TALLINK

YEARBOOK 2017

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STATEMENT OF THE SUPERVISORY BOARD

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

2017 was a record year for Tallink Grupp in more areas than one: we transported more passengers than ever (9.8 million), our cargo business continued to go from strength to strength on all our routes, delivering a record number of cargo units transported in one year (nearly 365,000 units) and our newest fleet member, Megastar, transported 2 million passengers in its first year - more than any of our vessels have ever transported in one year. These are just a few of the highlights from 2017. There were several more to feel proud of and to build on in the years to come.

The launch of the LNG-powered vessel Megastar on the Tallinn-Helsinki route was certainly a key achievement of the year. The ship has delivered against all our expectations and even exceeded them. Megastar is just as efficient, comfortable and environmentally friendly as promised, but what's more – our customers love it and the passenger numbers are clear evidence of that.

In addition, in 2017 most of our routes continued to grow and develop well, particularly our Riga-Stockholm route, which is growing significantly now that two ships are once again operating on the route, and our Stockholm-Tallinn route, which reached one million passengers in one year for the first time ever.

> “Of course, challenges remain and tough competition on the Baltic Sea, particularly on the Tallinn-Helsinki route, continues to put pressure on us. The challenges, however, simply mean we need to continue to think ahead, innovate and never become complacent.

Throughout the year, we continued modernising and upgrading our ships through our ongoing group-wide ship renewal programme to ensure our vessels are the safest, most comfortable and with the greatest range of amenities and services. We developed, tested and implemented a number of e-solutions to better serve our customers in an increasingly digital world. We continued to work on the strategy and improvements to our Hotels.

> **All this with the aim of offering our customers the best Tallink Grupp can offer on the Baltic Sea and in the Baltics. And all this as a result of great teamwork from over 7,300 committed employees in the six countries Tallink Grupp operates in.**

I am pleased to note that in accordance with the Group's strategy, the strong financial position allows us to continue paying dividends. The Management Board and the Supervisory Board will propose to the shareholders' Annual General Meeting on 12 June 2018 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 4 times in total and without calling a meeting written resolutions were adopted 7 times in total.

The most important resolutions were the following:

- Approving the budget for financial year 2018;
- Approving the statute of audit committee;
- Granting consent to the sale of passenger ferries Stena Superfast VII and Stena Superfast VIII;
- Appointing advisers for exploring strategic options;
- Approving the anti-corruption policy of AS Tallink Grupp.

The Supervisory Board has examined and approved the Annual Report and profit distribution of the 2017 financial year.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and all Tallink Grupp's employees for delivering this great result.

> **I am convinced that with the recent addition of Paavo Nõgene as the new CEO for our group, a strengthened Management Board and a great team with passion for offering our customers only the best, we can achieve even more and deliver our ambition of being market pioneers in Europe in our sector.**

ENN PANT
CHAIRMAN OF THE SUPERVISORY BOARD

2017 HIGHLIGHTS

RECORD NUMBER
OF VOYAGES
in one year
9,966

0
CANCELLED VOYAGES

Record number of
PASSENGERS
in one year
9.8
MILLION

First
NEW SHIP LAUNCHED
since 2009

MEGASTAR

Largest number of
PASSENGERS PER ONE SHIP
in one year
2
million
(on MEGASTAR)

Largest number of
CARGO UNITS TRANSPORTED
in one year
365,000
units

More than
2,3
million
loyal
CLUB ONE
members

CLUB ONE

HIGHEST EVER REVENUE
967
million
euros

More than
7,300
EMPLOYEES
in **6 COUNTRIES**

SALE of **2**
SUPERFAST VESSELS for
EUR 133.5m
in December 2017

PREPAYMENT
of two ship loans
amount of
EUR 59.6m

Voted Estonia's
TOP COMPETITIVE LARGE ENTERPRISE
in the
TOURISM SECTOR
in 2017

More than
1 MILLION
PASSENGERS
on the
Tallinn-Stockholm
route for the
FIRST TIME EVER

Voted
6th
in Estonia's
TOP 20 EMPLOYERS
ranking

LNG-POWERED MEGASTAR
given the
SHIPPAX 2017 TECHNOLOGY AND DESIGN AWARD
for being the
WORLD'S MOST ADVANCED RO-PAX FERRY

Country winner
in the
EUROPEAN BUSINESS AWARDS 2017/2018
in the
„BUSINESS OF THE YEAR WITH TURNOVER OF EUR 150M OR HIGHER"
category

SECTION I: ABOUT US

TALLINK GRUPP AT A GLANCE

What we do

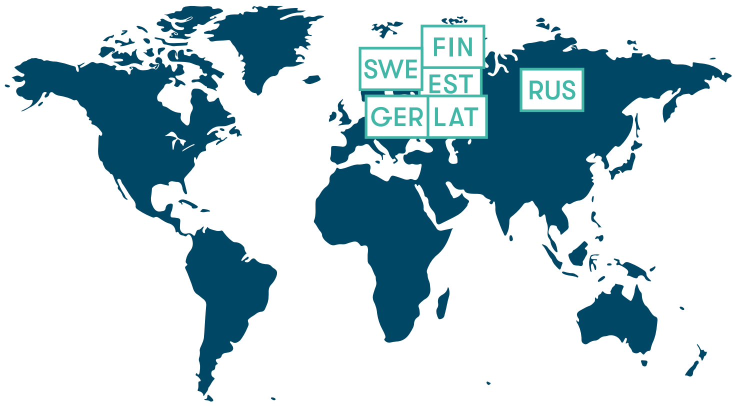
PASSENGER TRANSPORT
12 vessels

CARGO TRANSPORT
2 vessels

HOTELS
5 hotels
(Tallinn & Riga)

%
Tallinn Grupp's passenger market share is 47% in the northern Baltic Sea area.

Our businesses



Our brands

TALLINK | SILJA LINE

Our position in the world (*source: Generation Research)

Ranked **3rd** in the world among ferry operators by gross tons

Ranked **1st** in the world among ferry operators by number of beds

Ranked **3rd** in the world among ferry operators by revenue (EUR MILLION)

Ranked **12th** in the world among top Duty Free & Travel Retail shops

COMPANY OVERVIEW

WHO WE ARE

AS Tallink Grupp with its subsidiaries (hereinafter also referred to as "the Group") is a leading European ferry operator, offering high quality mini-cruise and passenger transport services as well as ro-ro cargo services in the Baltic Sea region. The Group provides its services on seven 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 14 vessels which includes cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates a chain of five hotels - four in Tallinn and one in Riga.

WHAT WE DO

Our products and services

"We are the market leader in the Nordic and Baltic region in the maritime transport sector 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 also includes 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 accommodation and other leisure products. All our vessels are built to accommodate a large number of passenger vehicles as well as ro-ro cargo. We offer our customers end-to-end travel experiences, from joyful and easy cruises or transportation between top destinations to hotel accommodation and taxi services.

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, and annually organise a few special cruises during the summer high season.

On our cruises we offer our customers the full experience: top quality shopping, dining and entertainment are all available on our cruise ships and are delivered by the best team. There are numerous activities onboard our vessels.

> **Whether it is peace and quiet in the winter gardens or on the sun decks, or the hustle and bustle of a high street or nightclub you are looking for – our ships have got something to offer to everyone.**

High quality international entertainment programs are very well received by our customers and include a great variety of music and shows, from well-known Broadway musicals, magical Asian circus performances to top chart artists and bands. School and summer holidays are filled with special children's entertainment programmes onboard so that families can 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 onboard entertainment, but can also purchase the various excursions that are offered in all the cities we sail to.

All our vessels are continuously renovated and upgraded to always offer our customers the best experiences onboard with expanded shopping areas, cosy restaurants and modern cabins.

Travel between destinations

Since our vessels leave all our ports at least once a day, our passengers also 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 service, which includes journeys with our newest vessel Megastar and Star, sails between Tallinn and Helsinki up to 12 times a day. Even though the voyage only lasts 2 hours, these ships are bursting with amenities to occupy your time with during these two hours – ranging from a wide selection of restaurants, bars, cafes to top-of-the-range kids play areas and the largest floating shopping centre on the Baltic Sea. There are also Comfort and Business Lounge facilities for passengers who prefer a more quiet and relaxed atmosphere. Megastar and Star accommodate respectively 2,800 and 2,080 passengers.

> “On the Tallinn-Helsinki route alone AS Tallink Grupp transports around 5 million passengers a year.

Tallink Shuttle ferries also accommodate cars and lorries from 2,000 lane meters on Star to 3,650 lane meters on Megastar.

Cargo

Tallink Grupp is the largest maritime cargo transportation provider in the Baltic region and transports approximately 365,000 cargo units every year. Our business operates a mixed tonnage concept, which means that our vessels carry both passengers and cargo. We carry only ro-ro cargo - mainly lorries and trailers - and do not carry any 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 goods. We work closely with our customers to continuously improve our efficiency and service levels offering a flexible, affordable and efficient cargo service on different routes.

City breaks

We market and sell a variety of additional services which our customers can enjoy while taking a city break with us. Whether it is golf, opera, museums or amusement parks for children, everything we do, we do to ensure that our customers' cruise experience is a memorable one. Many of our vessels, such as Silja Europa, provide a city break experience on sea already themselves with their numerous shops, restaurants, cafes and different types of entertainment and music shows.

At the same time we can also combine our transport services with overnight stays across all our markets.

During the winter months we also sell hotel ski packages to popular ski resorts in Finland and Sweden.

> “ We have discount agreements with leading hotel chains in Finland and Sweden to offer our customers affordable accommodation in those destinations. In Tallinn and Riga, where we operate our own hotels, Tallink Hotels is naturally the primary choice for our hotel packages.

> With 5 hotels and a total of 1,300 rooms, Tallink operates the largest hotel chain in Estonia and the second largest hotel chain in the Baltics.

Tallink Hotels

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 Port of Tallinn is perfect for budget travellers looking for good value, and the Pirita Spa Hotel, which is situated right on the seafront of Tallinn's beautiful green suburb Pirita, offers medical and wellness services to our customers in addition to beachfront accommodation. In Latvia, our Tallink Hotel Riga is located close to the business district and shopping centres and the historic Old Town of Riga. All our hotels are operated under the hotel chain brand Tallink Hotels.

In January 2017, three of our hotels - Tallink City Hotel, Tallink Spa & Conference Hotel and Pirita Spa Hotel in Tallinn - gained official star-rating from the Estonian Hotel and Restaurant Association. Tallink Hotel Riga and Tallink Express Hotel in Tallinn already held the standard previously.

> Tallink Grupp is ranked third among ferry companies in the world in terms of travel retail revenues and fourth in Europe among the leading travel retail outlets*.

Onboard services

In the Nordic region, we are the number one outlet in terms of sales. Restaurants, bars and shops onboard contribute more than half (56%) 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 to 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, gifts 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 affordable 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. Games machines are also available for older kids and those young at heart.

*Source: Generation Reserach 2017

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 our 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 a so-called general sales agent concept, while in the Far East we have contracts with all major travel agencies and tour operators.

> The Far East passenger volumes have increased significantly in recent years, which has lead to the company developing our services and products to meet customer expectations from that part of the world too.

For instance, we have introduced a wider range of payment options onboard our vessels and installed new payment terminals, which today 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 NGOs to hold their seminars, events and exhibitions onboard our vessels. With our unique and spacious conference facilities, modern technical equipment and ever-faster WiFi internet connection, we can accommodate, depending on the vessel, over 500 attendees. During the day our showbars can easily be converted to seat up to 1,000 people with high-tech sound and lighting possibilities. Combined with our extensive and flexible catering options 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 a personalised service. We can also offer renting the whole vessel to companies for exclusive cruises and larger events.

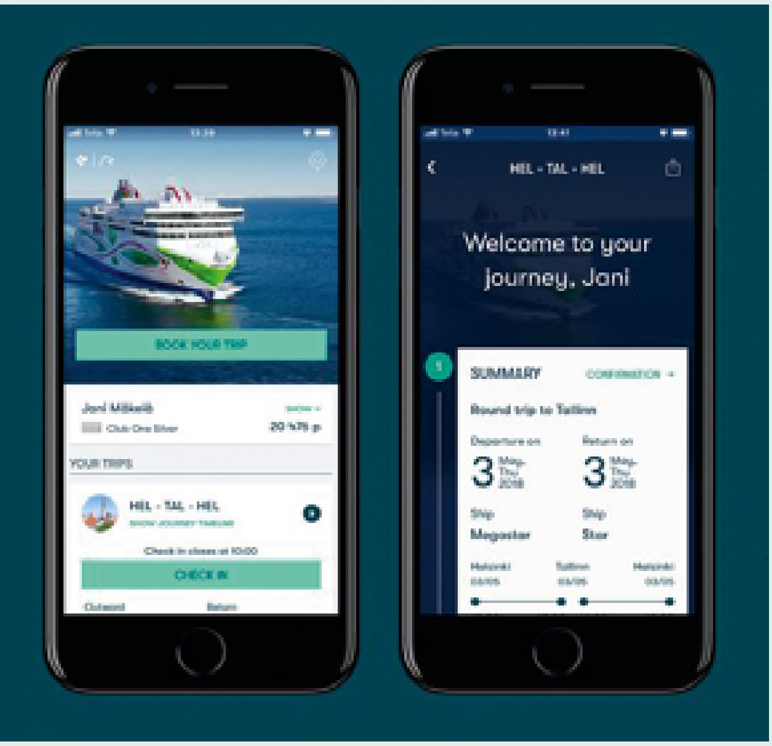
All individual passengers and group and conference passengers can make reservations and special requests through our contact centres. Individual passengers also have the option of making their bookings online. We continue to develop our online & mobile booking systems to make them more user-friendly and meet the growing customer expectations.

