose detailed financial data of the investments.

EMISSIONS AND ENERGY

Tallink is actively looking for opportunities that would allow the company to do more to improve the air quality as it has a great influence on the overall welfare of the environment.

- The most important development from previous years has been the implementation of the MARPOL Annex VI Convention requirements for 0.1 % Sulphur content fuel usage in Sulphur Emission Control Areas (SECA), including also the Baltic Sea. Group`s fleet is using the <0.1% Sulphur content fuel only.

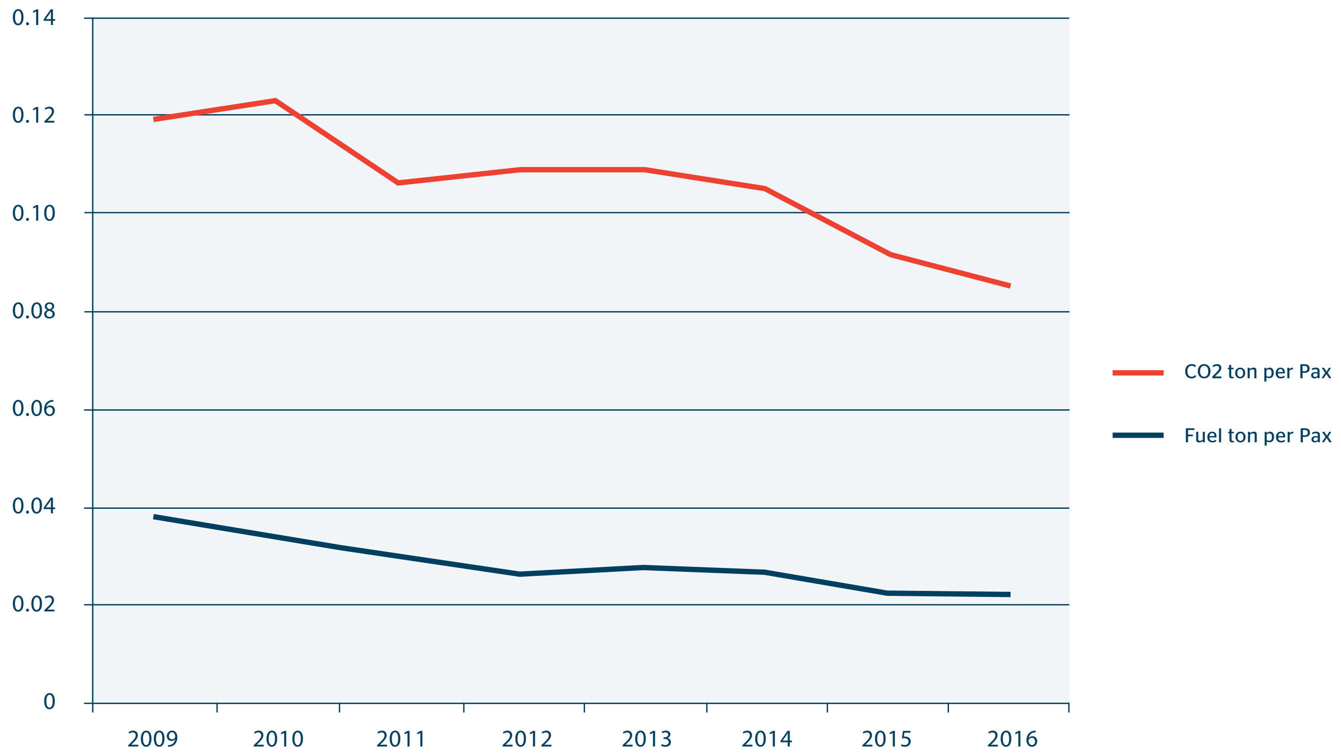
  CO2 reduction plan – it is clear that although the potential usage of LNG is now a wider topic, today the passenger ships run on the fossil fuels such as heavy fuel oil and diesel like the rest of the transportation sector. The investments made by shipping companies during the past years into renewal of the fleet have been significant and it would be irresponsible and impossible to forget about this and leave it aside for entirely new solutions. It is crucial to keep the research and new technological solutions in mind to make current fleet more efficient and environmentally friendly. Keeping that in mind, the Group has followed monitoring and goals set for ISO 14001 as well as an additional CO2 reduction plan, where the new and innovative solutions are constantly searched for and tested. The base of all our plans is a good and structured monitoring system, which observes the environmental performance of the whole fleet.

- Ship Energy Efficiency Management Plan: The fleet of AS Tallink Grupp started designing and implementing the new Ship Energy Efficiency Management Plan (SEEMP) already back in 2012. The SEEMP is an inseparable part of our Safety Management System and it is a requirement of the MARPOL Annex VI. As from 1st of January 2013 by renewal of the Air Pollution Prevention Certificate, every ship has to have a SEEMP. It is a systematic approach of gathering information on ship's fuel consumption. Energy Efficiency Operational Index (EEOI) is calculated taking into consideration the number of passengers, gross tonnage and different fuels used. The overall goal of the SEEMP is to reduce global carbon emissions from shipping.

  Based on the information gathered through SEEMP, the data is thoroughly analysed, which supports setting new goals to diminish the environmental and especially air related pollution among ship operators. The SEEMPs are controlled either by the classification societies or the flag state maritime authorities (dependent on the jurisdiction of the country).

ENVIRONMENTAL MANAGEMENT AND INDICATORS

CO2 TON PER PAX AND FUEL TON PER PAX



- The catalytic converters (and other exhaust gas treatment equipment) in ships are also important tools in contributing to environmental care. Catalytic converters are still the most effective way to reduce NOx levels in exhaust fumes at the moment, with an achievable reduction level of up to 90%.
- Different cooperation projects with various scientific organizations are carried out to find new technical solutions for reducing the environmental impact of the fuel consumption.
- Fuel consumption monitoring systems have already been implemented on many vessels and this project continued in 2016 to help the crew to monitor the fuel consumption and optimize it in correlation with the conditions.
- To minimize our carbon dioxide emissions, our Masters pay close attention to route planning taking into account the currents, winds and wave conditions at any given moment.
- Shore side power supply – if all vessels that stay at port for more than two hours would be connected to the shore side power supply, the CO2 emissions would decrease by 15%. Continuous efforts are made in cooperation with other ship-owners and organizations to influence more ports to provide the on shore power supply. Ports of Stockholm, Helsinki, Turku and Tallinn have signed the Memorandum of Understanding in September 2016 on common approach for the new on-shore power supply and its development.
- The fleet is being optimized to select the most suitable ferries for different routes and stop operating the older ferries to minimize the negative impact on the environment.
- The schedules of routes and the rerouting of ships takes into consideration the route's specifics in order to further decrease the fuel consumption which in turn has a positive impact on the environment.

ENVIRONMENTAL MANAGEMENT AND INDICATORS

Strategy for future investments to decrease the air emissions

AS Tallink Grupp has had a long cooperation with peers in technology and science to determine LNG as the environmentally responsible choice for future fleet development. As for the newbuilds, the Group strongly believes in usage of LNG as the fuel for the future due to significantly lower environmental impact as well as strong safety aspect related to LNG.

Energy efficiency

The energy efficiency is an important part of the environmental strategy, involving both ships and onshore facilities like hotels and ships.

For the fleet, the fuel consumption is the number one energy efficiency indicator. For the onshore facilities the focus is in optimized energy consumption in office buildings and hotels (state-of-the-art monitoring and adjusting systems of ventilation, heating, lighting and energy consumption), electronic documentation and marketing. The environmental policy of Tallink Hotels is based on the criteria of the Green Key program.

WATER

The Group respects the water environment highly, whether fresh or seawater.

The policy to protect the water resources and pay attention on the water management, including waste water management in our fleet is considered to be one of the most important ones.

- All fresh water supplies are taken in from the official onshore facilities in destination ports.
- The ballast water is taken and discharged as much as possible in the same area, although there are no restrictions in place at the moment to protect the biodiversity.
- Waste water is definitely a problem for the Baltic Sea, as discharging waste water into the sea is still officially permitted. Tallink is cooperating with ports to discharge grey and black water from the ships at the harbour reception facilities.
- Increasing the awareness of our customers is also an important part of reducing the amount of waste and waste water generated on board of the ships.
- The chemicals used on board of ships to keep them clean and tidy are mostly biochemicals.
- The hulls of Tallink's vessels are regularly cleaned by divers who, when conducting this process, do not use chemicals that are harmful to the environment.

WASTE AND SEWAGE

Tallink has emphasized the importance of recycling and the reduction of waste. The handling of the domestic waste, which is produced on board of the ships by passengers and crew is the responsibility we take very seriously. We sort domestic waste on board our ships as much as it is practicable, and at port the waste is handed over to a licenced waste handling companies.

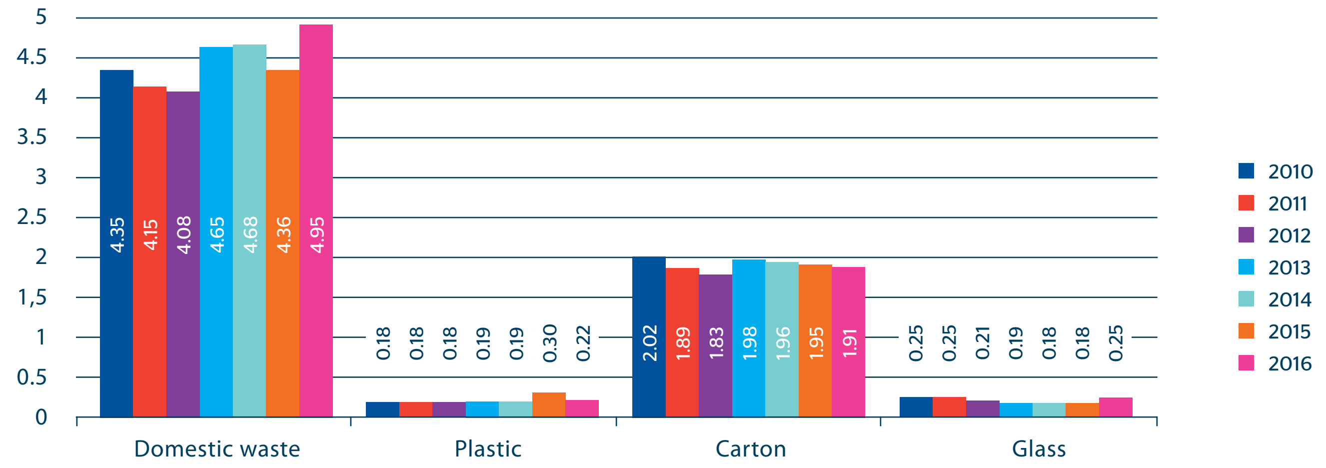
100% of all waste is discharged on shore to the licenced waste handling companies with the objective to allow them to recycle as much as possible.