> Digitalization is one of the top priorities for our Group to ensure we stay ahead in the race to offer the latest digital solutions and make the whole booking process much faster and more efficient.

Customer feedback and our data both show that our self-service check-in options (either self service kiosks at terminals, online or on mobile) are popular and their user numbers are growing.

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.



2017 – the break-through year for the Tallink Silja app

Tallink Grupp launched the first version of its mobile app in 2013, however, at the time it was the company's first foray into mobile technology development and the number of downloads was limited. Since then, the team have monitored global travel app trends, listened to customer feedback and worked on developing the app. In 2016 a project was launched to completely redesign the app, adding a number of new features and services for the benefit of our customers, e.g. ability to purchase tickets via the app, availability of historic ticket data, use of app on Tallinn-Helsinki shuttle route as a boarding pass, app availability even when off-line, tailored travel information and notifications during the journey. The app also acts as a digital Club One membership card. The refreshed app was launched to customers in 2017 and the results speak for themselves: the number of app downloads increased 6 times in 2017 from 35,000 to 207,000 downloads; the number of monthly users grew 5 times from 17,000 to 80,000 users; and the proportion of ticket sales through the app grew 3 times from 5% to 16%.

Club One – celebrating 10 years of our customer loyalty programme

> “Club One is the Group´s customer loyalty programme connecting today over 2.3 million members.

The majority of our loyal customers come from Finland, Sweden, Estonia, Latvia and Lithuania, but the numbers of Club One members are also growing in other parts of Europe and in the Far East.

> “Our loyal customers are rewarded at all our service contact points – at the point of booking, when enjoying onboard services on Tallink and Silja Line vessels, in Tallink Hotels and when taking a Tallink Takso.

Onboard our vessels, 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 onboard purchases, which can be redeemed for trips and special offers. Members also receive newsletters and our high-quality 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.

In 2017, Club One celebrated its 10th anniversary. In the ten years the membership programme has grown into one of the region’s largest membership programmes and continues to grow year on year.

Two innovative solutions were launched for the club’s members during the year: the Tallink Silja mobile app, available to members in all markets, and a Tallink Duty Free webshop, available to members in Finland and Estonia initially, with plans to roll out the online shopping facility wider in due course. Both features are aimed at meeting changing customer and member needs in an increasingly digital world.

Our brands

Strong brands are the building blocks for the Group's growth on 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 for 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 also has several sub- brands (e.g. Tallink Shuttle and Tallink Hotels) that enrich the customer journey with additional offerings.

Our loyalty programme Club One 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 additionally owns a large protfolio of branded services and concepts – used both onboard and ashore and each already with a loyal follower base.

Each of our brands has a clear strategy and relevant objectives which have been set following reserach, trend analyses and our own knowledge and experience with our customers.

In 2017, we completed the brand renewal project, which had started in 2015 and the aim of which was to make our two brands even stronger and more competitive.

TALLINK

With the Tallink brand our vision is to lead the way and become the preferred joyful break for everyone. This means we innovate. And we do so 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 do all this with a single-minded focus on delivering joyful breaks that will be enjoyed, remembered and shared. **Our promise is simple - with Tallink we promise our customers the easiest way to take a joyful break from everyday life.**

In 2019 our Tallink brand will celebrate its 30th anniversary. Tallink brand represents our Group on the Tallinn-Helsinki, Tallinn- Stockholm, Tallinn-Vuosaari, Paldiski-Kappelskär and Riga-Stockholm shipping routes.

SILJA LINE

With the Silja Line brand 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. This means that we strive to deliver the best experience for those who long for a short vacation, where they can treat thei loved ones and themselves to something truly special. **And our promise is yet again simple – we promise that with us our customers can feel special on the exclusive city break at sea.**

In 2017 our Silja Line brand celebrated its 60th anniversary with several events, videos, history articles and videos, which were all enjoyed by our own employees and customers alike.

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

BRAND ARCHITECTURE:

Corporate & Employer Brand
TALLINK GRUPP

Enabler Brand
CLUB ONE

Strategic Customer Brands

TALLINK
Short cruises, Shuttle
Hotels, Tennis Center etc.

SILJA LINE
Short cruises

Branded Concepts & Services

Restaurants
Bars
Shops
Cafeterias etc.

BRANDED SERVICES AND CONCEPTS:

Restaurants

The Chef's Kitchen · NOK NOK · Grill House Restaurant · Happy Lobster · Tavolàta Ristorante Italiano · Sushi & Co. · Aleksandra Russian a la carte · Gourmet Victoria · The Dining Room · Gourmet Baltic Queen

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 · Kids Toys · Electronics · Fashion · Tobacco Shop · Gifts · Trend Shop · Esprit · Step & Shine

Hotel Facilities

Nero Restaurant & Bar · Elements Restorāns · Balanss Kafejnīca · Cellar Ööklubi • 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 · Starbucks · Spice Ice · Desigual · Moomin · Lotte · Official Supplier of Santa Claus

OUR BUSINESS PHILOSOPHY AND GUIDING CORE VALUES

Our business philosophy is based on delivering a sustainable economic, environmental, labour and ethical performance. To achieve this we comply with legislation, regulations, best practices and ethical norms. In addition, group-wide internal policies, guidelines and standards are in place and we expect our suppliers and business partners to behave in a similarly legal, ethical and responsible manner as we do.

> “Our business philosophy is founded on the belief that everything we do and how we do it will be, and should be, measured against the highest standards of ethical business conduct. We have set the bar so 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 PROMOTE SAFETY, SECURITY AND ENVIRONMENTAL PROTECTION

We care about our customers, employees and the surrounding environment. We are committed to operating our business in an environmentally and socially responsible manner while ensuring the highest safety and security standards at the same time. To achieve this, we strive to comply with and, where possible, exceed 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 on people and the environment.

WE OBEY THE LAW

We take our responsibility to comply with laws and regulations very seriously and we are all expected to comply with applicable legal requirements and rules. While it is impossible for everyone to know all aspects of every applicable law, each employee has the responsibility to understand the laws and regulations applying to his or her work. In addition, the Group’s legal teams provide support and guidance on all legal matters when needed.

WE RESPECT EACH OTHER

We are committed to a supportive working environment, where employees have the opportunity to reach their full potential. We are all expected to do our utmost to create a respectful workplace culture which is free of harassment, intimidation, bias and unlawful discrimination of any kind.

WE ENSURE FINANCIAL INTEGRITY AND RESPONSIBILITY

Financial integrity and fiscal responsibility are core aspects of our corporate professionalism. This goes beyond accurate reporting of our financials. Each employee in the Group has a duty to ensure that the company's money is appropriately spent, our financial records are complete and accurate and internal controls are honored. We therefore take utmost care every time we hire a new vendor, submit expenses to the Group, sign a new business contract or enter into any deals on behalf of the Group. For this we maintain a strict process of internal controls and audits to reinforce compliance with legal, accounting, tax and other regulatory requirements in all the countries in which we operate.

WE VALUE AND SUPPORT OUR PEOPLE

Our people are our greatest asset, so we do all we can to ensure they are happy, committed, valued and empowered to offer our customers the best every day. Our core values apply to all our employees across the group, 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.

WE PROTECT COMPANY ASSETS

Our assets, including financial assets, physical assets, intellectual property and confidential information, must be secured and protected in order to preserve their value. We are all personally responsible for safeguarding and using our Group's assets appropriately.

WE ENSURE CONFIDENTIALITY AND PROTECT DATA

As a Group we are committed to safeguarding the confidential information of our customers, employees and business partners. We are committed to protecting the privacy of any personal data which we possess and 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 all current data protection laws and regulations, including GDPR. We have strict information security measures and processes in place to safeguard the confidentiality and privacy of data and to prevent any unauthorized use of such data.

WE AVOID CONFLICTS OF INTEREST

In our work, we have an obligation to always do what is best for our customers and the Group. Therefore, we expect our staff, suppliers and business partners to conduct business in a way that avoids conflicts of interest in any form and to avoid any activities that may lead to pursuing a private benefit at the expense of the Group or our customers.

WE ARE HERE TO SERVE OUR CUSTOMERS

Our motto is: "A customer is at the heart of everything we do". Every point of our customer journey, from the first steps of booking and checking-in to the trip to the final farewells at the end of the voyage should follow our Travel Experience principles, a collection of our customer service best practices.

TALLINK GRUPP 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 experiences.

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 most important, but the process of achieving them must be enjoyable as well.

We are in good spirits and foster a positive atmosphere at the workplace.

We view a good sense of humour as part of positive communications.

“The Group strives for excellence in everything we do. 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 everyone’s good judgment to uphold a high standard of integrity for ourselves and our company. We expect all our employees to be guided by both the letter and the spirit of this business philosophy. And to always remember... the customer is at the heart of everything we do!

GROUP STRUCTURE

At the reporting date, the Group consisted of 44 companies.
All of the subsidiaries are wholly-owned companies of Tallink Grupp AS.

The following diagram represents the Group's structure at the reporting date:

AS TALLINK GRUPP
HOLDING & OPERATING COMPANY

SHIP OWNING COMPANIES

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

SALES & OPERATIONS

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

SERVICE COMPANIES

- OÜ TLG Hotell Hotel operator
- SIA TLG Hotel Latvija Hotel operator
- OÜ Hera Salongid Beauty services
- OÜ Tallink Travel Club Travel services
- OÜ HT Laevateenindus Technical ship Management & crewing
- SIA HT Shipmanagement Technical ship management in Latvia
- AS Tallink Duty Free Supply of goods
- 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
- Ingleby (1699) Ltd Process agent
- OÜ Baan Thai Catering services

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.

OUR FLEET AND 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 14 vessels. The vessel types and operations at the end of the financial year are described in the table below:

VESSEL NAME	VESSEL TYPE	BUILT/ RENOVATED	ROUTE	OTHER INFORMATION
Silja Europa	Cruise ferry	1993/2016	Finland-Estonia	overnight cruise
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Megastar	High-speed ro-pax	2017	Finland-Estonia	shuttle service
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Estonia	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Baltic Princess	Cruise ferry	2008	Finland-Sweden	overnight cruise
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Isabelle	Cruise ferry	1989	Sweden-Latvia	overnight cruise
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed “Atlantic Vision”

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

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

ROUTEMAP


NORWAY
SWEDEN
FINLAND
Turku
Helsinki
Vuosaari
Mariehamn
Stockholm
Muuga
Tallinn
Paldiski
Kapellskär
ESTONIA
RUSSIA
BALTIC SEA
Riga
LATVIA
DEN-
MARK
LITHUANIA
BELARUS
GERMANY
POLAND


SILJA LINE

OUR FLEET

MEGASTAR

Built	2017
Length	212 m
Passengers	2800
Lanemetres	3600
Ice class	1 A

BALTIC QUEEN

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

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

ISABELLE

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

SUPERFAST IX

Built	2002
Length	203 m
Passengers	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

SECTION II: STRATEGIC REPORT

MANAGEMENT REPORT

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

> The period's biggest milestone for the Group was the launch of the new LNG-powered shuttle vessel Megastar. The ship carried more than 2 million passengers in its first year on the Tallinn-Helsinki route. This is the highest-ever number of passengers carried by any of the Group's vessels on the Baltic Sea per year.

Megastar improved the efficiency of the Group's shuttle operations and the Group was able to increase the result of the Estonia – Finland segment despite tighter competition in the market.

> The most positive development in 2017 was the growth of the cargo business. Cargo volumes increased in all geographical segments by 11.0% in total,

while cargo revenues increased by 13.3% or EUR 13.8 million compared to the previous year and amounted to EUR 117.7 million. In order to be better positioned to serve our cargo customers and capture increasing cargo volumes, the cargo ship Sea Wind going in between Estonia and Finland, previously operating from Tallinn Old City Harbour, started operating from Muuga Harbour to Vuosaari in October.

> In the financial year, the revenues of all core operating segments increased compared to the previous year.

Shop and restaurant revenue increased by EUR 15.3 million and ticket revenue by EUR 6.7 million, the growth being supported by a 3.2% increase in passenger numbers. Cargo revenue increased by EUR 13.8 million compared to 2016. The growth was driven by an increase in the number of transported cargo units in all geographical segments, resulting from positive economic developments in our main markets.

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

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

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

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

> “ In the 2017 financial year, the Group's investments amounted to EUR 219.2 million.

The largest investment was the purchase of the shuttle ferry Megastar in January 2017. A number of investments were made to upgrade the ships' restaurants, shops and cabins. Investments were also made in the development of the online booking and sales systems.

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

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

SALES

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

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

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

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

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

EARNINGS

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CASH FLOW

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

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

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

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

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

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

FINANCING SOURCES

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

LOANS AND BORROWINGS

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

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

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

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

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

SHAREHOLDERS' EQUITY

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

VESSELS AND OTHER INVESTMENTS

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

VESSEL NAME	VESSEL TYPE	BUILT/ RENOVATED	ROUTE	OTHER INFORMATION
Silja Europa	Cruise ferry	1993/2016	Finland-Estonia	overnight cruise
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Megastar	High-speed ro-pax	2017	Finland-Estonia	shuttle service
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Estonia	cargo transportation
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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
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As at 31 December 2017 the book value of the ships amounted to EUR 1 269 million (EUR 1 230 million at the end of 2016). The Group's vessels are regularly valued by two to three independent international shipbrokers who are also approved by mortgagees.

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

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

MARKET DEVELOPMENTS

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

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

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

CARGO UNITS	2017	2016
Finland-Sweden	74 409	69 167
Estonia-Finland	233 381	209 062
Estonia-Sweden	43 648	42 402
Latvia-Sweden	12 858	7 559
TOTAL	**364 296**	**328 190**

PASSENGER VEHICLES	2017	2016
Finland-Sweden	161 909	164 184
Estonia-Finland	827 576	873 132
Estonia-Sweden	72 239	72 893
Latvia-Sweden	72 599	57 286
TOTAL	**1 134 323**	**1 167 495**

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

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

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.

Tallink Grupp
Management Board

OUR 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.

We have set the following long-term goals for ourselves for increasing our Group's value and profitability:

- **Increase volumes and strengthen market position**
- **Strive for the highest level of customer satisfaction**
- **Optimal debt level that allows sustainable dividends**
- **Cost-efficient operations**
- **Develop a wide range of quality services for different customers and to pursue new growth opportunities**

The Group's focus today is on current core operations realizing past investments. Along with the optimal fleet deployment, the emphasis is on improving profitability and deleveraging.

They Group's main strategic cornerstones and competitive advantages for successful and profitable operations are: the most modern fleet, a wide route network, strong market share and brand awareness and high safety, security and environmental standards.

CORPORATE RESPONSIBILITY REPORT

As a large company operating in six countries, employing over 7 300 staff and carrying nearly 10 million passengers annually, we understand that our business does not and cannot operate in isolation from the environment and the communities around us. In order to understand and monitor the impact our operations and activities have on the world around us, Tallink follows the Global Reporting Initiative (GRI) framework for sustainability reporting.

GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and are rooted in the public interest.

In addition to the GRI standards, Tallink Grupp has defined its scope of sustainability disclosures with the help of an extensive analysis of stakeholder expectations carried out in 2015*. As a large company listed on the Stock Exchange, we have a wide range of stakeholders, whom we engage in a dialogue as often as we can.

Tallink Grupp's major stakeholders are:

- Employees
- Customers
- Shareholders
- Suppliers
- Business partners
- Governmental institutions
- Educational organizations
- Communities and the wider general public
- Media
- NGO-s

These groups have the most significant impact on the Group and are themselves affected by the activities of the Group the most. The analysis conducted among all these major stakeholder groups helped idenitfy which social and environmental sustainability and responsible behavior aspects are most relevant for the Group's major stakeholders and have the biggest impact on our business.

The material aspects listed by the Group's major stakeholder groups include: (in the order of importance to the stakeholders and impact on our business)

- Onboard emergency planning
- Staff commitment
- Customer satisfaction
- Economic performance and impact
- Occupational health and safety
- Compliance and fair business
- Fair marketeting communications
- Waste, chemicals and wastewater management
- Investments to environmental innovation
- Emissions
- Fuel, energy and water consumption
- Human rights and workplace diversity
- Customer privacy
- Supplier assessment
- Transparent policy making
- Community impact
- Responsible service supply
- Biodiversity

These material aspects, together with the GRI reporting requirements, form the backbone of Tallink Grupp's sustainability reporting.

We have divided Tallink Grupp's corporate responsibility reporting into five key areas of focus and will look at each of these in greater detail on the next pages of this Yearbook:

I Safety and Security

II People

III Environment

IV Market

V Community

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

I SAFETY AND SECURITY

MARINE SAFETY MANAGEMENT AND INDICATORS

“The first priority of the Group, both on land and at sea, is the safety of our customers, employees and vessels.

When it comes to investing money and time into the latest safety equipment or solutions, no expense or resource is spared. Keeping our ships safe also means we keep the environment safe as safety of the ships also helps minimize 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 Group with regards to security is extremely high and it is continuously developed further both with the company's own resources and in partnership with national and international security organizations.

“The company has a groupwide Safety Management System in place – it is the basis for everything related to marine safety, security and environmental safety.

The aim of the system is to ensure that all the 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 is updated when necessary.

Onboard vessels, it is the Master who is responsible for the onboard safety and security operations. The task of the onshore organization is to supervise, support and develop overall safety and security work.

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

There are no incidents to report related to the non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services in 2017.

ONBOARD SAFETY MANAGEMENT AND EMERGENCY PLANNING

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

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 arising and putting people or the environment in danger. Tallink is committed to complying with the regulations of the International Maritime Organization (IMO) and to ensure that our operations are safe for passengers as well as crew members.

“In addition, there are a number of international regulations aimed at ensuring safe and secure maritime passenger transport (e.g. 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 and many more), which Tallink adheres to strictly. Risk assessments and safety checks (safety critical equipment, occupational risks, environmental aspects) are performed systematically, involving relevant external organisations as required.

Independent audits

Our safety management system is audited every year by the experts of the Lloyd's Register, and the Estonian, Latvian, Swedish and Finnish maritime administrations. In 2017 there were no major deficiencies identified as a result of performed audits.

Life-saving and survival equipment

All our vessels are equipped with life-saving and survival equipment which meet all relevant requirements and are always ready for use.

Training and exercises

Our employees play a crucial role in guaranteeing the safety of the people onboard our vessels and the vessels themselves. Therefore, we are continuously developing their skills in this area. There are certain training requirements for different positions in the company / roles on vessels – in 2017 all required trainings were passed by the employees accordingly.

> “ In addition to our own regular training exercises, Tallink also carries out joint 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 all our vessels carry out fire drills, testing the vessels' watertight doors, and lifeboat drills. 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 joint exercises with external partners and agencies take place.

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

In 2017 nearly 7 000 hours of trainings, were provided to our crew members onboard our ships, each with a different number of participants – ranging from 5 up to 300.

> “ 100% of our crew members have taken part in regular drills and trainings onboard our vessels and 20% of our crew members have additionally participated in different maritime safety and security trainings ashore during the year.

There is large number of trainings held onboard our vessels every day. Large scale drills involving all crew members are held weekly onboard our vessels, i.e. more than 670 drills, where all crew members are participating were held onboard our vessels in 2017.

Medical emergency

Medical assistance provided onboard our Group`s vessels exceeds 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 fthe fast ferries) have professional medical personnel onboard to provide medical assistance to both passengers and crew members.

The passenger ships have doctor's surgeries onboard, equipped with first aid supplies and drugs to provide first aid as well to provide medical assistance to 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 Basic first aid course.

Emergency plans

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

> “We have very close cooperation with all 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 a crisis situation. Regular exercises are carried out to test the plans. Due to security reasons we cannot disclose more information about the security plans, which also include a set of preventative measures.

Tallink Silja OY cooperation with Mutual Trust

Tallink Grupp takes the safety of all people onboard its vessels extremely seriously. We recognise that we often have people onboard with various disabilities who may have different needs we must be able to meet. To ensure we are able to provide assistance in an emergency situation to everyone onboard, regardless of their abilities and needs, Tallink Silja OY has been working with Finnish disability charity Mutual Trust for a number of years, carrying out joint exercises and trainings. People with reduced mobility, intellectual or mental disabilities, or visual or hearing impairments take part in such trainings, offering the crews of our vessels valuable insight and experiences for working with people with disabilities in an emergency.

Tallink Grupp - guardian angel of the Estonian Volunteer Rescue Association

The Estonian Volunteer Rescue Association is a non-profit organisation established to unite different voluntary rescue organisations in Estonia and represent, execute and protect their interests. Today the association has more than 100 member organisations, which represent numerous voluntary fire brigades and maritime rescue teams with a total of over 3,000 volunteers.

Tallink Grupp has supported the non-profit organisation for several years by providing valuable equipment for the teams and organising and taking part in several joint trainings and exercises. In 2017 the Group received a certificate of appreciation and the honorary title of a „Guardian Angel“ of the association.

II PEOPLE

OUR PEOPLE

7 311 EMPLOYEES
(end of 2017)

5 093 on the SEA

616 in HOTELS

1602 onshore organisation

Our colleagues in 2017

	2013	2014	2015	2016	2017
Average age of personnel on board	41.0	39.5	40.6	42.1	43.4
Average age of personnel ashore	37.5	37.1	41.0	37.3	39.04
20 or younger (% ashore)	3.4	3.6	4.5	5.0	1.8
20 or younger (% onboard)	3.3	4.7	3.5	2.3	1.1
21-30 (% ashore)	28.5	29.6	29.0	31.6	26.5
21-30 (% onboard)	29.7	30.8	29.3	23.4	20.7
31-40 (% ashore)	28.9	17.1	17.2	26.6	30.9
31-40 (% onboard)	17.4	29.7	28.5	25.1	20.2
41-50 (% ashore)	17.8	20.7	18.9	19.2	21.0
41-50 (% onboard)	21.6	19.7	19.8	21.8	22.0
51-60 (% ashore)	11.9	21.2	21.8	13.0	14.5
51-60 (% onboard)	20.5	13.3	13.2	20.6	28.0
61 or older (% ashore)	3.6	8.2	8.5	4.6	5.2
61 or older (% onboard)	7.4	5.2	5.8	6.9	7.9
male (% ashore)	29.2	28.8	28.6	31.9	34.0
male (% onboard)	43.8	43.1	41.6	46.4	46.1
female (% ashore)	70.8	74.7	71.4	68.1	66.0
female (% onboard)	56.2	57.3	58.4	53.6	53.9

The Group carried 9.8 million passengers in 2017 and the number of employees as at 31 December 2017 was 7 311. 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 an employer brand survey carried out by research agency Kantar Emor and published in May 2017, Tallink was listed as the

> **“second most desirable employer in Estonia**

by people currently in employment. The same survey ranked Tallink as the 7th most desirable employer in Estonia among students (in comparison, Tallink ranked 11th among desirable employees among students in 2016).

> **“According to the survey, every second person currently in employment in Estonia would consider working at Tallink, and nearly 2/3 of students would consider working at Tallink.**

In order to ensure that we stay competitive in the labor market, we continue to work on further improving the overall working conditions of our staff, enhance staff development and continuously review, benchmark and update the benefits we offer to our staff.

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.

In addition, our people policies and practices are guided by the following:

- **Our core values** - commitment, professionalism, cooperation and joy. The values are the same for the whole group and we align our actions and behaviors according to them.

- **Equal opportunities** - due to the nature of the work, for certain roles, strict health and physical well-being requirements do apply. Aside from that, everybody has equal possibilities for working in the Group.

- **Strict Safety and Security Policies** – ensuring the safety and security of people, the environment and property is the top priority for our group. **Our safety management system adheres to the ISM and ISPS Codes in order to guarantee the operations of our ships and onshore organization, prevent accidents, losses of human lives and environmental damages caused to the marine environment.**

- The objective of the Company's 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.

- The objective of the safety management operations is to maintain and develop safe procedures for ships and create a safe ship environment for both crew and passengers. **Our 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.

- Work environment risk assessments are carried out continuously based on legislative requirements and ongoing analyses of work accidents and work environment internal audits are also performed.

- The Group does not allow persons less than 16 years of age to be employed or engaged in employment onboard our ships. Additionally, persons between the ages of 16 and 18 are not allowed to work at night or carry out duties which may jeopardise their health and safety.

- **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.

- We pay special attention to the physical fitness of our employees by providing medical services and check-ups for crew members, as well as by ensuring the availability of gyms on board our vessels and in our hotels.

- All our employees receive regular performance reviews; the majority receive them annually, some bi-annually.

TRAINING AND EDUCATION

Our 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.

> “ The Tallink Silja Line Training Center, based in Tallinn, operates on the basis of a Quality Manual approved by Bureau Veritas based on the ISO 9001:2008 quality system standards.

The main focus of the 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 a Maritime Administration.