ENVIRONMENTAL MANAGEMENT AND INDICATORS

Waste handling objectives in 2016:

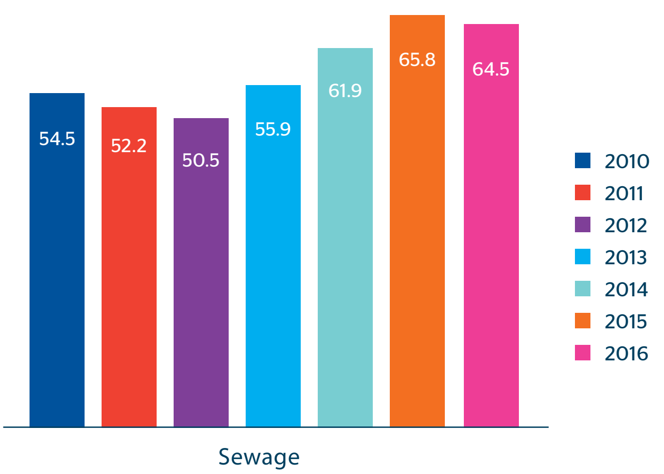
- Sorting waste on board and on shore for recycling (there are opportunities for that also for passengers): carton, plastic, glass and tin cans, packaging, hazardous, organic, and domestic waste;
- Careful handling of hazardous waste (from engine-rooms, etc.);
- Using only licenced and trustworthy waste handling companies (Green Marine, RagnSells, and Sita Finland) to secure lawful disposal and maximum recycling of the waste materials.

WASTE PER PASSENGER (LITERS)



In order to protect the biodiversity and overall health of the Baltic Sea, the Group uses only destination port reception facilities to discharge the waste water from our ships. By doing that we ensure that the waste water is adequately treated by the competent organization, which also handles the city`s general sewage system.

SEWAGE PER PASSENGER (LITERS)



No pollution incidents occured in the operations of the Group's ships in 2016.

BIODIVERSITY

As Tallink`s vessels sail on the Baltic Sea intensively and daily we understand the risks and feel the responsibility that it puts to us. Nutrient inputs, oil spills, physical impact, and other possible pollutions are the ones that we have to take good care of.

The Group does not pollute the Baltic Sea as the waste water is always discharged to the port reception facilities and the ballast water is discharged to the same area where originally taken. Relevant measures have been taken to decrease the NOx emissions. We consider the impact on the biodiversity of the inhabitants of the Baltic Sea caused by our operations minimal.

The ships are cleaned manually by divers, whereas only approved antifouling paints are used in the process.

The ships follow the speed limits in order to minimize the impact on the sea environment.

The Group cooperates with Scientific Organizations, which investigate the status of the biodiversity in the Baltic Sea, by installing a scientific equipment on board of our ships to support the investigation, enabling sample taking and data collection from different regions in the Baltic Sea.

OUR RISKS AND OPPORTUNITIES

The Group's business, financial position and operating results could be materially affected by various risks. These acknowledged 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

From the identified risks, the one in correlation with the climate change is tied to the changes in laws and regulations. As the regulators have been looking for opportunities to cut the harmful emissions from different industries, also the maritime sector has been included for decades into the process of improving the environmental performance. From recent years, the so-called Sulphur Directive has been the most significant regulatory change for the operators in the Sulphur Emission Control Areas, also including the Baltic Sea. The Directive was fully implemented for the Baltic Sea area from 1st of January 2015 and required the operators to either switch over to the low Sulphur (0.1% Sulphur content) fuel or install equipment on board of ships to decrease the sulphur content in the emissions to the required level. After careful considerations and thorough research and analyzes, the Group decided to start using the 0.1% fuel instead of scrubbers or other solutions, as those were not very well applicable to the current fleet. This does not mean, that in case the technology advances, the Group will not apply them in the future. The fact, that the low Sulphur fuel has been always at least 40 percent more expensive, was putting a lot of pressure to the industry to prepare for the change not only technically, but also financially. In January 2015, the fuel prices in the world market dropped significantly, helping a smoother changeover for the operators. Still, the operators have to be ready to deal with the potential raise of the fuel prices in the future.

- The draft regulation for decreasing the NOx in the emissions in Nitrogen Emission Control Areas (including the Baltic Sea) was approved on MEPC 70th Session and probably will be adopted on MEPC 71st in mid 2017 stepping into force on January 1st 2021. It would generate additional costs for the operators in this region by having to adapt technologically to the new potential restrictions. Although the investments are not expected to be as high as by the Sulphur Directive, still additional maintenance and operational costs and one-time application costs would have to be considered.
- Most of the Group`s fleet already meets the potential restrictions for NOx in emissions by using either catalytic converters or direct injection systems. The Group takes the potential new restrictions into consideration while agreeing with the idea to generally support the fight against climate change, by designing the future strategy on the newbuilds with LNG. LNG does not generate any SOx, NOx or particles are reduced considerably and CO2 level by 25 percent.

SUPPLY CHAIN

OUR SUPPLY CHAIN

In Tallink Group the supply chain is mostly related to duty-free shops and other services on board. The major goal for Tallink`s supply chain is to ensure availability of right selection of goods on ships at a right time.

The supply chain of the Group has been centralized to the Headquarters and parent company AS Tallink Grupp in order to optimize the costs, environmental impact and enable a unified approach supporting the equally high quality of products and services consumed by the Group and its` customers.

The supply chain of AS Tallink Grupp has to meet the demand of the fleet of 16 vessels, 5 hotels and 6 main offices of the Group. The fleet transports over 9 million passengers annually and the revenue of onboard services and product sales is more than 50 percent of the Group`s total revenue. That means that the demand for swift and flexible delivery is very high. In 2016 Tallink Logistics Center was opened in Estonia, which also brought new unified delivery process and centralized it into one center.

WHAT DO WE EXPECT FROM OUR PARTNERS

We prefer internationally certified and approved suppliers. AS Tallink Grupp prefers local services and products, which are also certified.

The Group Supplier Code of Conduct reflects our core values and sets out the minimum requirements which Tallink Grupp or any of its subsidiaries, associated companies or affiliates expects its suppliers and their sub-suppliers to adhere to when doing business with the Group. All suppliers of the Group are aware of the requirements.

The Group assesses the compliance with the Supplier Code by its suppliers, and any violations may jeopardize the supplier's business relationship with the Group.

In 2016, the suppliers and the Group's internal entities did not encounter any significant negative impacts for labour practices in the supply chain.

The Supplier Code of Conduct forms an integral part of all agreements between Tallink and the Supplier through:

1. **Legal Compliance**
   Suppliers and their entire supply chain shall diligently observe and comply with all applicable national laws and regulations, directives and relevant industry standards.
2. **Business Ethics and Anti-Corruption**
   We comply with high ethical business conduct in all of our business, and expect our Suppliers to commit to same standards when conducting business and when dealing with its employees, suppliers and customers.
3. **Human and Labor Rights**
   Suppliers are required to respect the human rights and to follow all relevant regulations.
4. **Health and Safety**
   Health and Safety is one of the greatest priorities of the Group, and in the operations of the Group, securing safety of people, environment and property comes first.
5. **Environmental protection**
   AS Tallink Grupp is committed to protection of environment and maintaining environmentally responsible business. Pursuing to minimize the impact that our operations have on the environment is very important to us.
6. **Management and Monitoring**
   Suppliers shall adopt or establish an appropriate and relevant management system ensuring compliance with applicable laws and regulations with the standards and rules set out in Code of Conduct. Suppliers shall actively monitor and improve their management processes and business operations to ensure they align with the standards and rules set out in this Code of Conduct. Any suspected or actual breach of the standards and requirements in the Code of Conduct shall be reported to Tallink.

SELECTION OF PRODUCTS

The selection of products is based on customer preferences. The Group recognizes that there is a trend in the society whereby consumer behavior is increasingly more influenced by healthy options. Tallink monitors trends and considers these patterns in designing its selection of products.

For example in some ships tobacco products have been taken to separate shopping sections or are otherwise out of sight for children; the selection of energy drinks has been decreased and increased for other non-alcoholic drinks; there is wider selection of retail goods – clothes, accessories, electronics, toys etc.

Tallink pays attention that it would not sell any banned products. For example as eels are among Red List of Threatened Spieces, it cannot be found in food menus provided on ships. Also if local authorities of destination ports have been prohibited to sell some certain type of product (e.g recent swine flu related issues), these are not sold on board of Tallink ships.

The Supplier Code, cooperation with Consumer Protection Boards and the thorough work of Group`s departments responsible for the supply chain, have ensured, that during 2016, no sale of banned or disputed products was detected on board of the Group operated vessels or in the Group`s hotels.

Fuelling local economies by cooperating with local suppliers

1) In section of suppliers for products for all entities, the proportion of local suppliers ranges from 5–97%, dependant on the category, whereas the largest product sections have higher proportion of local suppliers.
2) In terms of technical suppliers, 90% are of local origin, from which 40% are from Estonia.
3) From the suppliers of services, 97% are local service providers, out of which 80% are Estonian organizations.

COMPLIANCE, ETHICS AND TRANSPARENCY

The compliance with the laws as well as ethical business management are the cornerstones of the Group`s everyday operations and long-term perspectives to maintain the trust of all stakeholders and to be sustainable in the business in general.

The Group has a professional team of inhouse lawyers and cooperates with several respected law firms to secure the compliance with the laws. The internal audit and internal control divisions are responsible for carrying out regular audits and reporting the results to the Management Board. Additionally external bodies, governmental institutions and authorities audit and monitor the Group`s activities on regular basis. Being a stock exchange listed company since 2005, also the financial management of the Group is monitored and inspected carefully by the financial authorities.

In 2016, no significant fines were addressed towards AS Tallink Grupp due to non-compliance with laws and regulations. In addition to that, no non-monetary sanctions were made, as the Group was able to solve all non-compliances in time with the given deadlines by the authorities.

TRANSPARENCY

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 EFSA.

The auditors have fulfilled their contractual obligations and have audited the Group in accordance with International Standards on Auditing. The consolidated financial statements for the 2016 financial year were audited by KPMG Baltics OÜ.

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.

POLITICAL CONTRIBUTIONS

The Group did not financially support any politician or political party in 2016.

COMMUNITY RELATIONS MANAGEMENT AND INDICATORS

COMMUNITY IMPACT AND CONTRIBUTION

All of us are the members of the community. Additionally to our everyday work, which has the purpose to give joy and relaxation to people, the Group gladly seeks for and acts on extra opportunities for the sake of the community on top of engaging the community stakeholders to the company`s everyday work. This means that the Group daily supports children, education, environment and health awareness in frames of sports.

All larger and active entities of the Group are engaged in supporting the community either with monetary means, products or services as well as time and human resources in cooperation with the employees. The engagements activeness is in correlation with the size of the entity in that particular country, as it is both tied to the financial as well as human resources. But, even in countries, where the representation is smaller, the Group seeks for possibilities to help and engage in projects, which also represent the corporate values.

COOPERATION TOWARDS SAFER OPERATIONS AND WATER SAFETY

AS Tallink Grupp and Estonian Volunteer Rescue Association, which gathers all volunteers in land and sea rescue activities, signed a cooperation contract whereas the company is supporting the nonprofit organization with 90 000 euros within 2015–2017.