The Tallink Silja Line Training Center has been accredited by the Estonian Maritime Administration to provide the following maritime trainings:

- Security Awareness training
- Crowd and Crisis Management
- Security training for seafarers with designated security duties
- Dangerous, hazardous and harmful cargoes
- Ship Security Officer (SSO)
- Basic Safety Training

The Convention also requires that those responsible for training and assessment of the competence of seafarers are appropriately qualified in accordance with the provisions of the Code. In order to comply with that requirement

> all Tallink Silja Training Center instructors delivering training programmes have passed appropriate training programmes and are certified instructors.

Their skills and competencies are continuously assessed and developed.

In 2017 the Tallink Training Center improved the quality of the trainings provided. The fire fighting training facility, life saving training and medical first aid equipment were upgraded and improved. The Training Center instructors' qualifications were enhanced through attendance at international trainings in the UK, Holland, etc.

> More than 2 000 employees participated in the different courses provided by Tallink Training Center in 2017.

In addition, the Group's e-learning environment learn.tallink.com, which was developed in 2016, was launched to staff internally with a total of over 20 online courses now available to employees, for instance a Responsible Beverage Service Training, a Harrassment and Bullying-free Workplace course, a Vessel Triage course, a General Data Protection Awareness course and much more.

The training calendar of 2017 was full and included a variety of different trainings for a significant number of employees onboard our vessels, in our hotels and offices. In 2017, our main focus was on providing the following training courses to our employees:

- Travel Experience (TX) for excellent customer service. In 2017 preparations for the TX 2.0 - refreshed with new ideas and enhanced skills and attitudes - training programme were made;
- Leading Travel Experience - (LTX) for leading excellent customer service teams - the training programme for team leaders and Supervisors was launched;
- Specialised professional trainings for different areas (e.g. cleaning, restaurants, bars, shops, call centres, knowledge of products, etc) were carried out;
- Language skills trainings in English, Finnish, Swedish and Latvian were provided to both onboard and onshore employees;
- Improving our managers' competencies was also in focus, e.g. in areas of legislation, human resources, finance, leadership, etc.

> “On average each employee received approximately 40 hours of training in 2017.

OUR EMPLOYEE BENEFITS

> “The Group offers its employees a wide range of special offers for products and services both onboard our ships as well as in our hotels – these are mainly discounts related to travelling, accommodation, shopping and catering.

Among crew members 90% have participated in regular trainings and courses developing their professional competencies.

Almost 80% of onshore employees have received training enhancing their career development.

Although our own training centre and e-learning environment provide good quality trainings and courses, the Group also cooperates with other maritime specific and other training providers to offer our employees additional high quality trainings.

We also have a wide network of partners who offer various discounts to our employees, some longer term and regular discounts, others on an ad hoc basis.

Tallink Grupp staff can also join the company's Club One loyalty programme and will automatically be awarded a Silver level in the programme, which enables our staff to receive various discounts and benefits from the programme's partner organisations.

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 possible health conditions and provide medical assistance where needed. The healthcare services for the Group`s employees are provided by professional occupational health medical professionals.

Discounts for staff at Tallink Tennis Centre

In late 2016 Tallink Tennis Centre was opened by one of Tallink Grupp's major shareholders, Infortar, in Tallinn. The Tennis Centre offers tennis courts, badminton courts, a gym, group exercise classes - something for everyone. Tallink Grupp staff benefit from a range of discounts on the services, classes and products available at the centre.

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 working conditions.

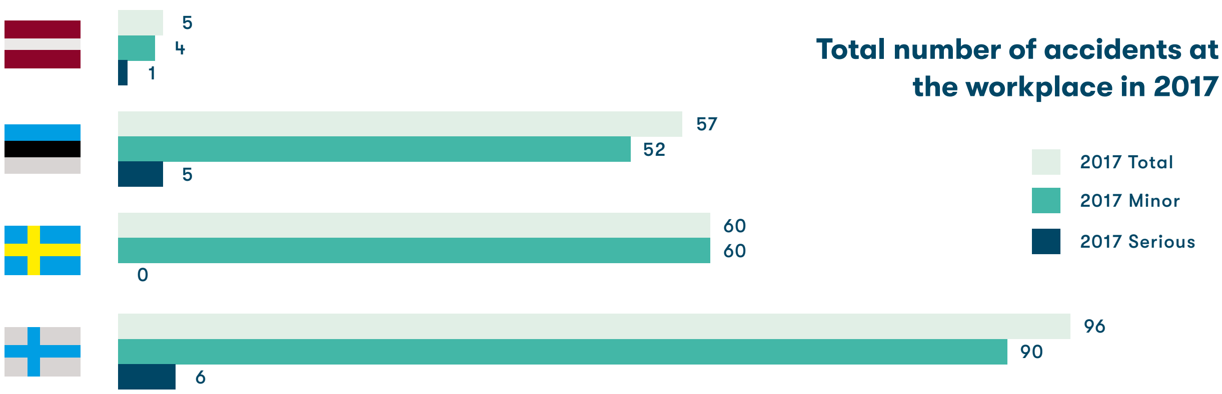
> During 2017, continuous risk assessments of occupational health and working conditions were carried out in all units and entities – on ships, hotels and onshore units.

These risk assessments, carried out in partnership with occupational health and safety medical professional, help monitor our employees' health, take action where necessary to improve working conditions and also pur preventative measures in place where necessary.

Every crew onboard our ships has their own work health and safety management team, which consists of the ship's senior and middle management officers, crew members and occupational health representatives. The management teams meet on a regular basis. There are also respective committees within 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 2017 there were no work-related fatalities among employees of the Group.

In 2017 a total of 218 work accidents were recorded across the group, including 12 serious accidents. In addition, 1 442 crew illness cases were recorded in 2017. Overall, crew illness in 2017 has decreased by 18% compared to 2016.



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 good information flow necessary for sustainable operations. There are regular meetings and larger events organized by the Group's Human Resources and Communications teams, such as the Management Conference, the Tallink Awards Gala event once a year in February, Summer Staff Festival and the Tallink Employees' Family Day. Group management also participates in the free time activities organized for the Group` s employees several times per year.

All our employees have the right to belong to trade unions. The total percentage of employees covered by collective bargaining agreements is approximately 50% 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 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 requirements) 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.

Group staff turnaround among long-term employees in 2017 was 4.8%; 3.0% among those working onboard our vessels and 1.8% among those working ashore.

Diversity and equal opportunities

The Group is an Equal Opportunities Employer. Anyone can apply for a job or a promotion in our company, but exceptions do apply for roles that have specific requirements set by different regulations from a safety perspective (e.g. language barriers and special needs – see the STCW convention).

In 2017, there were no reports on discrimination by gender, age, race, etc.

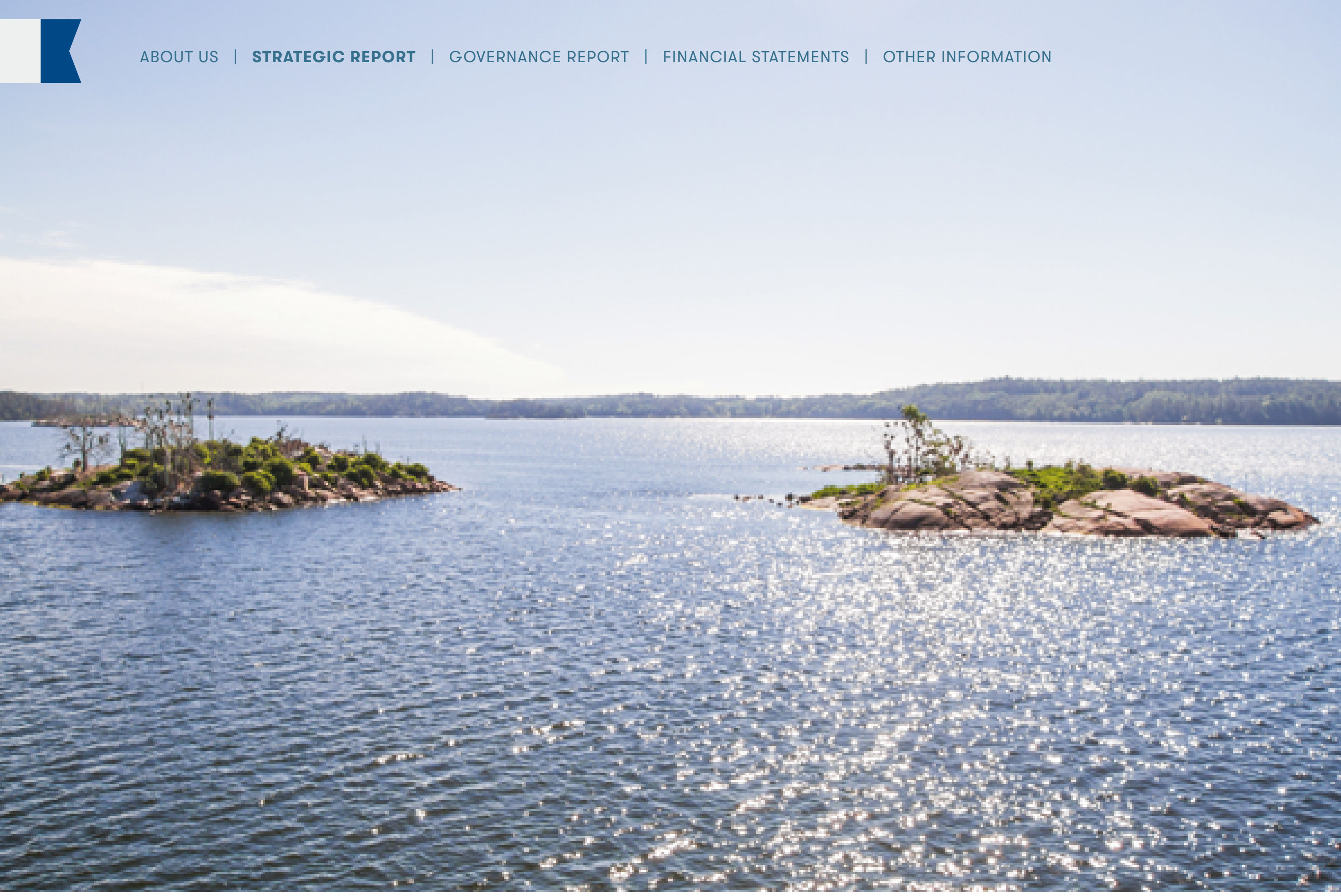
> Tallink Grupp does not tolerate any form of bullying or harrassment at the workplace. The company's Employee Code of Conduct sets out the company's expectations to all employees in this area and an online training course is available to all employees in the company's e-learning environment.

In 2017 the company identified a few such incidents, both onboard and onshore, through grievance procedures and eliminated harrassement and bullying in a way which clearly demonstrated the benefits of a harassment and bullying-free workplace to all parties concerned. Two cases were resolved by involving our colleagues and partners (i.e. unions) in the process.

The salaries are determined by the local labour market developments. 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 doing the same jobs – the salary rates are connected to the specific positions and responsibilities.** In 2015 the group started monitoring basic salary ratios between male and female employees in Sweden according to the legal requirements. The aim of the Group is to extend this to the other group countries in the future. The preparations are currently ongoing and the plan is to start group-wide continuous monitoring in 2019.

Trainings on human rights

Our annual training for all security personnel, both new and existing staff, also includes by default the training on the topic of human rights. Security personnel who have not passed this course will not be allowed to work onboard our ships.



III ENVIRONMENT

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 with regards to this very specific and fragile sea environment.
- Tallink is aware of the risks that it might have on the 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 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 on the environment.

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

At 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 continuing improvement of methods used to carry out and achieve this objective, including the use 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 offices, ships and hotels 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 14001:2015 Environmental Management System Certificate issued by Lloyd's 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 LEADERSHIP AND DEVELOPMENTS

Important developments and highlights in 2017 from the environmental aspect were the following:

- There was 1 pollution incident which was handled professionally by the crew in partnership with the local authorities. No fines were received and the incident was closed.
- The new LNG-powered vessel Megastar started its operation on the route between Tallinn and Helsinki in January 2017.
- Considerable investments have been made in several energy efficiency projects on our ships.

> “A precautionary approach is applied by the Group to avoid incidents or accidents of the existing fleet and invest in the advanced technologies for the current and future fleet.

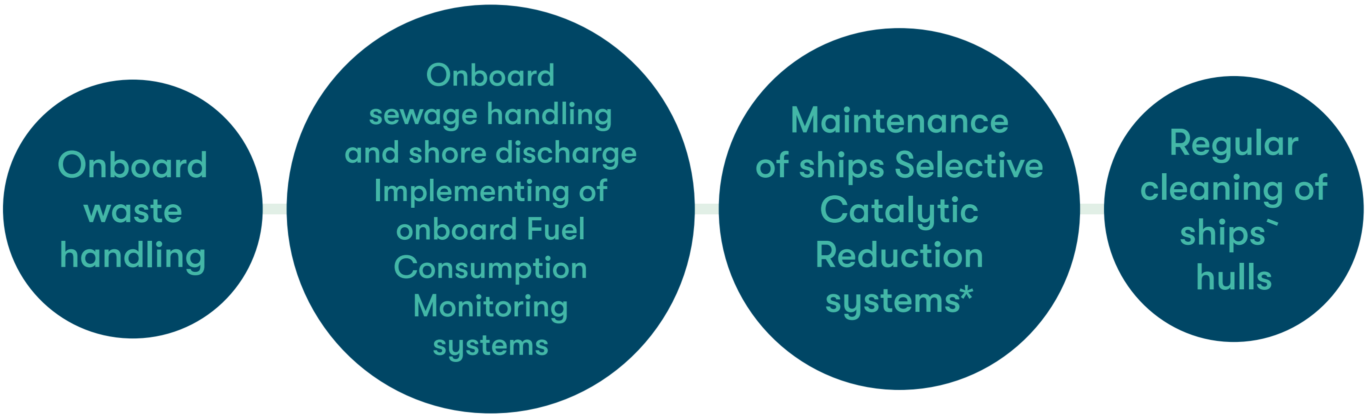
The Group is cooperating closely with scientific organizations, universities and companies, who work towards more environmentally friendly solutions suitable for decreasing the environmental footprint of the Group – for example, work within the European Commission Project ’Low energy and near zero emissions ships’ continued in 2017. The aim of the Project is to develop new software to be used on ships that would allow to enable support for decisions concerning efficiency of the ship. In addition, a project was launched to introduce a fleet operational monitoring system FLEETRANGE onboard all Group vessels from 2018 to imrove situational awarness on the management level. As the market leader, the company understands its additional responsibility of setting an example for the whole market and raise the awareness of the customers to choose the more environmentally sound service providers.

The company’s guidelines of the environmental operations form the basic principles applied in carrying out the environmental policy of the company. The guidelines have been compiled in accordance with the sustainable development principles.

According to the guidelines, the company:

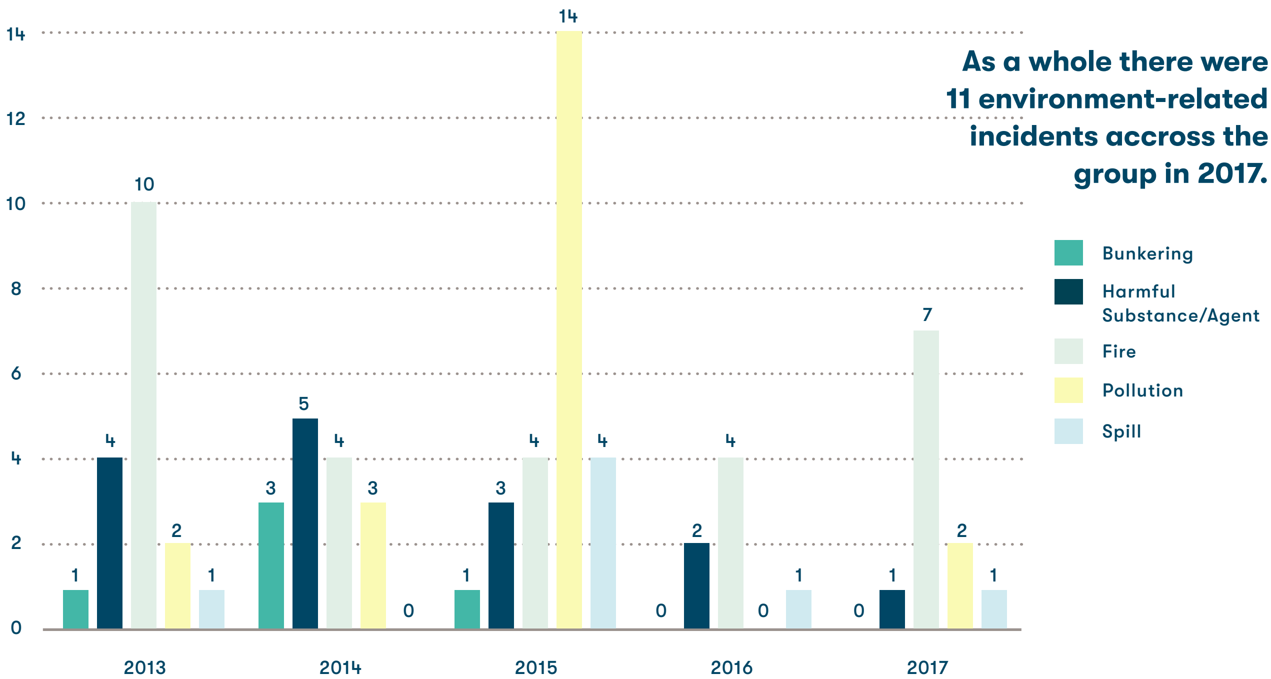
- Emphasises the importance of environmental work in accordance with the principles of sustainable development.
- Includes environmental programmes and operations in the company’s management system
- Constantly aims at improving the environmental programmes and operations in accordance with technical development simultaneously taking the expectations of the consumers and the respective society in consideration
- Trains and motivates the company’s employees towards environmentally responsible behaviour
- Analyses the effects of the changes in the company’s operations on the environment
- Supports environmental research work which is related to the operations of the company and its consequences.
- Maintains operational readiness and capacity for possible accidents which may have environmental effects
- Expects the company’s suppliers and subcontractors to apply a similar environmental programme
- Promotes environmental awareness within the company and also externally
- Evaluates the results of environmental work regularly

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



* (SCR is an advanced active emissions control technology system for NOx reduction)

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



As a whole there were 11 environment-related incidents accross the group in 2017.

Environment related incidents

Fire incidents were relatively minor in nature – no serious damage was caused. One of the Pollution incidents proved to be a false alarm following investigation and the second pollution incident was related to bilge water. The incident took place near Kapellskär, Sweden with approximately 300 litres of bilge water leaking into the sea. The clean-up was carried out by the Swedish environmental agencies and the incident had a limited impact. All pollution/spill incidents are handled according to SOPEP and didn’t result in any supervisory measures from authorities.

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.

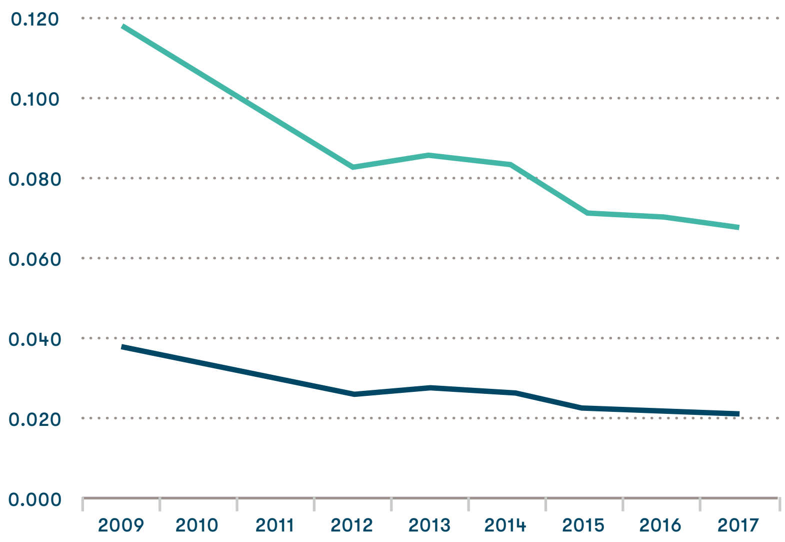
Considerable efforts have been made in preparation to comply with the Regulation (EU) 2015/757 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport (i.e. the MRV Regulation). Ship specific Monitoring Plans were created and they were assessed for compliance by third party Verifier Verifavia. Finding new ways to improve the energy efficiency of our current fleet is an ongoing process.

Other activities continuing from previous years also in 2017 included:

- 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. A memorandum of Understanding between the ports of Helsinki, Tallinn, Stockholm and Turku has been signed declaring the common approach for on-shore power supply: 11kV, 50 Hz. In addition to that, the EU has implemented a Directive which will make shore connection in TEN-T ports mandatory under certain circumstances by 2025 at the latest. The intention is to fit 10 ships with the ability to use port supplied energy to reduce emissions to near zero when in port. Installation programmes on the ships are timed to suit the routes each ship serves corresponding to these ports. Planned delivery dates start with the Silja Serenade, at the end of 2018, with five further ships fitted in 2019 and three further in 2020.

- 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. The group` s fleet is using a <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 still run on 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 we continuously look for and test new and innovative solutions. The foundation of all our plans is a good and structured monitoring system, which observes the environmental performance of the whole fleet.



Fuel and CO2 per passenger

CO2 ton per Pax
Fuel ton per Pax

The fuel used per passenger has been reduced significantly since 2009, by a total of 35%. CO2 emissions per passenger in the same period have dropped by 43%. Reduction of CO2 per passenger of our fleet compared to 2015 when the EEDI Phase I was introduced has been by 6% (IMO target for EEDI Phase I -5% by 2020 for newbuilds).

- The 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 a 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).

- Fuel consumption monitoring systems have already been implemented on many vessels and this project continued in 2017 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.

- 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.

- Different cooperation projects with various scientific organizations are carried out to find new technical solutions for reducing the environmental impact of fuel consumption.

Strategy for future investments to decrease 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.

In addition, Tallink Grupp plans to invest in shore power equipment in coming years first starting with the ships which visit Stockholm.

Energy efficiency

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

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.

Tallink's cargo ship SeaWind starts operating from Muuga Harbour instead of Tallinn Old City Harbour

In October 2017 Tallink Grupp, in partnership with Port of Tallinn and Transiidikeskuse AS, re-routed its cargo ship SeaWind to start operating from Muuga Harbour instead of the Tallinn Old City Harbour. This move means that more than 40,000 lorries per year will be removed from Tallinn city centre and congestion and pollution in the city will be significantly reduced.

WATER

The Group respects the water environment highly, both fresh and sea water.

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

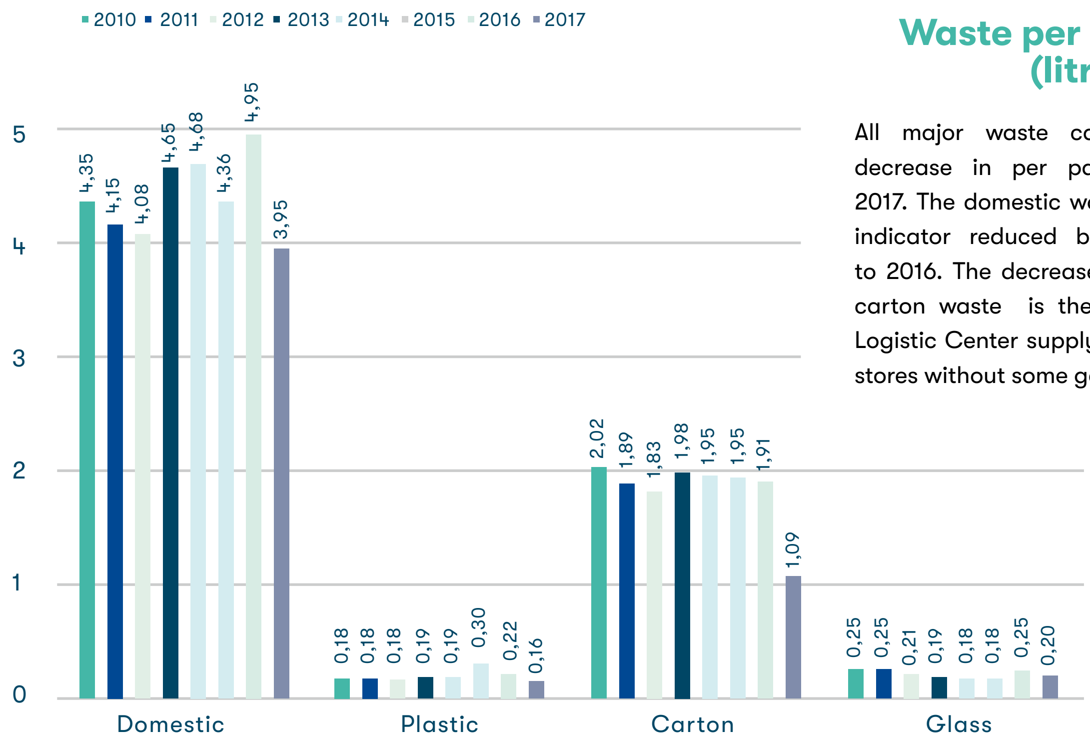
- All fresh water supplies are taken from the official onshore facilities in our destination ports.
- The ballast water is taken and discharged as much as possible in the same area.
- Waste water is a big problem for the Baltic Sea, as discharging waste water into the sea is still officially permitted. Tallink is cooperating with its destination ports to discharge grey and black water from the ships at the harbour reception facilities.
- We see raising our customer's awareness on the topics of waste and waste water as an important part of the process to reduce the amount of waste and waste water generated onboard our ships.
- Most of the detergents used by our cleaning personnel onboard our ships are biochemicals.
- The hulls of the group'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

The Group places great emphasis on recycling and the reduction of waste. The handling of domestic waste, which is produced onboard our ships by passengers and crew is the responsibility we take very seriously. We sort domestic waste onboard our ships as much as it is practicable, and at port all the waste is handed over to licenced waste-handling companies.