In 2016, Tallink Grupp received a certificate of appreciation and honorary awards for the contribution. Toomas Roolaid, Member of the Council of Estonian Volunteer Rescue Association, said that within 3 years, they have managed to do a lot with the support from Tallink. “For example, 25 sea rescue teams were equipped with spine boards, we bought 4 spill response containers and trailers, we have participated in international crew exchange programmes and in volunteer rescue organizations’ work and carried out many different rescue trainings. All of this has increased the adeptness, skills and motivation of our volunteers.”

Estonian Volunteer Rescue Association is a non-profit organization established in order to unite different voluntary rescue organizations and represent, execute and protect their interests. Today the Association has 111 member organizations, which represent 97 voluntary fire squads and 31 sea rescue teams. Through legal entities it unites almost 3000 people.

EFFORTS FOR THE SAKE OF THE ENVIRONMENT

Cooperation with WWF

Tallink Silja Oy and WWF Finland have been partners in protecting the Baltic Sea since the year 2001. With the new extended partnership with AS Tallink Grupp from 2016 this work will be continued.

In 2016, Tallink Grupp started a donation campaign together with WWF Finland to collect funds for Baltic ringed seal conservation. With the donations collected in this campaign, WWF can start projects to find out ways to help the pups survive through warmer winters. Everyone who donates, has the opportunity to digitally write their name on board of the new environmentally friendly LNG vessel Megastar.

CEO of AS Tallink Grupp, Mr. Janek Stalmeister said, that the company is glad to express the support towards the environmentally responsible way of business also by engaging the general public. „Megastar is designed to be the most environmentally sound vessel on the Baltic Sea, making it the perfect ship to carry the message for supporting the nature. We hope, that our passengers as well as people, who are generally interested in helping this species to survive, will participate in that project,” said Stalmeister. The campaign ends in 2017.

„WWF is happy to have one of the biggest brands operating in the Baltic Sea working with us to save the Baltic ringed seal and the Baltic Sea. The Baltic Sea is one of the most vulnerable and polluted sea areas in the world, and we need frontrunners to show how we can help conserve it. Together we also aim to raise awareness of the importance of protecting the Baltic Sea,“ said Liisa Rohweder, the CEO of WWF Finland.

The Sustainable Seas Foundation

Tallink Silja AB has supported The Sustainable Seas Foundation since 2014 with monetary contributions and common communications activities to support the foundation’s work for a sustainable Baltic Sea environment.

The Sustainable Seas Foundation is a non-profit organization under the supervision of the Stockholm County Administrative Board. The Foundation’s goal is to put more pressure on decision makers, but even to point out what every private individual can contribute with. Increased knowledge will create active interest and the possibility of influencing and making active personal choices.

The Sustainable Seas Foundation aims at becoming an uniting force for the most important interested parties related to the Baltic Sea.

SPORTS AND YOUTH

SEB Tallink Tennis Team & Estonian Tennis Federation

In addition to supporting individual professional tennis players in Estonia, such as Anett Kontaveit, Jürgen Zopp, Vladimir Ivanov, and Kenneth Raisma, the Group has established a competitive national junior tennis team for young tennis players in cooperation with SEB, named SEB Tallink Tennis Team. Several top management employees like the Chairman of the Supervisory Board, Mr. Enn Pant and the CEO of Tallink Hotels, Mr. Peter Roose are also members of the board of the Estonian Tennis Federation with Mr. Pant serving as President of the organization

Children and youth projects

In all home markets, projects involving educating children or helping those in need, especially concerning health matters, are very close to the Group's heart.

- In Estonia, the Group participates annually in the **SEB Charity Foundation`s** projects for children from orphanages to organize them memorable trips and useful swimming lessons. Also, for the second year, AS Tallink Grupp is the supporter of **NGO Minu Unistuste Päev,** which is an Estonian charity foundation fulfilling the dreams of severely and chronically ill children.
- In Finland, Tallink Silja Oy supports the **Association of Friends** of the University Children's Hospitals, Kummit. Tallink Silja donates a total of €100,000 to the new Children's Hospital 2017 project. About €35 million of the hospital's funding was raised from Finnish companies and people. The construction work has begun and the hospital will be completed in 2017. It will serve patients from all over Finland, and Estonia.
- In Sweden, Tallink Silja AB is cooperating with **My Special Day (Min Stora Dag)** which is a Swedish nonprofit NGO that make dreams come true for Swedish children and teenagers with serious illnesses and diagnoses. During 2016, 3000 children took part of an activity together with My Special Day. Tallink Silja AB has enabled 30 families an unforgettable cruise to Turku and Moomin World to enjoy two days of true happiness.

COOPERATION WITH ORGANISATIONS

Long term membership in Ship Owners` Associations

AS Tallink Grupp and/or its local subsidiaries are active members of Estonian, Finnish, Swedish and European Ship owners' Associations in order to promote the maritime industry as the wide-range employer, enhancer of economic and technical development and tourism and a responsible citizen in terms of environmental protection and sustainable operations.

In the European Shipowners` Association, AS Tallink Grupp is also participating in concrete committees of the organization (environmental, maritime employment, etc.), to provide the regional insight to the governing bodies of European Union.

Membership in local Trade Associations

In all home markets – Estonia, Finland, Sweden and Latvia – our Group belongs to different Trade Associations to build and develop the business network and opportunities between those countries, businesses and NGOs. The Group also takes great value in sharing the experience we have gained throughout decades of being the market leader in our sector to support smaller or young enterprises in taking off.

- In Estonia, AS Tallink Grupp is the member of Swedish Chamber of Commerce, German-Baltic Chamber of Commerce and Finnish-Estonian Chamber of Commerce.
- In Germany, Tallink Silja GmbH is the member of German-Finnish Chamber of Commerce, German Travel Agency Association, German-Finnish Association, Ferry Association, Chamber of Industry & Commerce Hamburg and International Bus Tourism Association.
- In Sweden, Tallink Silja Ab is the member of The Confederation of Swedish Enterprise, Finnish-Swedish Chamber of Commerce and Swedish Tourism.
- In Finland, Tallink Silja Oy belongs to Mainostajien Liitto ry and IAB Finland ry.

Membership in hospitality associations

- In Estonia, AS Tallink Grupp is the member of Estonian Hotel and Restaurant Association and Estonian Travel and Tourism Association.
- In Sweden, Tallink Silja AB is a member of Passenger Shipping Association.
- In Sweden, Tallink Silja AB is a member in SBTA – Swedish Business Travel Association.

COMMUNITY RELATIONS MANAGEMENT AND INDICATORS

Memberships related to employment

As one of the largest employers of maritime industry in the region, the company also belongs to a number of local employers` associations in order to follow the trends, exchange the know-how and experience how to further improve the working environment, following at the same time the interest of all stakeholders and maintaining the economical balance.

Cooperation with Estonian Maritime Academy of Tallinn University of Technology

AS Tallink Grupp has signed a cooperation contract with the Maritime Academy to enhance the maritime education and promote the positions in the industry. The inhouse experts of AS Tallink Grupp regularly participate in the training programs of the academy, sharing their experience and giving guidelines to future employees of the sector.

Cooperation with Estonian Tennis Federation

The Group supports the national sports federation annually and contributes also by participating in governing the organization. Mr. Enn Pant, the Head of Supervisory Council of AS Tallink Grupp is also the President of Estonian Tennis Federation. Also the Head of Tallink Hotels, Mr. Peter Roose belongs to the Management Board of Estonian Tennis Federation.

COOPERATION MILESTONES

EU supports the infrastructure developments on Helsinki-Tallinn maritime link with EUR 30 million

The Port of Helsinki together with the Port of Tallinn and AS Tallink Grupp obtained EUR 29.3 million EU funding within the 2014 CEF Transport Multi-Annual Calls for proposals for financing their infrastructure investments. The total cost of the planned investments is EUR 97.6 million.

Helsinki-Tallinn line is one of the busiest international routes in the world – it serves about 9 million passengers per year while trucks and trailers carry nearly 4 million tons of cargo per year. The flows of traffic and passengers between the two ports have been constantly growing for a decade already. Therefore the project is crucial for both cargo and passenger flows to ensure the smooth traffic between Helsinki and Tallinn.

At this stage the support to develop Helsinki-Tallinn maritime link on the period 2015–2018 is allocated as follows:

- Port of Helsinki will receive EUR 19.2 million to develop traffic and port facilities related to Helsinki-Tallinn line traffic, which includes the new fast flow terminal, ramp constructions for the vessels, gate services and street connections. The total investment of the Port of Helsinki is EUR 64 million.
- Port of Tallinn will receive EUR 5.3 million support to develop several activities in the Old City Harbour: sewage system in the port to collect waste waters from ships, extension of terminal D, reconstruction of access to terminal A and connecting the terminals A and D. The total investment of Port of Tallinn is EUR 17.6 million.
- AS Tallink Grupp received EUR 4.8 million support from EU for the new environmentally friendly LNG vessel Megastar, which started serving the Helsinki-Tallinn line from the beginning of 2017.

“The West terminal building itself receiving support investment has a significant impact to the life and well-being of the passengers and traffic “smoothness” on the whole Helsinki-Tallinn maritime link,” noted Kimmo Mäki, CEO of the Port of Helsinki.

“The new LNG powered fast ferry brought swift environmentally friendly operations to the busy Tallinn-Helsinki route. We are happy to see a successful collaboration between public and private companies that is supported by the European Union,” said Janek Stalmeister, Chairman of the Management Board, AS Tallink Grupp.

The TWIN-PORT II project will lead to maximum efficiency for this short sea line by optimizing port operations and infrastructure and will provide efficiency in a “door to door” approach, minimizing the costs and transit time, while increasing the cooperation and reliability of the transport service between Tallinn and Helsinki.

COMMUNITY RELATIONS MANAGEMENT AND INDICATORS

Megastar started operating on Tallink Shuttle service in January 2017. Travelling between Helsinki and Tallinn and using LNG as fuel, she is the most advanced ferry in the Baltic Sea.

The Port of Helsinki's West Terminal 2 in the West Harbour was opened to passengers in February 2017. The size of the terminal building is 12 900 m². It has two new ship quays, 350 m passenger corridors, three disembarkation bridges and a dual ramp for two level vehicle loading and unloading.

RECOGNITIONS AND AWARDS

- AS Tallink Grupp was awarded as the Culture Friend 2016 by Estonian Ministry of Culture.
- AS Tallink Grupp was awarded as the Most Competitive Large-Scale Company 2016 and the Most Competitive Company in tourism sector 2016. The gala for the best companies is organized by the Estonian Employers' Confederation, Enterprise Estonia (EAS) and Estonian Chamber of Commerce and Industry.
- Tallink Silja AB won the Swedish prestigious annual Grand Travel Award as the best Shipping Company in Sweden.

MANAGEMENT REPORT

In the 2016 financial year the Group carried an all-time high number, a total of 9.5 million passengers which is 5.4% more than the year before (2015: 9.0 million). The number of cargo units transported increased by 6.5% and the number of passenger vehicles transported increased by 4.2% compared to the previous financial year. The Group's consolidated revenue amounted to EUR 937.8 million (2015: EUR 945.2 million) and EBITDA to EUR 149.5 million (2015: EUR 181.4 million). Net profit amounted to EUR 44.1 million or EUR 0.066 per share (2015: EUR 59.1 million or EUR 0.088 per share).

The Group increased the number of passengers on all operated routes and the majority of the routes had strong growth in passenger volumes throughout the year. The Group deployed previously chartered out ship Silja Europa to the Tallinn - Helsinki route and on top of that, three ships were rerouted in December 2016. Through these actions optimal carriage capacity was achieved on all operated routes.

On the Estonia-Finland route the annual passenger number increased in 2016 by 7.0% to a record level of 5.1 million (2015: 4.7 million). Thanks to the higher capacity and passenger number, the Group increased its market share on the route by 2 percentage points to 58%. On the Finland-Sweden routes the passenger number increased by 2.1% to 2.9 million passengers, the Group increased its market share on the route by 1 percentage point to 54%. The Group's total passenger market share on the North Baltic Sea increased to 48%.

The positive development of the Estonia-Sweden and Latvia-Sweden routes throughout the 2016 financial year resulted in a higher passenger number, revenue and segment result. The Estonia-Sweden route passenger number increased by 3.8% to 1.0 million passengers. The Latvia-Sweden route passenger number increased by 11.1% to 0.5 million passengers.

In the 2016 financial year the Group increased revenue on all operated routes. The revenue growth in core operations from onboard and ticket sale was supported by the larger number of passengers travelling with ships operated by the Group.

The revenue from chartering activities decreased throughout the 2016 financial year as fewer ships were chartered out compared to the previous financial year. Two of the chartered out ships Silja Festival and Regina Baltica were sold in the first half of the 2015 financial year and cruise ferry Silja Europa returned from charter to the Tallinn – Helsinki route on March 2016. Three Superfast ferries remain chartered out.

Due to the changes in chartering and the routes' operating capacity the Group´s profits decreased as chartering activity where profitability is higher was replaced by route operations that involve higher ship operating costs. In addition the Group incurred the charter costs of fast ferry Superstar, which was sold at the end of 2015 and chartered back until the delivery of a new fast ferry, Megastar, in January 2017.

In the 2016 financial year the Group's investments amounted to EUR 68.9 million. The majority of investments were made in the renewal and upgrade of the fleet: down payment for the new LNG fast ferry Megastar, large scale renovation of cruise ferry Silja Europa, upgrade of a number of restaurants, shops and cabins in older vessels of the Group's fleet. Investments were also made in the ships' technical maintenance, energy efficient technical solutions for ships, and development of online booking and sales systems.

In February 2015 Tallink Grupp AS and Meyer Turku Oy signed a contract for the construction of the new LNG powered fast ferry Megastar for the Tallinn-Helsinki route shuttle service. The production of the Megastar continued throughout 2016 and the vessel was delivered to the Group in January 2017. The cost of the ship is over EUR 230 million and EUR 23 million of it was paid to the shipyard during 2016. Total prepayment for the ship as at 31 December 2016 was EUR 46 million.

The key highlights of the 2016 financial year were the following:

- Higher passenger number and revenue
- Lower chartering revenues compared to last year
- Market share growth on routes
- Cruise ferry Silja Europa's return from charter to the Tallinn-Helsinki route
- A new logistics centre launched in Maardu, Harjumaa
- New passenger terminals opened in Stockholm and Helsinki
- Ships re-routed in December 2016
- Group-wide ship renovation programme continued
- Construction of the new LNG fast ferry Megastar finalised

SALES

The Group's consolidated revenue amounted to EUR 937.8 million in 2016 (945.2 million in 2015). Restaurant and shop sales on-board and on mainland of EUR 521.5 million (500.6 million in 2015) contributed more than half of the total revenue. Ticket sales amounted to EUR 236.0 million (228.0 million in 2015) and sales of cargo transport to EUR 103.9 million (104.4 million in 2015).

In the 2016 financial year the revenue structure of the Group changed compared to the previous financial year. After the expiry of the cruise ferry Silja Europa charter contract in February 2016 the Group increased the capacity of its route operations by deploying the ship on Tallinn-Helsinki route. Therefore, in 2016 a decrease in chartering revenue was expected and by increasing the capacity of its core route operations the Group increased the passenger number to an all-time high level and earned total annual revenue comparable to the year before.

Geographically, 37.7% or EUR 353.3 million of revenue came from the Estonia-Finland route and 36.0% or EUR 337.4 million from the Finland-Sweden route. Revenue from the Estonia-Sweden route was EUR 110.1 million or 11.7% and from the Latvia-Sweden route EUR 44.6 million or 4.8%. The share of revenue generated by other geographical segments decreased to 9.9% or EUR 92.5 million.

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

Geographical segments	2016	2015
Finland - Sweden	36.0%	35.3%
Estonia - Finland	37.7%	35.8%
Estonia - Sweden	11.7%	11.0%
Latvia - Sweden	4.8%	4.4%
Other	9.9%	13.5%

Operating segments	2016	2015
Restaurant and shop sales on-board and on mainland	55.6%	53.0%
Ticket sales	25.2%	24.1%
Sales of cargo transportation	11.1%	11.0%
Sales of accommodation	2.1%	2.0%
Income from charter of vessels	2.7%	5.7%
Other	3.3%	4.2%

EARNINGS

Gross profit was EUR 192.6 million (EUR 223.4 million in 2015), EBITDA EUR 149.5 million (EUR 181.4 million in 2015). Net profit for 2016 was EUR 44.1 million (EUR 59.1 million in 2015). Basic and diluted earnings per share were EUR 0.066 (EUR 0.088 in 2015).

The cost of goods related to sales at shops and restaurants, which is the largest operating cost item, amounted to EUR 225.0 million (EUR 215.4 million in 2015).

Fuel cost for 2016 was EUR 74.2 million (EUR 94.2 million in 2015). Fuel cost was impacted by lower fuel price level throughout the year and efficiencies from continuous efforts to optimize the fleet's fuel cost, the total annual fuel cost decreased by 21.2%.

The Group's personnel expenses amounted to EUR 210.0 million (EUR 193.8 million in 2015). The average number of employees in the 2016 financial year was 7 163 (6 835 in 2015).
Administrative expenses for 2016 amounted to EUR 51.0 million, and sales and marketing expenses to EUR 72.3 million (EUR 47.3 million and 63.6 million respectively in 2015).
Depreciation and amortisation of the Group's assets was EUR 77.9 million (EUR 78.1 million in 2015). There were no impairment losses related to the Group's property, plant, equipment and intangible assets.
The Group's net finance costs for 2016 amounted to EUR 26.8 million (EUR 34.2 million in 2015).
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 2016 was EUR 147.4 million (EUR 191.9 million in 2015).
The Group's cash used in investing activities was EUR 68.6 million (EUR 43.6 million in 2015). The expenditures were: down payment for new LNG vessel (EUR 23.0 million), large scale renovation of cruise ferry Silja Europa, investments in improvements to the public areas of the ships, scheduled maintenance expenses resulting from dockings and investments in various IT systems. The Group's proceeds from the sale of assets were EUR 0.2 million (EUR 115.6 million in 2015).

In the 2016 financial year, the Group's net repayments of existing loans totalled EUR 313.5 million (EUR 192.3 million in 2015), including early repayment of a syndicated loan related to loan refinancing. The total proceeds from loan contracts amounted to EUR 316.7 million, including a new syndicated loan in the amount of EUR 280.0 million and a change in overdraft.

Interest payments were EUR 24.1 million (EUR 33.2 million in 2015).
As at 31 December 2016, the Group's cash and cash equivalents totalled EUR 78.8 million (EUR 82.0 million as at 31 December 2015). In addition, available unused overdraft credit lines amounted to EUR 35.0 million (EUR 71.6 million in 2015).
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 2016, the Group's interest-bearing liabilities as a percentage of capitalization (interest-bearing liabilities and shareholders' equity) was 40.7% compared to 40.0% at 31 December 2015. The increase results from a EUR 9.6 million increase in interest-bearing liabilities and a EUR 10.9 million decrease in equity.

LOANS AND BORROWINGS

At the end of the 2016 financial year, interest-bearing liabilities totalled EUR 558.9 million, 1.7% higher compared to the previous financial year.

On 20 December 2016 Tallink Grupp AS signed a loan agreement in the amount of EUR 280 million with the group of banks: Nordea Bank Finland Plc, Norddeutsche Landesbank Girozentrale, Danske Bank A/S, KfW IPEX Bank GmbH, AS Swedbank, Skandinaviska Enskilda Banken AB and HSH Nordbank AG. The final maturity of the EURIBOR based floating interest rate loan is six years. The loan is guaranteed by the subsidiaries of Tallink Grupp AS and mortgages on ships.

The new loan was used to repay the outstanding balance of a syndicated loan taken in December 2012 and to strengthen the working capital position of the company. As a result of the transaction Group's refinancing risk decreases, repayment profile lengthens and yearly loan service burden declines.

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

SHAREHOLDERS' EQUITY

The Group's consolidated equity decreased by 1.3%, from EUR 824.4 million to EUR 813.6 million, the change in equity is attributed mainly to the net profit of EUR 44.1 million for the financial year and dividend and share capital payments to shareholders in the total amount of EUR 53.6 million. Shareholders' equity per share, excluding own shares, was EUR 1.21. At the end of the 2016 financial year, 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.

MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2016 financial year was 9.5 million. The total number of cargo units carried by the Group's vessels was over 328 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2016 and 2015 financial years.

Passengers	**2016**	**2015**
Finland-Sweden	2 886 383	2 825 699
Estonia-Finland	5 077 985	4 744 708
Estonia-Sweden	983 196	946 832
Latvia-Sweden	509 958	458 987
Total	**9 457 522**	**8 976 226**

Cargo units	**2016**	**2015**
Finland-Sweden	69 167	64 309
Estonia-Finland	209 062	197 324
Estonia-Sweden	42 402	39 155
Latvia-Sweden	7 559	7 241
Total	**328 190**	**308 029**

Passenger vehicles	**2016**	**2015**
Finland-Sweden	164 184	161 772
Estonia-Finland	873 132	830 044
Estonia-Sweden	72 893	71 793
Latvia-Sweden	57 286	56 308
Total	**1 167 495**	**1 119 917**

The Group's market shares on routes operated during the 2016 financial year were as follows:

- The Group carried approximately 58% of passengers and 64% of ro-ro cargo on the route between Tallinn and Helsinki.
- The Group carried approximately 53% of passengers and 27% 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.

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.

Looking forward to the financial year 2017 the Group has increased capacity on a number of operated routes. The new LNG fast ferry Megastar that replaced fast ferry Superstar in January 2017 added capacity to Tallinn-Helsinki Shuttle service. Following the rerouting of the ships in December 2016, the capacity increased also on the Tallinn-Helsinki route cruise service, the Tallinn-Stockholm route and by bringing cruise ferry Romantika as a second ship to the Riga-Stockholm route, the Group doubled the capacity on the route.