> “ 100% of all waste is discharged onshore to the licenced waste-handling companies with the objective of recycling as much of the waste as possible.

Waste per passenger (litres)

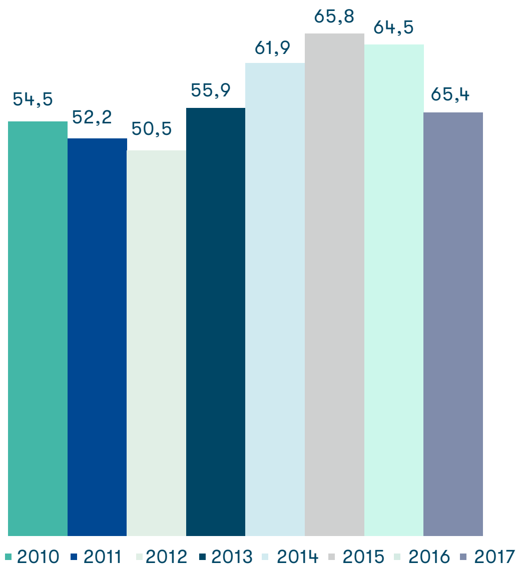


All major waste categories show a decrease in per passenger levels in 2017. The domestic waste per passenger indicator reduced by 20% compared to 2016. The decrease in the amount of carton waste is the result of Tallink’s Logistic Center supplying goods for ship stores without some general packaging.

Waste handling objectives in 2017:

- Sorting waste onboard and onshore 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.

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 per day

Since 2015 all sewage is discharged into shore reception facilities. The observed sewage reduction trend is positive despite the fact that there were no specific actions implemented to reduce the amount of sewage. We acknowlege that our voyage profile does not favor the dramatic reduction of sewage generated onboard but we continue to monitor the situation on a monthly basis and are ready to carry out improvements if necessary.

All hazardous waste onboard our ships is collected by type of waste and handed over to licenced waste handling companies. The types of hazardous waste collected and handed over include: bilge water, sludge, oily rags, fluorescent lamps, batteries, etc. The data is collected and reported monthly by individual ships to the company to monitor the amount of hazardous waste on an on-going basis. There is no annual overall data collated and available.

BIODIVERSITY

> “As Tallink Grupp's vessels sail on the Baltic Sea intensively and daily we need to take responsibility for the impact our activities may have on this fragile marine environment.

Nutrient inputs, oli spills, physical impact, and other possible pollutions are the main risks our operations pose to the local environment.

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 in the same area where it was originally taken. Relevant measures have been taken to decrease 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. Our ships follow the speed limits in order to minimize the impact on the marine environment.

> “The Group cooperates with Scientific Organizations and NGOs, e.g. WWF Finland, working to protect the biodiversity of the Baltic Sea.

The Sustainable Seas Foundation & Tallink Silja AB

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.

WWF and Tallink collected money for the research of the Baltic ringed seal

From April 2016 until the summer 2017, WWF and Tallink collected 10 000 euros for the research of Baltic ringed seals.

The money collected during the campaign will be used for the support of selected research into the Baltic ringed seal population. The biggest threat to the Baltic ringed seal is the warming winter resulting from climate change and the impact on the seals' living environment, the Baltic Sea. Baltic ringed seals are an Arctic species and their survival depends on the presence of ice and snow.

Altogether 484 people donated to the protection of Baltic ringed seals, the average donation sum was 20 euros. Tallink Group's subsidiary Tallink Silja Oy in Finland and WWF Finland have collaborated on the protection of the Baltic Sea already since 2001.

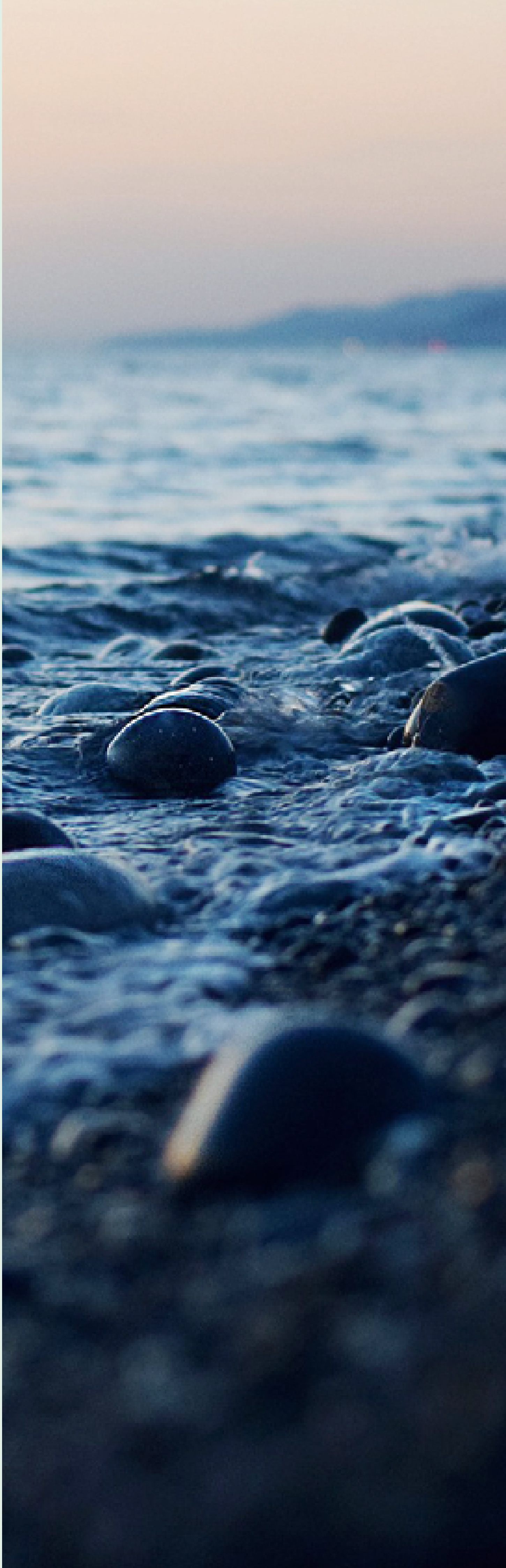
WWF is the world's leading organization of wildlife conservation and endangered species, active in 100 countries.

Tallink Grupp's cruise ferries and shuttle ships receive MSC certificate for offering sustainable seafood

Our shuttle ships Megastar and Star were awarded the Marine Stewardship Council's (MSC) Chain of Custody certificate at the end of 2017 for providing sustainably sourced seafood onboard our vessels. Tallink Grupp's vessels are the first vessels in the world to hold this certificate.

Five other ships in the Group, operating under the Silja Line brand, were awarded the certificate already in September 2017.

The certificate is an assurance that the seven ships within Tallink Grupp covered by the certificate now offer their customers only sustainable and traceable MSC certified shrimp and herring.



IV MARKET

OUR CUSTOMERS

One of the priorities of our Group employees is to offer the best experiences to all our customers, whether onboard or onshore.

> “To ensure we all know what this means, we have a common service identity and jointly agreed service standards that apply across the Group.

There are many ways in which we ensure the experience our customers have with us is the best on the market and keeps them coming back to us again and again, for example:

- The entire customer journey, from the online information searches to the departure from the ship or hotel and receiving the feedback questionnaire, has been mapped and our Travel Experience customer service standard and training programme have been created based on this information collected.
- Customer experience trainings and workshops are held regularly and they form part of every new employee’s induction to the company. Customer service staff go through a more detailed training programme in addition. For those employees working in customer-facing roles, an extensive Travel Experience training programme consisting of 6 modules, is mandatory.
- Service quality related audits are held on ships regularly by Internal Service Advisers. Such audits enable ships to get real-time feedback relating to their service after the journey. In addition, Mystery Shopping evaluations are carried out on an ongoing basis to monitor adherence to the customer service standards.
- Customer feedback is measured on a daily basis by combining NPS methodology and service quality measurement criteria.

Customer feedback and satisfaction

Consistent monitoring of customer satisfaction allows us to find out which parts of our offering are more important to our customers and which areas we should focus more attention on.

> Monitoring and analysis of the customer satisfaction index gives the management immediate feedback on areas where we are failing, but also where we are doing well.

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. Management uses the data for planning long-term strategic investments.

> In 2016, the Group started to use a new customer experience measurement programme where the NPS method (Net Promoter Score, 0-10 scale) is combined with service quality criteria questions (1-5 scale). In 2017 the NPS became an actively used managerial tool.

With the aim of raising the level of our service and keeping the standards on a high level, the Service Card was introduced first to the service crew on the group's vessel Megastar and later rolled out throughout the entire fleet. Approximately 2 000 service crew members onboard and onshore participated in service workshops in 2017 where Tallink Grupp service standards were introduced and expectations explained.

During 2017 a new group-wide complaint management system Oracle Right Now was implemented, aiming to create a more uniform complaint management process across the Group.

NPS and service quality results in 2017

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 2017 nearly 100 000 different responses and feedback were collected in our marketing areas. An avarage response rate for the NPS questionnaire was ca 18%, which is considered a good result.

In 2017 the Tallink Grupp avarage NPS was 34 points. The Index has been fluctuating, showing clearly, that our customers will gladly share their travel experience feedback with us. As global practice indicates that around 30 and above is considered a good score, the Group's result can be seen as positive feedback from our customers.

Service quality feedback is measured and presented by service units and criteria level. In 2017 the average Customer Satisfaction level for the service onboard was at 4.1, which was 0.2 points higher than in the previous year. A result around 4.0 is considered a good result, however, the quality service goal is to pursue even higher satisfaction rates. In 2017 all service areas showed a positive trend, with a strong increase in a positive direction in the boarding and greeting sections.

Mystery shopping

In 2017, there were 300 mystery shopping operations conducted onboard the group's vessels. Mystery shopping measures the fulfilment of service standards in an actual business environment. The results are used for developing the service capabilities of our employees. In 2017 two customer service areas were under additional monitoring: welcoming and additional sales.

In 2017 the Group also launched the measurement of user experience on our websites. The UX rating (1-5 scale) is measured on our websites of 6 different markets in 13 different languages. In total 17 000 responses were collected in 2017 and the company's UX rating was 3.9.

Club One membership

Club One is the Group's customer loyalty programme, which aims to reward frequent travellers with different benefits and discounts. Club One members accrue bonus points when travelling with the group's vessels, making purchases onboard or staying at one of Tallink Grupp's hotels. The points can then be used to get discounts on tickets, accommodation or purchases. The membership programme has three levels (Gold, Silver and Bronze), each offering different benefits and discounts as you move up the membership programme.

At the end of 2017, in its 10th anniversary year, the programme had 2.3M members (2.2M in 2016).

Experiences for everyone

> Tallink Grupp's aim is to provide memorable experiences for everyone, so we do all we can to enable people with disabilities to travel on our ships independently, easily and to be able to enjoy the journey.

Assistance to people with reduced mobility, with hearing and visual impairments, temporary physical disabilities or in need of special assistance are looked after by the ports in terminal buildings and by our crew members onboard our vessels. We are happy to provide this service and offer this free of charge. We also have specific cabins onboard our vessels for people with disabilities and allergies, offering a more comfortable and safe journey for those passengers needing special attention.

SUPPLIERS

In Tallink Grupp the supply chain is mostly related to our hotels, duty-free shops and other services on board. The major goal for our supply chain is to ensure availability of the right selection and levels of goods at any given 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, our environmental impact and to enable a unified approach supporting the equally high quality of products and services consumed by the Group and our customers.

The supply chain of AS Tallink Grupp has to meet the demand of the fleet of 14 vessels, 5 hotels and 6 main offices of the Group. The fleet transports nearly 10 million passengers annually and the revenue of onboard services and product sales is more than 50 percent of the Group` s total revenue. This means that the demand for swift and flexible delivery is very high. Tallink Logistics Center, which operates in Maardu, Estonia, ensures a unified delivery process and efficient central operations.

> Tallink Grupp prefers to work with internationally certified and approved suppliers. Where possible, the Group also prefers to use local services and products, which have also been certified.

In the selection 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 a higher proportion of local suppliers. In terms of technical suppliers, 90% are of local origin, from which 40% are from Estonia. From the suppliers of services, 97% are local service providers, out of which 80% are Estonian organisations.

> The Group's Supplier Code of Conduct reflects our core values and sets out the minimum requirements which Tallink Grupp, its subsidiaries, associated companies and affiliates expect its suppliers and their sub-suppliers to adhere to when doing business with the Group.

All suppliers of the Group are made aware of the requirements before contracts are signed with them. The Group monitors compliance with the Supplier Code by its suppliers, and any violations may jeopardize the supplier's business relationship with the Group. In 2017, the suppliers and the Group's internal entities did not encounter any significant negative impacts for labour practices or environmental impacts in the supply chain.