Chairman of the Management Board
Janek Stalmeister


SILJA LINE
SILJA SYMPHONY

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December, in thousands of EUR

	2016	2015	Notes
Revenue	937 805	945 203	4
Cost of sales	-745 223	-721 780	5
Gross profit	**192 582**	**223 423**	
Sales and marketing expenses	-72 268	-63 578	5
Administrative expenses	-50 973	-47 311	5
Other operating income	2 450	983	
Other operating expenses	-184	-10 254	
Result from operating activities	**71 607**	**103 263**	
Finance income	10 514	12 808	5
Finance costs	-37 289	-46 964	5
Share of profit of equity-accounted investees	13	64	12
Profit before income tax	**44 845**	**69 171**	
Income tax	-741	-10 101	6
Net profit attributable to equity holders of the Parent	**44 104**	**59 070**	
Other comprehensive income			
Exchange differences on translating foreign operations	-469	160	
Other comprehensive income for the year	**-469**	**160**	
Total comprehensive income attributable to equity holders of the Parent	**43 635**	**59 230**	
Basic and diluted earnings per share (in EUR per share)	**0.066**	**0.088**	**7**

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

FINANCIALS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, in thousands of EUR

	2016	2015	Notes
ASSETS			
Cash and cash equivalents	78 773	81 976	8
Trade and other receivables	38 674	36 583	9
Prepayments	7 926	5 274	10
Prepaid income tax	91	1 224	
Inventories	38 719	29 197	11
Current assets	**164 183**	**154 254**	
Investments in equity-accounted investees	363	350	12
Other financial assets	348	308	13
Deferred income tax assets	18 791	19 410	6
Investment property	300	300	
Property, plant and equipment	1 304 897	1 311 418	14
Intangible assets	50 127	52 726	15
Non-current assets	**1 374 826**	**1 384 512**	
TOTAL ASSETS	**1 539 009**	**1 538 766**	
LIABILITIES AND EQUITY			
Interest-bearing loans and borrowings	106 112	81 889	16
Trade and other payables	103 280	88 480	17
Dividends payable to shareholders	4	0	
Income tax liability	10	4 567	6
Deferred income	30 895	28 906	18
Current liabilities	**240 301**	**203 842**	
Interest-bearing loans and borrowings	452 793	467 447	16
Derivatives	32 359	42 863	24
Other liabilities	0	192	
Non-current liabilities	**485 152**	**510 502**	
Total liabilities	**725 453**	**714 344**	
Share capital	361 736	404 290	19
Share premium	639	639	19
Reserves	68 774	65 083	19
Retained earnings	382 407	354 410	
Equity attributable to equity holders of the Parent	**813 556**	**824 422**	
Equity	**813 556**	**824 422**	
TOTAL LIABILITIES AND EQUITY	**1 539 009**	**1 538 766**	

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, in thousands of EUR

	2016	2015	Notes
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period	**44 104**	**59 070**	
Adjustments for:			
Depreciation and amortisation	77 858	78 102	14, 15
Net gain/loss on disposals of property, plant and equipment	-83	9 164	
Net interest expense	27 980	36 099	5
Net income/expense from derivatives	-6 215	4 926	5
Gain on disposal of financial assets	0	-186	
Profit from equity-accounted investees	-13	-64	12
Net unrealised foreign exchange gain	4 889	-5 591	
Share option programme reserve	-910	300	
Income tax	741	10 101	6
Adjustments	**104 247**	**132 851**	
Changes in:			
Receivables and prepayments related to operating activities	-4 969	1 463	
Inventories	-9 522	2 118	
Liabilities related to operating activities	16 785	-4 139	
Changes in assets and liabilities	**2 294**	**-558**	
Cash generated from operating activities	**150 645**	**191 363**	
Income tax paid	-3 265	553	
NET CASH FROM OPERATING ACTIVITIES	**147 380**	**191 916**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment and intangible assets	-68 638	-43 629	
Proceeds from disposals of property, plant, equipment	169	115 370	
Proceeds from other financial assets	0	229	
Interest received	74	74	
NET CASH USED IN/FROM INVESTING ACTIVITIES	**-68 395**	**72 044**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	280 000	0	
Repayment of loans	-313 524	-133 263	
Change in overdraft	36 713	-59 052	16
Payments for settlement of derivatives	-4 289	-4 045	
Payment of finance lease liabilities	-99	-80	
Interest paid	-24 083	-33 210	
Payment of transaction costs related to loans	-2 989	-1 429	
Dividends paid	-13 398	-13 398	19
Reduction of share capital	-40 189	0	19
Income tax on dividends paid	-330	-2 818	19
NET CASH USED IN FINANCING ACTIVITIES	**-82 188**	**-247 295**	
TOTAL NET CASH FLOW	**-3 203**	**16 665**	
Cash and cash equivalents at the beginning of period	81 976	65 311	
Decrease/increase in cash and cash equivalents	-3 203	16 665	8
Cash and cash equivalents at the end of period	**78 773**	**81 976**	

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

FINANCIALS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of EUR

	Share capital[1]	Share premium[1]	Translation reserve[1]	Ships´ revaluation 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 2014	**404 290**	**639**	**298**	**54 562**	**18 822**	**-4 163**	**610**	**303 232**	**778 290**	**778 290**
Net profit for the year 2015	0	0	0	0	0	0	0	59 070	59 070	59 070
Total other comprehensive income for the year 2015	0	0	160	0	0	0	0	0	160	160
Total comprehensive income for the year 2015	**0**	**0**	**160**	**0**	**0**	**0**	**0**	**59 070**	**59 230**	**59 230**
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2014	0	0	0	0	1 363	0	0	-1 363	0	0
Transfer from revaluation reserve	0	0	0	-6 869	0	0	0	6 869	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	300	0	300	300
Transactions with owners of the Company, recognised directly in equity	**0**	**0**	**0**	**-6 869**	**1 363**	**0**	**300**	**-7 892**	**-13 098**	**-13 098**
As at 31 December 2015	**404 290**	**639**	**458**	**47 693**	**20 185**	**-4 163**	**910**	**354 410**	**824 422**	**824 422**
Net profit for the year 2016	0	0	0	0	0	0	0	44 104	44 104	44 104
Total other comprehensive income for the year 2016	0	0	-469	0	0	0	0	0	-469	-469
Total comprehensive income for the year 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 (Note 19)	-2 361	0	0	0	0	4 163	0	-1 802	0	0
Reduction of share capital (Note 19)	-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	**361 736**	**639**	**-11**	**45 646**	**23 139**	**0**	**0**	**382 407**	**813 556**	**813 556**

[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

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

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 2016 were authorised for issue by the Management Board on 25 April 2017.

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 2016 the Group employed 7 234 people (6 966 as at 31 December 2015).

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 2016.

Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.

The amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

The first time implementation of these amendments did not influence substantially the financial statements of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Effective for annual periods beginning on or after 1 January 2016.

a) Revenue-based depreciation banned for property, plant and equipment

   The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

b) New restrictive test for intangible assets

   The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue.

The first time implementation of these amendments did not influence substantially the financial statements of the Group as the Group does not apply revenue-based methods of amortisation/depreciation.

Amendments to IAS 27 Equity Method in the Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2016.

The amendments to IAS 27 allow an Group to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The first time implementation of these amendments did not influence substantially the financial statements of the Group as the Group intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

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 2016 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 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 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 for obtaining or losing control of subsidiaries, changes in fair value).

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.

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.

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 the Group already measures future taxable profit in a manner consistent with the amendments.

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 2016, the Group had entered into lease agreements for five hotel buildings, three office buildings and one warehouse building (31 December 2015: five hotel buildings, two 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 2016, 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 2016. 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 2016 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 2016. 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 2016 amounted to EUR 11 066 thousand (31 December 2015: 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 date 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 1 7 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. The residual value for ships is 15%.
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 2017; 20/80 in 2016). The potential tax liability from the distribution of 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.
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.

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 measures 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 26 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. The Group operates (1) four ships between Estonia and Finland, (2) three ships between Estonia and Sweden, (3) two ships between Latvia and Sweden, (4) four ships between Finland and Sweden, (5) three ships have been chartered out from the Group (Other), (6) four hotels and seven shops in Estonia (Other) and (7) one hotel in Latvia (Other), which represent different business segments.
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 2016 and 31 December 2015.

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
2016							
Sales to external customers	353 290	110 062	44 576	337 352	92 525	0	**937 805**
Intersegment 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's 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's 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**

FINANCIALS

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
2015							
Sales to external customers	338 183	104 360	41 964	333 263	127 433	0	**945 203**
Inter-segment sales	0	0	0	0	10 180	-10 180	**0**
Revenue	**338 183**	**104 360**	**41 964**	**333 263**	**137 613**	**-10 180**	**945 203**
Segment result	90 255	6 371	5 319	17 207	40 693	0	**159 845**
Unallocated expenses							**-56 582**
Net financial items							**-34 156**
Share of profit of equity-accounted investees							**64**
Profit before income tax							**69 171**
Income tax							**-10 101**
Net profit for the period							**59 070**
Segment assets	282 949	240 523	28 200	552 353	316 289	-967	**1 419 347**
Unallocated assets							**119 419**
Assets							**1 538 766**
Segment liabilities	24 345	9 632	4 257	62 926	13 581	-967	**113 774**
Unallocated liabilities							**600 570**
Liabilities							**714 344**
Capital expenditures							
segment's property, plant and equipment	2 261	1 712	96	11 501	881	0	**16 451**
unallocated property, plant and equipment							**24 287**
segment's intangible assets	7	2	1	44	26	0	**80**
unallocated intangible assets							**284**
Depreciation	11 107	9 476	2 568	27 184	19 802	0	**70 137**
Unallocated depreciation							**2 613**
Amortisation	774	207	103	533	134	0	**1 751**
Unallocated amortisation							**3 601**

REVENUE BY SERVICE

For the year ended 31 December, in thousands of EUR

	2016	2015
Ticket sales	236 028	227 968
Sales of cargo transport	103 900	104 433
Sales of accommodation	19 592	18 783
Restaurant and shop sales on-board and on mainland	521 456	500 601
Income from charter of vessels	25 507	53 473
Other	31 322	39 945
Total revenue of the Group	**937 805**	**945 203**

NOTE 5
OPERATING EXPENSES AND FINANCIAL ITEMS

COST OF SALES

For the year ended 31 December, in thousands of EUR

	2016	2015	Note
Cost of goods sold	-225 047	-215 401	
Port & stevedoring costs	-101 010	-92 213	
Fuel costs	-74 250	-94 191	
Staff costs	-152 446	-142 368	
Ships' operating expenses	-89 877	-76 249	
Depreciation and amortisation	-69 510	-70 052	14, 15
Cost of package sales	-9 420	-9 172	
Other costs	-23 663	-22 134	
Total cost of sales	**-745 223**	**-721 780**	

SALES AND MARKETING EXPENSES

For the year ended 31 December, in thousands of EUR

	2016	2015	Note
Advertising expenses	-34 821	-30 128	
Staff costs	-33 114	-30 149	
Depreciation and amortisation	-2 193	-1 836	14, 15
Other costs	-2 140	-1 465	
Total sales and marketing expenses	**-72 268**	**-63 578**	

ADMINISTRATIVE EXPENSES

For the year ended 31 December, in thousands of EUR

	2016	2015	Note
Staff costs	-24 469	-21 320	
Depreciation and amortisation	-6 155	-6 214	14, 15
Other costs	-20 349	-19 777	
Total administrative expenses	**-50 973**	**-47 311**	

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

	2016	2015
Wages and salaries	-183 844	-171 672
Government grants	39 886	37 233
Social security costs	-61 006	-53 981
Staff training costs	-2 246	-2 150
Other staff costs	-2 819	-3 267
Total staff costs	**-210 029**	**-193 837**

During the reporting period EUR 39 886 thousand was deducted from the cost of sales in connection with government grants related to seamen's salaries in Finland and Sweden (2015: EUR 37 233 thousand). The grants are received according to law. The government grants receivable are disclosed in Note 9.

Average number of Group employees and specification according to employment relationship is presented in the table below.

For the year ended 31 December, in thousands of EUR

	2016	2015
Employees under employment contract	6 855	6 498
Employees under service contract	305	334
Members of the Management Board	3	3
Total average number of employees	**7 163**	**6 835**

FINANCE INCOME AND FINANCE COSTS RECOGNISED IN PROFIT OR LOSS

For the year ended 31 December, in thousands of EUR

	2016	2015
Net foreign exchange gains	0	6 683
Income from interest rate swaps	3 336	5 929
Income from foreign exchange derivatives	7 168	0
Income from other financial assets	0	186
Interest income on financial assets not measured at fair value through profit or loss	10	10
Total finance income	**10 514**	**12 808**
Net foreign exchange losses	-5 010	0
Interest on financial liabilities measured at amortised cost	-27 990	-36 109
Expenses from foreign exchange derivatives	0	-6 810
Expenses from interest rate swaps	-4 289	-4 045
Total finance costs	**-37 289**	**-46 964**
Net finance costs	**-26 775**	**-34 156**

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 2016 was 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% and in Australia 30% (as at 31 December 2015 in Finland 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% 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

	2016	2015
Latvian subsidiaries	-17	-26
Finnish subsidiaries	-53	-27
German subsidiary	-7	-7
Estonian parent company	-330	-2 818
Permanent establishments[1]	285	-5 295
Current period tax expense	**-122**	**-8 173**
Swedish subsidiaries	-477	-123
Finnish subsidiaries	-160	-1 820
German subsidiaries	11	0
Latvian subsidiaries	7	15
Deferred tax income/expense	**-619**	**-1 928**
Total tax income/ expense	**-741**	**-10 101**

[1] During 2015 Tallink Grupp AS had chartered out two ships providing accommodation services in Canada and Australia that gave raise 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

	2016	%	2015	%
Profit before tax	**44 845**		**69 171**	
Tax using the Company's domestic rate	0	0.00	0	0.00
Tax arising on dividends declared in Estonia[1]	-330	-0.74	-2 818	-4.07
Current income tax expense in foreign jurisdiction	208	0.46	-5 355	-7.74
Change in recognised tax losses	-1 220	-2.72	-2 526	-3.65
Change in temporary differences	601	1.34	598	0.86
Income tax expense	**-741**	**-1.66**	**-10 101**	**-14.60**

[1] Corporate income tax paid in Australia decreased tax arising on dividends declared in Estonia in 2016 by 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 2016	Liabilities 2016	Assets 2015	Liabilities 2015
Tax loss carry-forward[1]	24 257	0	25 477	0
Property, plant and equipment	68	0	50	0
Intangible assets	0	-5 534	0	-6 117
Tax assets / liabilities	**24 325**	**-5 534**	**25 527**	**-6 117**
Offset of assets and liabilities	-5 534	5 534	-6 117	6 117
Tax assets/ liabilities	**18 791**	**0**	**19 410**	**0**

[1] Deferred tax assets of EUR 22 269 thousand (2015: EUR 23 012 thousand) in Finland and of 1 988 thousand (2015: EUR 2 464 thousand) in Sweden have been recognised in respect of the losses carried forward. The recognised Finnish tax losses will expire from 2023 to 2026 (2015: 2023-2025) and the Swedish tax losses have no expiration date. 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 101 447 thousand as at 31 December 2016 (EUR 89 352 thousand as at 31 December 2015).

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 2018 onwards. The estimations are based on the business plan of the Finnish operations and the reduction of intragroup charter fees. The revenue growth rate for the years 2017-2026 of the Finnish operations used in the calculations is 2% and the growth rate used for the cost increase is 0-2% (as at 31 December 2015, the revenue growth rate for the years 2016-2025 of the Finnish operations used in the calculations was 2-4% and the growth rate used for the cost increase was 1-3%).

The sensitivity of the value of recognized deferred tax assets to the main assumptions of the projected future taxable profits is as follows: 1) +/- 1% change in average revenue growth rate for the years 2017-2026 would change the value of recognized tax assets by EUR +6 236 thousand / EUR -16 869 thousand respectively; 2) +/- 1% change in average costs' growth rate for the years 2017-2026 would change the value of recognized tax assets by EUR -11 731 thousand / EUR +6 236 thousand respectively.

MOVEMENTS IN DEFERRED TAX BALANCES

As at 31 December, in thousands of EUR

	Balance As at 31 December 2016	Recognised profit/loss in 2016	Balance As at 31 December 2015
Tax loss carry-forward	24 257	-1 220	25 477
Property, plant and equipment	68	18	50
Intangible assets	-5 534	583	-6 117
Net deferred tax (asset)/liability	**18 791**	**-619**	**19 410**

NOTE 7
EARNINGS PER SHARE (EPS)

Basic 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

	2016	2015
Shares issued	669 882	673 817
Treasury shares	0	3 935
Shares outstanding	**669 882**	**669 882**

For the year ended 31 December, in thousands of EUR

	2016	2015
Weighted average number of ordinary shares outstanding (in thousands, basic)	669 882	669 882
Net profit/loss attributable to equity holders of the Parent	44 104	59 070
Basic EPS (EUR per share)	0.066	0.088
Diluted EPS (EUR per share)	0.066	0.088

NOTE 8
CASH AND CASH EQUIVALENTS

As at 31 December, in thousands of EUR

	2016	2015
Cash at bank and in hand	77 012	80 156
Short-term deposits	1 761	1 820
Total cash and cash equivalents	**78 773**	**81 976**

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2016 the rates were in the range of 0.00-0.07% and in 2015 in the range of 0.00-0.05%).

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 2016 range up to 10 January 2017. As at 31 December 2016 and 31 December 2015 short-term deposits of EUR 1 761 thousand and EUR 1 820 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

	2016	2015
Trade receivables	25 060	24 259
Allowance for doubtful trade receivables	-685	-804
Government grants receivable	11 410	10 452
Other receivables	2 889	2 676
Total trade and other receivables	**38 674**	**36 583**

During the reporting period EUR 468 thousand of the trade receivables was expensed as doubtful and uncollectible (2015: EUR 516 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

	2016	2015
Prepaid expenses	5 663	4 467
Tax prepayments	2 263	807
Total prepayments	**7 926**	**5 274**

As at 31 December in thousands of EUR

	2016	2015
Tax prepayments		
VAT	1 405	740
Other prepayments	858	67
Total tax prepayments	2 263	807
Total tax prepayments	**807**	**1,004**

The balance of prepaid expenses includes mostly prepayments for insurance.

NOTE 11
INVENTORIES

As at 31 December, in thousands of EUR

	2016	2015
Raw materials (mostly fuel)	2 790	2 220
Goods for sale	35 926	26 961
Prepayments to suppliers	3	16
Total inventories	**38 719**	**29 197**

In 2016 the write-down of inventories to net realisable value amounted to EUR 281 thousand (2015: EUR 133 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 2016 (as well as at 31 December 2015) there were no derivative contracts for fuel outstanding. For more information, see Note 24.

NOTE 12
INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2016 the Group had a 34% interest in the equity-accounted investee Tallink Takso AS, incorporated in Estonia (as at 31 December 2015 - 34%).

In thousands of EUR

	2016	2015
Investments at the beginning of financial year	350	286
Share of profit of equity-accounted investee	13	64
Investments at the end of financial year	**363**	**350**

The key figures of the equity-accounted investee Tallink Takso AS are below. The figures as at 31 December 2016 and for the year ended 31 December 2016 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 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

In thousands of EUR

	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2015	1 276	106	1 382	312	41	353
			Revenues	**Expenses**	**Profit**	**Equity**
For the year ended 31 December 2015			3 822	3 635	187	1 029

NOTE 13
OTHER FINANCIAL ASSETS

As at 31 December, in thousands of EUR

	2016	2015
Available-for-sale financial assets	168	168
Other receivables (Note 24)	180	140
Total other financial assets	**348**	**308**

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 2014	**3 729**	**1 451 400**	**10 000**	**2 835**	**1 467 964**
Additions	334	10 498	4 527	25 379	40 738
Reclassification	41	0	-41	0	0
Disposals	0	-124 090	-444	0	-124 534
Depreciation for the year	-1 162	-67 706	-3 882	0	-72 750
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**
As at 31 December 2015					
Gross carrying amount	13 120	1 559 457	33 896	28 214	1 634 687
Accumulated depreciation	-10 178	-289 355	-23 736	0	-323 269
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

REVALUATION OF SHIPS

The Group used the valuations of two 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 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
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.*	• Sales prices of similar ships • Level of the demand for particular ships • Construction prices of ships • Maintenance and repair programme of ships

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 2016 there were no material differences between the carrying amounts and fair values (as well as at 31 December 2015).

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

In thousands of EUR

As at 31 December 2016	
Cost	1 728 405
Accumulated depreciation	-543 614
Net carrying amount	**1 184 791**
As at 31 December 2015	
Cost	1 709 976
Accumulated depreciation	-487 567
Net carrying amount	**1 222 409**

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 2016 by EUR 2 047 thousand (2015: EUR 6 869 thousand) and retained earnings were increased by the same amount.

As at 31 December 2016 the Group's ships with a book value of EUR 911 713 thousand (2015: EUR 1 044 632 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 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]	Total
Book value as at 31 December 2014	**11 066**	**33 502**	**10 606**	**55 174**
Additions	0	0	2 920	2 920
Disposals	0	0	-16	-16
Amortisation for the year	0	-2 916	-2 436	-5 352
Book value as at 31 December 2015	**11 066**	**30 586**	**11 074**	**52 726**
Additions	0	0	3 075	3 075
Disposals	0	0	-78	-78
Amortisation for the year	0	-2 916	-2 680	-5 596
Book value as at 31 December 2016	**11 066**	**27 670**	**11 391**	**50 127**
As at 31 December 2015				
Cost	11 066	58 288	29 707	99 061
Accumulated amortisation	0	-27 702	-18 633	-46 335
As at 31 December 2016				
Cost	11 066	58 288	32 540	101 894
Accumulated amortisation	0	-30 618	-21 149	-51 767

Intangible assets 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 2016 financial year, a revenue growth rate of 0% p.a. (2015: 0%) and a discount rate of 6% (2015: 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 2016, the book value of the trademark was tested for impairment. For testing purposes the average revenue growth rate of 2% (2015: 1%), a royalty rate of 2.25% (2015: 2.25%) and a discount rate of 6% (2015: 6%) 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 10 366 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, in thousands of EUR

2016	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**

As at 31 December, in thousands of EUR

2015	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2018	82	216	298
Unsecured bonds[1]	2018	0	93 097	93 097
Overdraft	2016	3 397	0	3 397
Long-term bank loans	2016-2021	78 410	374 134	452 544
Total borrowings		**81 889**	**467 447**	**549 336**

[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 2016 the Group had the right to use bank overdrafts of up to EUR 75 000 thousand (2015: EUR 75 000 thousand). Bank overdrafts are secured with a commercial pledge of EUR 20 204 thousand (2015: EUR 20 204 thousand) and mortgages on ships (see Note 14). In the year ended 31 December 2016 the average effective interest rate of bank overdrafts was EURIBOR + 2.23%

(2015: EURIBOR + 2.23%). As at 31 December 2016 the balance of overdrafts in use was EUR 40 110 thousand (2015: EUR 3 397 thousand). In the year ended 31 December 2016 the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 2.96% (2015: EURIBOR + 3.02%).