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 influenced by healthy options.

> Tallink monitors trends and considers these patterns in designing its selection of products.

For example, since there is a trend for healthier food and beverage products, the Group has reduced the selection of energy drinks onboard and increased the offering of non-alcoholic drinks. With an increased need for vegetarian and vegan choices, the Group is also continuously looking to offer products that meet this need.

> With the increase of Asian passengers onboard our vessels in recent years, the Group, for example, also looks to offer products that meet the needs of this different customer group.

Tallink ensures it does not sell any banned products. For example as eels are among Red List of Threatened Spieces, they won't be found on any of our menus. Also, if the local authorities of a destination port have prohibited to sell a certain type of product (e.g wild bore meat due to Swine Flu cases in recent years), these will not be sold onboard Tallink ships.

The Supplier Code, cooperation with Consumer Protection Boards and the thorough work of the Group` s departments responsible for our supply chain, have ensured, that during 2017, no sale of banned or disputed products was detected onboard Group operated vessels or in the Group's hotels.

There are no incidents to report related to the non-compliance's with regulations and voluntary codes concerning health and safety impacts of products and services in 2017.

COMPLIANCE, ETHICS AND TRANSPARENCY

> 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 compliance with the laws. The internal audit and internal control departments 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 a regular basis. Being a company listed on the Stock Exchange since 2005, also the financial management of the Group is monitored and inspected carefully by the financial authorities.

In 2017, 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 any non-compliances in time with the given deadlines by the authorities.

> The Supervisory Board of Tallink Grupp adopted a new anti-corruption policy for the Group in November 2017, which will enter into force in 2018.

There were no confirmed incidents of curruption in 2017.

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 2017 financial year were audited by KPMG Baltics OÜ.

Political contributions

The Group did not financially support any politician or political party in 2017.

Economic performance and impact

Tallink continues to perform well as a business and pay taxes, which benefit the local economies and thus support local communities. As a significant employer in Estonia, Finland, Sweden and Latvia, Tallink Grupp plays a key role in providing jobs in the markets it operates in.

Fair marketing communications

There were no incidents of non-compliance concerning the group's marketing communications in 2017 in any of the markets we operate in.

Customer privacy

There were no complaints reported regarding any customer privacy issues in 2017.

> **In early 2017, Tallink Grupp started making preparations for meeting all the requirements of the General Data Protection Regulation, which entered into force on 25 May 2018.**

One of the key steps the company has taken, in addition to conducting an internal audit of all the systems, processes and data the company holds and processes, updating and reviewing data processing and retention policies and much more, was to appoint a Group Data Protection Officer in February 2018 to ensure compliance with the new regulation.

AN AWARD-WINNING COMPANY

- Tallink Grupp was once again named the Culture Friend 2017 by the Estonian Ministry of Culture.
- Tallink Grupp also received recognition from the Government and Prime Minister of Estonia for the company's support for Estonia's first ever Presidency of the Council of the European Union in 2017.
- In September 2017, Tallink Grupp was named Estonia's Most Competitive Company in the Tourism Sector 2017. The gala for the best companies is organized by the Estonian Employers' Confederation, Enterprise Estonia (EAS) and Estonian Chamber of Commerce and Industry.
- In December 2017 Tallink Grupp was named Country winner in the European Business Awards 2017/2018 in the „Business of the Year with turnover of EUR 150M or higher" category.
- Tallink Grupp's Communications Team received a Gold Award in the Estonian Marketing and Communications Awards „Kuldmuna" 2017 for the communications efforts involved in launching the company's new vessel Megastar.

V COMMUNITY

COMMUNITY IMPACT AND CONTRIBUTION

> We are all members of our local communities and as a successful business, Tallink Grupp realises that it has a moral duty to work with and support the communities it operates in.

The Group proactively seeks projects and opportunities to support, the aims of which align with the company's own business objectives, values and goals. Aligning our community activities with our business goals and values, enables us to bring both our employees and customers along with us on the journey of community engagement and is thus more beneficial for everyone.

The Group's Supervisory Board makes a decision regarding the key sponsorship focus areas for support for the Group once a year. In 2017 the sponsorship and support focus areas were: sport (tennis, ice hockey and golf), culture and maritime education.

This, however, does not mean that the Group's community activities are limited to only the above areas. The Group additionally supports a number of charities and community activities both on a long-term as well as on an ad hoc basis. Some of the support decisions are made by the Group's Management Board, other, smaller activities, on a local level in each of the countries in which we operate.

The company also encourages its employees to participate in charity projects and activities. For example, Tallink Duty Free team organised a Christmas collection for a homeless cats and dogs shelter in December 2017, and the Latvian office held a week-long Good Deed Week, when different charity events were organised and a number of different charities in Latvia were supported during one week in September.

Good Deed Week held in Latvia, 4-10 September 2017

There's a hero hidden inside each of us, ready to do large or small good deeds at any moment, both being equally important. You don't always have to climb mountains or put out forest fires to be a hero. Our Latvian office dedicated one week, 04.-10.09, to simply doing good deeds.

Each day was dedicated to a particular good deed.

- Monday - 100 DEEDS FOR LATVIA DAY
- Tuesday - DONOR DAY
- Wednesday - INSPIRING STORY DAY
- Thursday - CHARITY DEED DAY
- Friday - GOOD WORDS AND NEWS DAY
- Saturday - ENVIRONMENTALLY FRIENDLY DAY
- Sunday - CHARITY WALK DAY

In 2017 our community support activities could broadly be divided into the following key areas:

Support for maritime safety and education organisations

Support for sports

Support for children and youth charities and organisations

High level Group charitable giving in 2017 (excluding sponsorships):

ORGANISATION/PROJECT	2017
Estonian Voluntary Rescue Association, Estonia	EUR 30 000
Association of Friends of the University Children's Hospitals, Finland	EUR 50 000
WWF Finland	EUR 50 000
HOPE Association, Finland	EUR 50 000
Sustainable Seas, Sweden	EUR 39 000
Tallinn Children's Hospital Support Fund, Estonia	EUR 10 000
TOTAL	**EUR 229 000**

MARITIME SAFETY AND EDUCATION

AS Tallink Grupp and the Estonian Volunteer Rescue Association, which unites all the volunteers engaged in land and maritime rescue activities, signed a cooperation contract whereas the company is supporting the non-profit organization with EUR 90 000 during 2015–2017. In 2017, as part of the support programme, joint training exercises were carried out and Tallink continued to donate equipment to the volunteer association.

> “ The Supervisory Board of the Group made a decision in late 2017 to extend the support to this important association for another 3-year period from 2018 to 2020.

A further EUR 99 000 will be given to the charity from the Group over the three years to help them achieve their strategic aims and meet the growing need for their services.

AS Tallink Grupp also has a cooperation agreement in place with the Estonian Maritime Academy to enhance the maritime education and promote maritime roles in the industry. The inhouse experts of AS Tallink Grupp regularly participate in the training programmes of the Academy, sharing their experience and giving guidelines to future employees of the sector.

> “ Tallink Grupp regularly provides work shadowing and practical work experience opportunities to both Academy students as well as secondary school students to promote maritime professions among the youth.

SPORTS

Supporting tennis

Tallink Grupp has been the main supporter of tennis in Estonia for nearly 15 years.

> “ The Group sponsors individual top national players – both in Estonia and in Finland - and additionally also the Estonian youth tennis team.

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

Tallinn Marathon and May Run

> “ Tallink Grupp is also a long-term supporter and one of the main sponsors of two of the main national running events in Estonia – Tallinn Marathon taking place annually in September and the women’s May Run, taking place annually in May.

Both running events are popular sporting events, attracting both professional athletes and amateur runners from Estonia and wider afield. In 2017 Tallink Grupp signed the contract to become the headline sponsor of the May Run, so in 2018 the race was held for the first time as Tallink May Run.

CHILDREN AND YOUTH

> Tallink Grupp has a long history of supporting charities and individual projects that focus on educating children and young people or helping those in need, especially concerning health matters.

Families and children are an important customer segment for the Group, so working with organisations that support children and families is very important to the Group.

For a number of years already, Tallink Grupp has supported the joint integration programme of a number of Estonian governmental organisations entitled „Minu Riik“ (My State), aiming to provide Russian children with an insight into the Estonian state, institutions and business. Today in its 16th year, the programme has hosted study visits for over 100 000 Russian secondary school students to the Estonian Parliament, Government, several other organisations and businesses, and Tallink ferries. Tallink has participated in the programme to give the children an overview of one of Estonia's largest companies and also to to introduce maritime professions to children. In 2017, approximately 2 study visits per week were organised onboard Tallink Grupp vessels for the children.

In 2017, a number of children's and youth charities and projects were supported by the Group with a focus on giving children and young people opportunities to develop their skills and get involved in innovation; providing children with important life skills, such as swimming; and helping children and families in need.

Tallink Silja OY donated 50 000 euros to Tampere University Children's Hospital

In 2017, Tallink Silja OY donated EUR 50,000 through the Association of Friends of the University Children's Hospitals for the equipment purchases of the Tampere University Hospital's paediatric and adolescent surgery unit. The donated amount will be used to acquire a urodynamic machine with measuring devices and computers, an ultrasound and uroflow machine and a urological examination table.

Tallink Silja OY has collaborated with the Association of Friends of the University Children's Hospitals for six years. In 2016, the donation was given to Turku University Hospital's department of paediatrics and adolescent medicine for the acquisition of an operating table for scoliosis. In previous years, Tallink Silja OY has collected funds for the acquisition of an O-arm device for HUS Children's Hospital. During the past six years, Tallink Silja has donated nearly EUR 350,000 to the Association of Friends of the University Children's Hospital for the equipment purchases of paediatric and adolescent surgery units.

In addition to the donation, Tallink Silja arranges annual clinic visits and cruises for families of patients and takes part in the Elämä Lapselle charity concert.

Swim day in Aqua Spa for children staying in children's homes and foster care

Tallink Spa & Conference Hotel annually celebrates its birthday with a water day for children living in foster care and children's homes.

Tallink Spa & Conference Hotel, in cooperation with the SEB Heategevusfond (SEB Charity Foundation in Estonia), annually organises a water day for children staying in children's homes and foster homes. Around 200 children from all over Estonia participated in the charity day at the hotel's Aqua Spa in May 2017.

The aim of the event is to offer an unforgettable day in our aquatic centre for children left without parental care. In addition, the children are introduced to the basics of water safety with the help of practical examples and games, and through diving are acquainted with underwater physics and the human anatomy.

Tallink Silja OY offers cruises and other assistance to Hope customer families

In 2017, Tallink Silja OY supported the activities of the Hope association through various campaigns and projects and by donating EUR 50,000 to the association as a Finland 100 business gift. Through Hope, low-income families and families facing a sudden crisis are able to get assistance – and happiness.

Tallink donates EUR 10 000 EUR to Tallinn Children's Hospital for the purchase of smart tables

In December 2017 the Management Board of Tallink Grupp decided to donate EUR 10 000 to the children's oncology unit of Tallinn Children's Hospital with the aim of purchasing two digital games tables for children going through cancer treatment and having to spend long periods in isolation units on the ward.

The hospital acquired the tables in December 2017 and the company has received positive feedback from the hospital and parents for the tables already.

COOPERATION WITH ORGANISATIONS

Long-term membership in Ship Owners` Associations

AS Tallink Grupp and/or its local subsidiaries are active members of the Estonian, Finnish, Swedish and European Ship Owners' Associations in order to promote the maritime industry as a large 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 specific committees of the organization (environmental, maritime employment, etc.), to provide regional insight for the governing bodies of the European Union.

Membership in local Trade Associations

In the Group's main home markets – Estonia, Finland, Sweden and Latvia – the Group belongs to different Trade Associations to build and develop our business network and identify opportunities between those countries, businesses and NGOs. The Group also values sharing the experiences we have gained throughout decades of being the market leader in our sector to support smaller or new enterprises.

Memberships related to employment

As one of the largest employers of the 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 experiences to further improve the working environment, following at the same time the interests of all stakeholders and maintaining the economic balance.