As at 31 December 2016 Tallink Grupp AS had given guarantees to HSH Nordbank AG, Nordea Bank Plc and Danske Bank A/S for loans of EUR 130 849 thousand (2015: EUR 158 894 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc and Swedbank AS for the loans granted to Tallink Grupp AS. As at 31 December 2016 the book value of the loans was EUR 288 946 thousand (31 December 2015: EUR 293 650 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 2016 the total amount of the guarantees was EUR 7 694 thousand (2015: 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 2016 (as well as in 2015) the Group complied with all financial covenants.

NOTE 17
TRADE AND OTHER PAYABLES

As at 31 December, in thousands of EUR

	2016	2015
Trade payables	53 514	41 694
Other payables	2 822	2 459
Payables to employees	24 487	22 015
Interest payable	2 071	2 259
Tax liabilities	18 725	17 079
Other accruals	1 661	2 974
Total trade and other payables	**103 280**	**88 480**

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

	2016	2015
Salary-related taxes	14 063	12 949
Excise duties	1 902	2 217
VAT	2 759	1 912
Other taxes	1	1
Total tax liabilities	**18 725**	**17 079**

NOTE 18
DEFERRED INCOME

The Group measures the liability for outstanding Club One points in combination of 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

	2016	2015
Club One points	12 013	12 150
Prepaid revenue	18 882	16 756
Total deferred income	**30 895**	**28 906**

NOTE 19
SHARE CAPITAL AND RESERVES

As at 31 December, in thousands

	2016	2015
The number of shares issued and fully paid	669 882	673 817
Total number of shares	**669 882**	**673 817**

As at 31 December, in thousands of EUR

	2016	2015
Share capital (authorised and registered)	361 736	404 290
Total share capital	**361 736**	**404 290**
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.

The annual general meeting of 14 June 2016 decided to introduce shares without nominal value. Tallink Grupp AS has 669 882 040 registered shares (31 December 2015: 673 817 000) without nominal value (31 December 2015: 0.60 EUR).

REDUCTION OF SHARE CAPITAL

The annual general meeting of 14 June 2016 decided to reduce the share capital and the reduction was registered in Commercial Register on 22 September 2016. The share capital was reduced to EUR 361 736 thousand by:

a) cancelling 3 935 000 own shares held by the company, as a result of which share capital was decreased by EUR 2 361 thousand to EUR 401 929 thousand.

b) reducing the book value of the shares, as a result of which the book value of one share was reduced from 0.60 EUR to 0.54 EUR and share capital was decreased by EUR 40 193 thousand. Share capital reduction payments were made on 23 December 2016.

RESERVES

As at 31 December, in thousands of EUR

	2016	2015
Translation reserve	-11	458
Ships' revaluation reserve	45 646	47 693
Mandatory legal reserve	23 139	20 185
Reserve for treasury shares	0	-4 163
Share option programme reserve (Note 20)	0	910
Total reserves	**68 774**	**65 083**

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.

Reserve for treasury shares

The reserve for treasury shares comprises the cost of the Tallink Grupp AS shares held by the Group. At 31 December 2016 the Group did not hold Tallink Grupp AS shares (2015: 3 935 000 shares).

Share option programme reserve

At 31 December 2016 there was no share option programme reserve outstanding (see Note 20). At 31 December 2015 the share option programme reserve comprised the fair value of the share option programme measured at the grant date.

DIVIDENDS

Dividends were declared and paid by the Company for the year in the amount of EUR 13 398 thousand (2015: EUR 13 398 thousand), i.e. 0.02 EUR per ordinary share (2015: 0.02 EUR). This led to payment of income tax of EUR 330 thousand by the Group (2015: EUR 2 818 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 2015	7 318 638	0.858
Forfeited during the year 2015	-41 735	0.858
Exercisable at 31 December 2015	**7 276 903**	**0.858**
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**

At 31 December 2016 0 (2015: 7 276 903) share options were valid and outstanding.

THE CHANGE IN OPTION RESERVE

In thousands of EUR

	2016	2015
Options issued 2012[1]	0	305
Forfeited during the year	-910	-5
Expired during the year	0	0
Total change in option reserve	**-910**	**300**

[1] The value of options issued at the end of 2012 of EUR 910 thousand was recorded as an expense during the vesting period of 36 months from the beginning of 2013. In 2016 EUR 910 thousand was recorded as the reduction of share option programme reserve and EUR 692 thousand was expensed (2015: EUR 300 thousand was recorded as an expense).

NOTE 21
CONTINGENCIES AND COMMITMENTS

LEGAL CLAIMS

Recovery of harbour fees

Tallink Grupp AS, Hansatee Cargo AS and Tallink Silja OY filed a complaint with Helsinki District Court for recovery of harbour fees for the years 2001 until 2004. The total amount claimed is more than EUR 34 million (of which Tallink Grupp AS claims more than EUR 13 million, Hansatee Cargo AS claims more than EUR 400 thousand and Tallink Silja OY claims approximately EUR 21 million). The basis for the claim is that the Finnish state applied and demanded from the ships of EU member states incorrect harbour fees. On 28 February 2015 the Court held that the Finnish state is liable to return the fairway dues collected illegally and the accrued interest. The Finnish State contested this decision in a higher court instance in December 2015. On 9 August 2016 Helsinki Court of Appeal overruled the first instance judgement, rejected the claims and decided that claims were time barred. On 7 October 2016 Group entities filed applications with the Finnish Supreme Court and leave to appeal was granted on 12 January 2017 for one application - Tallink Grupp AS and Hansatee Cargo AS joint application.

Disputes with former seafarers of Superfast vessels

During the years 2006-2011 proceedings were held in German courts and during the years 2012-2017 proceedings were held in Finnish courts regarding the claims of the former German seafarers of the Superfast VII, VIII and IX vessels. On 15 March 2017 the Finnish Supreme Court validated Helsinki Court of Appeal judgement that the maritime labour contracts of the German seafarers have been transferred to the purchasers of the vessels, Baltic Superfast companies. According to the final judgment Baltic Superfast companies undertake to pay to the German seafarers compensation in the amount of EUR 2 447 thousand. According to the sales agreement, the vessels were bought without a crew and therefore the former shipowners are responsible for all the claims that the seafarers might have regarding their employment relations. Tallink Grupp AS expects the sellers of the vessels to indemnify to the subsidiaries of Tallink Grupp AS all costs that may arise in connection with the litigation.

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 2016 the maximum amount of such benefits was EUR 2 268 thousand (EUR 2 268 thousand in 2015) (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 2016 were EUR 382 407 thousand (2015: EUR 354 410 thousand). As at 31 December 2016, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 76 481 thousand (2015: EUR 70 882 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 2016 (2015: 31 December 2015).

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 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 2016 to 31 December 2016 were EUR 13 211 thousand (2015: EUR 13 255 thousand) including contingent lease expense EUR 1 211 thousand (2015: EUR 1 215 thousand). See also Note 22.

The Group also leases three office buildings and one warehouse. The lease expenses from 1 January 2016 to 31 December 2016 were EUR 3 086 thousand (2015: EUR 1 993 thousand). The lessor has the right to increase lease payments by up to 6% per year. See also Note 22.

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

Minimum non-cancellable operating lease payments are as follows:

As at 31 December, in thousands of EUR

	2016	2015
< 1 year	17 025	25 068
1-5 years	43 512	50 528
> 5 years	28 617	34 426
Total minimum lease payments	**89 154**	**110 022**

The Group as the lessor

The Group's charter income from 1 January to 31 December 2016 was EUR 25 507 thousand (2015: EUR 53 473 thousand).

Minimum non-cancellable charter payments are as follows:

As at 31 December, in thousands of EUR

	2016	2015
< 1 year	18 311	19 398
1-5 years	18 569	36 880
Total minimum charter payments	**36 880**	**56 278**

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 entered into the following transactions with related parties and has the following balances with related parties.

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**

For the year ended 31 December 2015, 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	197	17 064	4	2 008
Associated companies	1	107	0	12
Total	**198**	**17 171**	**4**	**2 020**

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 as follows:

For the year ended 31 December, in thousands of EUR

	2016	2015
Short-term benefits	1 412	1 375
Share-based payments	0	36

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 2016 the maximum amount of such benefits was EUR 2 268 thousand (31 December 2015: EUR 2 268 thousand).
The Key Management personnel's benefits are presented without social tax.

NOTE 23
GROUP ENTITIES

Group entities	Interest as at 31 December 2016	Interest as at 31 December 2015	Country of incorporation	Parent company
Baan Thai OÜ	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%	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:

- credit risk
- liquidity risk
- 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

	2016	2015
Cash and cash equivalents (Note 8)	78 773	81 976
Trade and other receivables (Notes 9, 13)	27 444	26 271
Total	**106 217**	**108 247**

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 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 2016, in thousands of EUR

	Gross	Impair-ment	Net
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**

As at 31 December 2015, in thousands of EUR

	Gross	Impair-ment	Net
Not past due	21 928	-209	21 719
Past due 0-30 days	3 420	-10	3 410
Past due 31-90 days	763	-54	709
Past due 91 days - one year	513	-165	348
Past due over one year	451	-366	85
Total	**27 075**	**-804**	**26 271**

Movements in the impairment allowance for trade receivables:

In thousands of EUR

	2016	2015
Balance at 1 January	**804**	**734**
Amounts written off	-152	-183
Impairment loss recognised	468	516
Reversal of prior period impairment loss	-435	-263
Balance at 31 December	**685**	**804**

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 the 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, Finland, Sweden and Latvia 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

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**

2015	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Overdraft	-3 397	0	0	0	-3 397
Finance lease liabilities	-82	-14	-96	0	-192
Trade and other payables	-68 427	0	0	0	-68 427
Secured bank loan repayments	-80 617	-265 000	-106 571	-6 000	-458 188
Bond repayment	0	0	-93 097	0	-93 097
Interest payments (1)	-19 171	-16 676	-9 208	-94	-45 149
Derivative financial liabilities					
Interest rate swaps (2)	-4 306	-4 570	-5 346	0	-14 222
Foreign exchange derivative inflow	0	0	93 097	0	93 097
Foreign exchange derivative outflow	0	0	-120 000	0	-120 000
Total	**-176 000**	**-286 260**	**-241 221**	**-6 094**	**-709 575**

(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's management 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, 2016

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**
Current portion of borrowings	-106 033	0	-79	0	0	-106 112
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
Foreign exchange derivatives	-131 832	0	0	108 772	0	-23 060
Non-current portion of borrowings and other liabilities	-353 885	0	-281	-98 627	0	-452 793
TOTAL	**-669 514**	**-247**	**-14 611**	**8 883**	**-334**	**-675 823**
Net, EUR	**-592 974**	**208**	**14 307**	**8 888**	**-35**	**-569 606**

In thousands of EUR

2015	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	64 599	4 704	12 320	0	353	81 976
Trade receivables, net of allowance	22 052	0	1 281	0	122	23 455
Other financial assets	1 182	0	1 634	0	0	2 816
TOTAL	**87 833**	**4 704**	**15 235**	**0**	**475**	**108 247**
Current portion of borrowings	-81 807	0	-82	0	0	-81 889
Trade payables	-35 731	-917	-4 822	-1	-211	-41 682
Other current payables	-19 343	0	-9 389	-1 179	0	-29 911
Interest rate swaps	-12 635	0	0	0	0	-12 635
Foreign exchange derivatives	-137 837	0	0	107 609	0	-30 228
Non-current portion of borrowings and other liabilities	-374 134	0	-216	-93 097	0	-467 447
TOTAL	**-661 487**	**-917**	**-14 509**	**13 332**	**-211**	**-663 792**
Net, EUR	**-573 654**	**3 787**	**726**	**13 332**	**264**	**-555 545**

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 2015.

As at 31 December, in thousands of EUR

	2016 Profit or loss	2015 Profit or loss
USD	-21	-379
SEK	-1 431	-442
NOK	-889	-1 333
Other	4	-26

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

	2016	2015
Fixed rate financial liabilities	373	298
Variable rate financial liabilities	590 891	591 901
Total	**591 264**	**592 199**

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 2015.

In thousands of EUR

	2016	2015
10 basis point increase	-370	-228
10 basis point decrease	370	228

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

			2016		2015	
	Hierarchy	Maturity	Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 3	2 019	100 000	-9 256	100 000	-12 046
Interest rate swap	Level 3	2 018	70 000	-43	70 000	-589
Foreign exchange derivative(1)	Level 3	2 018	60 000	-11 530	60 000	-15 114
Foreign exchange derivative(1)	Level 3	2 018	60 000	-11 530	60 000	-15 114
Total derivatives with negative value				**-32 359**		**-42 863**

(1) *Foreign exchange derivatives*

At effective date the Group exchanged the NOK notional amount (NOK 450,000,000) against EUR notional amount (EUR 60,000,000) and at the termination date there is exchange back. During the life of the derivative the Group pays EURIBOR based EUR and receives NIBOR based NOK in 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 • Black76 Model • Jarrow – Yildirim Model	• EUR interest rates' term structure • EUR swaption and cap volatilities • inflation swap rates	The estimated fair value would increase (decrease) if: • EUR interest rates were higher (lower) • inflation swap rates increase (decrease)

CAPITAL MANAGEMENT

The Group considers total shareholders' equity as capital. As at 31 December 2016 the shareholders' equity was EUR 813 556 thousand (2015: EUR 824 422 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 2016 the Group's equity ratio was 52.9% and the net debt to EBITDA ratio was 3.2 (2015: 53.6% and 2.6 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
SUBSEQUENT EVENTS

On 24 January 2017 Tallink Grupp AS's subsidiary Tallink Line Ltd. took delivery of the new LNG fast passenger ferry Megastar from Meyer Turku Oy shipyard in Turku, Finland. The cost of the Megastar is over EUR 230 million and the purchase is financed with a loan of EUR 184 million from Finnish Export Credit Ltd., the credit is guaranteed by Finnish Export Credit Agency "Finnvera" and arranged by Nordea Bank Finland Plc. The long-term loan was drawn down on 24 January 2017 at the delivery, the maturity of the loan is twelve years and bears OECD Commercial Interest Reference Rate (CIRR) based fixed interest.

NOTE 26
PRIMARY FINANCIAL STATEMENTS OF THE PARENT

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, in thousands of EUR

	2016	2015
Revenue	455 667	471 380
Cost of sales	-379 728	-371 049
Gross profit	**75 939**	**100 331**
Sales and marketing expenses	-40 909	-35 292
Administrative expenses	-22 835	-19 273
Other operating income	612	9 442
Other operating expenses	-37	-56
Result from operating activities	**12 770**	**55 152**
Finance income	10 504	12 577
Finance costs	-56 235	-59 645
Share of profit of equity-accounted investees	13	64
Profit before income tax	**-32 948**	**8 148**
Income tax	-45	-8 046
Net profit for the year	**-32 993**	**102**

STATEMENT OF FINANCIAL POSITION

As at 31 December, in thousands of EUR

	2016	2015
ASSETS		
Cash and cash equivalents	3 106	18 573
Receivables from subsidiaries	112 297	105 329
Receivables and prepayments	19 917	19 103
Tax assets	62	1 209
Inventories	9 411	9 304
Current assets	**144 793**	**153 518**
Investments in subsidiaries	405 104	405 371
Receivables from subsidiaries	281 330	272 077
Investments in equity-accounted investees	363	350
Other financial assets and prepayments	54	52
Property, plant and equipment	312 894	330 182
Intangible assets	10 995	10 930
Non-current assets	**1 010 740**	**1 018 962**
TOTAL ASSETS	**1 155 533**	**1 172 480**
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings	181 241	103 367
Payables and deferred income	291 141	247 560
Dividend payables to shareholders	4	0
Tax liabilities	3 385	8 355
Current liabilities	**475 771**	**359 282**
Interest-bearing loans and borrowings	596 931	632 177
Other liabilities	0	192
Derivatives	32 359	42 863
Non-current liabilities	**629 290**	**675 232**
TOTAL LIABILITIES	**1 105 061**	**1 034 514**
Share capital	361 736	404 290
Share premium	639	639
Reserves	23 139	16 932
Retained earnings	-335 042	-283 895
Equity attributable to equity holders of the Parent	**50 472**	**137 966**
Equity	**50 472**	**137 966**
TOTAL LIABILITIES AND EQUITY	**1 155 533**	**1 172 480**

STATEMENT OF CASH FLOWS

For the year ended 31 December, in thousands of EUR

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	**-32 993**	**102**
Depreciation and amortisation	52 216	56 087
Net gain/loss on disposals of tangible and intangible assets	-1	-7 999
Net interest expense	40 161	53 710
Net unrealised foreign exchange gain	5 321	-5 758
Income tax	45	8 046
Other adjustments	-2 574	3 539
Adjustments	**95 168**	**107 625**
Income tax paid/repaid	-2 875	405
Receivables and prepayments related to operating activities	-60 380	8 059
Inventories	-107	566
Liabilities related to operating activities	18 759	56 466
Changes in assets and liabilities	**-44 603**	**65 496**
NET CASH FROM OPERATING ACTIVITIES	**17 572**	**173 223**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-34 993	-27 810
Proceeds from disposals of property, plant, equipment	1	9
Increase in share capital of subsidiaries	-3	0
Proceeds from other financial assets	0	225
Interest received	0	6
NET CASH USED IN INVESTING ACTIVITIES	**-34 995**	**-27 570**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	280 000	0
Redemption of loans	-284 858	-62 005
Change in overdraft	87 066	-60 901
Payments for settlement of derivatives	-4 289	-4 045
Interest paid	-19 058	-20 402
Payment of transaction costs related to loans	-2 988	0
Dividends paid	-13 398	-13 398
Reduction of share capital	-40 189	0
Income tax on dividends paid	-330	-2 818
NET CASH FROM/USED IN FINANCING ACTIVITIES	**1 956**	**-163 569**
NET CASH FLOW	**-15 467**	**-17 916**
Cash and cash equivalents at the beginning of period	18 573	36 489
Decrease	-15 467	-17 916
Cash and cash equivalents at the end of period	**3 106**	**18 573**

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 2014	**404 290**	**639**	**18 822**	**-4 163**	**610**	**-269 236**	**150 962**
Net profit for financial year 2015	0	0	0	0	0	102	**102**
Allocation of profit for 2014	0	0	1 363	0	0	-1 363	**0**
Dividends	0	0	0	0	0	-13 398	**-13 398**
Contributions and distributions	0	0	0	0	300	0	**300**
As at 31 December 2015	**404 290**	**639**	**20 185**	**-4 163**	**910**	**-283 895**	**137 966**
Net loss for financial year 2016	0	0	0	0	0	-32 993	**-32 993**
Allocation of profit for 2015	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**

In thousands of EUR

	2016	2015
Unconsolidated equity at 31 December	**50 472**	**137 966**
Interests under control and significant influence:		
carrying amount	-405 467	-405 721
carrying amount under the equity method	1 168 551	1 092 177
Adjusted unconsolidated equity at 31 December	**813 556**	**824 422**


TALLINK

Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

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 2016, 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, as set out on pages 25 to 78 of Tallink Grupp AS Annual Report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016,
- 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.

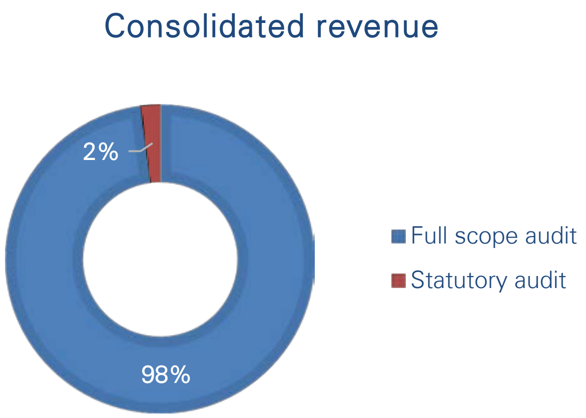
We, as group auditors, determined 19 of the Group's 45 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink Silja AB, Tallink AS, Tallink Duty Free AS, Tallink Ltd, Tallink Fast Ltd, Tallink 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.

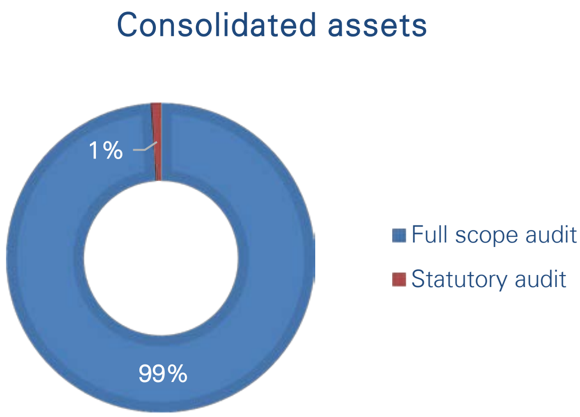
We have used the results of statutory audits of financial statements of HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

For the remaining 23 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 and Tallink Silja AB, which was performed by KPMG component auditors in Finland and Sweden. The Group audit team instructed component auditors 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 component auditors 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.

KPMG

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
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 2016 was EUR 1 230 million. 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. 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.	Our audit procedures in this area included, among others: • 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.

KPMG

Recognition of deferred tax assets	
Refer to Note 6 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
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.	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 Management 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.

KPMG

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.

KPMG

- 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.

Tallinn, 25 April 2017

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GRI CONTENT INDEX

The report has been prepared in accordance with the GRI G4 „Core“ level guidelines.

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