SECTION III: GOVERNANCE REPORT

SHARES AND SHAREHOLDERS

SHARES AND SHAREHOLDERS

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

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

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

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

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

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

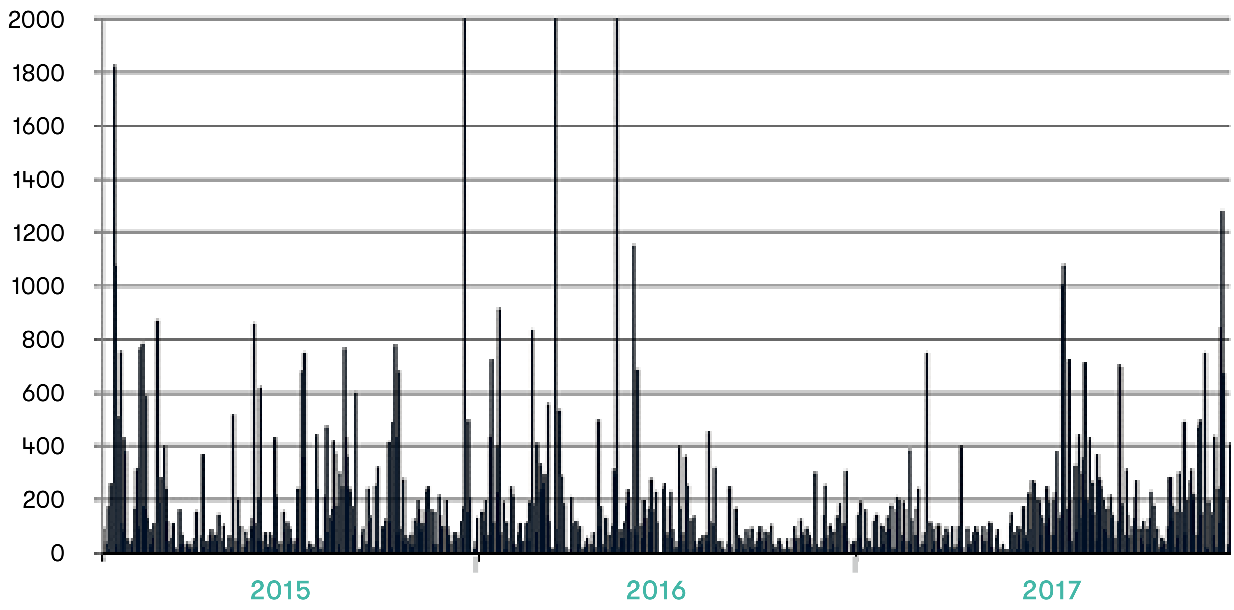
No share buybacks have been performed since the adoption of this resolution. The Supervisory Board is authorized to increase the share capital by EUR 25 000 000 to up to EUR 386 736 302 within three years as from 1 January 2017. The Management Board of Tallink Grupp AS has not been granted the right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

TRADING

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

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

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



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

OWNERSHIP SIZE	SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
1 - 99	717	6.8%	27 122	0.0%
100 - 999	3 200	30.2%	1 454 056	0.2%
1 000 - 9 999	5 839	55.1%	12 861 693	1.9%
10 000 - 99 999	703	6.6%	17 686 366	2.7%
100 000 - 999 999	88	0.8%	24 497 658	3.7%
1 000 000 - 9 999 999	43	0.4%	116 143 900	17.3%
10 000 000 +	9	0.1%	497 211 245	74.2%
TOTAL	**10 599**	**100.0%**	**669 882 040**	**100.0%**

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

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

INVESTOR TYPE	SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
Principal shareholder, Infortar AS	1	254 776 164	38.0%
Institutional investors	873	371 514 872	55.5%
Private individuals	9 725	43 591 004	6.5%

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

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

SHAREHOLDERS' AGREEMENT

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

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

TAKEOVER BIDS

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

DIVIDENDS

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

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

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

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

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.

Mr Enn Pant (born 1965)

Chairman of the Supervisory Board since 2015

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

Mr Toivo Ninnas (born 1940)

Member of the Supervisory Board since 1997

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

Ms Eve Pant (born 1968)

Member of the Supervisory Board since 1997

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

Mr Ain Hanschmidt (born 1961)

Member of the Supervisory Board since 2005, also from 1997 to 2000

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

Mr Lauri Kustaa Äimä

(born 1971)

Member of the Supervisory Board since 2002

- Managing Director of KJK Capital Oy
- Chairman of the Management Board, KJK Management SA, KJK Fund SICAV-SIF and Amber Trust II SCA
- Chairman of the Board of directors, KJK Fund II SICAV-SIF
- Vice-chairman of the Management Board, Amber Trust SCA
- Supervisory Board and Board member of several companies including AS Premia Foods, 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

Mr Colin Douglas Clark

(born 1974)

- Member of the Supervisory Board since 2013

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

Mr Kalev Järvelill

(born 1965)

Member of the Supervisory Board since 2007

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

MANAGEMENT BOARD

Paavo Nõgene (born 1980)

Chairman of the Management Board since May, 2018

- Secretary-General, Ministry of Culture of the Republic of Estonia, from 2013 to 2018
- General Manager of Vanemuine Theatre, Estonia from 2007 to 2012.
- Chairman of the Supervisory Boards of the Art Museum of Estonia, the Estonian Film Institute, Estonian Drama Theatre and Vanemuine Theatre.
- Member of the Supervisory Boards of Estonian Public Broadcasting, Estonian National Opera, the Gambling Tax Council.
- Graduated from the University of Tartu, Estonia, in 2012 with a degree in Journalism and Communications.

Janek Stalmeister (born 1974)

Member of the Management Board since 2009

- Has been with the Group since 1999 in the positions of CEO, Financial Director, Treasurer and Financial Advisor
- 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

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

Lembit Kitter (born 1953)

Member of the Management Board, since 2006

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

CORPORATE GOVERNANCE REPORT

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

ORGANIZATION AND ADMINISTRATION

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

SHAREHOLDERS' GENERAL MEETING

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

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

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

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

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

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

THE SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

THE MANAGEMENT BOARD

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

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

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

In 2017 the Group's Management Board had three members and at present, from 1 May 2018, the Management Board has four members. Mr. Paavo Nõgene was appointed Chairman of the Management Board from 1 May 2018. Mr. Janek Stalmeister 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 is responsible for fulfilling the chairman's duties in his absence, finance, technical management and internal control. Mr. Lembit Kitter is responsible for the Group's sales & marketing, daily operations, customer service, business development and human resources. The Supervisory Board has concluded service agreements with the members of the Management Board. In 2017 the remuneration of the members of the Group's Management Board was EUR 1.1 million in total.

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

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

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

NAME	SHARES
Janek Stalmeister	45 000
Andres Hunt	860 000
Lembit Kitter	0

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

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

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

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

DISCLOSURE OF INFORMATION

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

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

FINANCIAL REPORTING AND AUDITING

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

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

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

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

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

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

AUDIT COMMITTEE

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

At present, the Audit Committee has four members:

Mr. Meelis Asi as Chairman of the Audit Committee, Mr. Ain Hanschmidt, Ms. Mare Puusaag and Mr. Luke Staniczek.

SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	NUMBER OF SHARES	% OF SHARE CAPITAL
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	107 843 230	16.10%
Baltic Cruises Investment L.P.	36 931 732	5.51%

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

RISKS AND OPPOPRTUNITIES

RISKS

Our business, financial position and operating results could be materially affected by various risks. The risks we are aware of today are certainly 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
- Global security threats, terrorism

From the identified risks, the one in correlation with 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 on the industry to prepare for the change not only technically, but also financially.

Regulators are implementing the new legal acts in order to reflect the responsibilities taken by the Paris Agreement for controlling and reducing CO2 emissions globally. As a result of this regulative work the EU has already enforced the regulation for monitoring, reporting and verification of the CO2 emissions from ships. The first monitoring period started on 1 January 2018. The IMO has issued their own Data Collection System for CO2 emissions from ships. The relevant Resolution entered into force on 1 March 2018 and the first data collection starts on 1 January 2019.

A resolution for establishing the Nitrogen Emissions Control Area on the Baltic and North Seas was approved by the IMO MEPC. The NECA enters into force on 1 January 2021 for new-build ships only.

OPPORTUNITIES

In addition to the risks our business faces, there are also several opportunities and developments we need to keep a close eye on and consider when reviewing our strategies and developing our business.

Some of the developments and trends in our home markets creating some opportunities for us over the coming years are the following:

- Strong economies in our market area
- Growth of passengers from outside our home markets
- The changing competitive landscape of the Tallinn – Helsinki route
- Tallinn Old City Harbour renovation plans
- Investments into digital solutions
- Investments into energy/fuel efficiency across the fleet will continue to reduce fuel consumption and air emissions (CO2, SOx, NOx)

SECTION IV: FINANCIAL STATEMENTS

KEY FIGURES OF THE FINANCIAL YEAR 2017

FOR THE YEAR ENDED 31 DECEMBER	2017	2016	CHANGE %
Revenue (million euros)	967.0	937.8	3.1%
Gross profit (million euros)	194.6	192.6	1.0%
Net profit for the period (million euros)	46.5	44.1	5.4%
EBITDA (million euros)	158.3	149.5	5.9%
Depreciation and amortisation (million euros)	86.4	77.9	10.9%
Investments (million euros)	219.3	68.9	218.2%
Weighted average number of ordinary shares outstanding[1]	669 882 040	669 882 040	0.0%
Earnings per share	0.069	0.066	4.5%
Number of passengers	9 755 720	9 457 522	3.2%
Number of cargo units	364 296	328 190	11.0%
Average number of employees	7 406	7 163	3.4%
AS AT 31 DECEMBER	**2017**	**2016**	**CHANGE %**
Total assets (million euros)	1 558.6	1 539.0	1.3%
Total liabilities (million euros)	722.3	729.1	-0.9%
Interest-bearing liabilities (million euros)	560.9	558.9	0.4%
Net debt (million euros)	472.0	480.1	-1.7%
Total equity (million euros)	836.3	809.9	3.3%
Equity ratio (%)	53.7%	52.6%	
Number of ordinary shares outstanding1	669 882 040	669 882 040	0.0%
Shareholders' equity per share	1.25	1.21	3.3%
RATIOS	**2017**	**2016**	**CHANGE %**
Gross margin (%)	20.1%	20.5%	
EBITDA margin (%)	16.4%	15.9%	
Net profit margin (%)	4.8%	4.7%	
Return on assets (ROA)	4.3%	4.6%	
Return on equity (ROE)	5.6%	5.4%	
Return on capital employed (ROCE)	5.3%	5.6%	
Net debt to EBITDA	3.0	3.2	-6.9%

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

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

Equity ratio: total equity / total assets

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

Gross margin: gross profit / net sales

EBITDA margin: EBITDA / net sales

Net profit margin: net profit / net sales

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

ROE: net profit/average shareholders' equity

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

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

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

[1] Share numbers exclude own shares.

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

1 For further information see also Note 25 Correction of Errors

CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December, in thousands of EUR	Share capital	Share premium	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 2015 restated [4]	404 290	639	458	47 693	20 185	-4 163	910	350 720	820 732	820 732
Net profit for 2016	0	0	0	0	0	0	0	44 104	44 104	44 104
Other comprehensive expense for 2016	0	0	-469	0	0	0	0	0	-469	-469
Total comprehensive income for 2016	0	0	-469	0	0	0	0	44 104	43 635	43 635
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2015	0	0	0	0	2 954	0	0	-2 954	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	0	-13 398	-13 398	-13 398
Share-based payment transactions (Note 20)	0	0	0	0	0	0	-910	0	-910	-910
Cancellation of own shares	-2 361	0	0	0	0	4 163	0	-1 802	0	0
Reduction of share capital	-40 193	0	0	0	0	0	0	0	-40 193	-40 193
Transactions with owners of the Company,recognised directly in equity	-42 554	0	0	-2 047	2 954	4 163	-910	-16 107	-54 501	-54 501
As at 31 December 2016 restated [4]	361 736	639	-11	45 646	23 139	0	0	378 717	809 866	809 866
Net profit for 2017	0	0	0	0	0	0	0	46 496	46 496	46 496
Other comprehensive income for 2017	0	0	13	0	0	0	0	0	13	13
Total comprehensive income for 2017	0	0	13	0	0	0	0	46 496	46 509	46 509
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2016	0	0	0	0	2 206	0	0	-2 206	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	0	-20 096	-20 096	-20 096
Transactions with owners of the Company, recognised directly in equity	0	0	0	-2 047	2 206	0	0	-20 255	-20 096	-20 096
As at 31 December 2017	361 736	639	2	43 599	25 345	0	0	404 958	836 279	836 279

[1] For further information see also Note 19 Share Capital and Reserves
[2] For further information see also Note 14 Property, Plant and Equipment and Note 19 Share Capital and Reserves
[3] For further information see also Note 20 Share Option Programme
[4] For further information see also Note 25 Correction of Errors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
CORPORATE INFORMATION

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

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

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

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

NOTE 2
BASIS OF PREPARATION

2.1. Statement of compliance

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

2.2. Basis of measurement

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

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

2.3. Changes in accounting policies

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

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

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

Amendments to IAS 7

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

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

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

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

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

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

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

IFRS 9 Financial Instruments (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions.

This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

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

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

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

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to IAS 40 Transfers of Investment Property

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

2.4. Functional and presentation currency

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

2.5. Use of estimates and judgements

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

Judgements

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

Operating leases – the Group as lessee

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

Supplier contracts - whether an arrangement contains embedded derivatives

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

Assumptions and estimation uncertainty

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

Fair value of ships

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

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

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

Impairment of goodwill

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

Deferred tax

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

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

Fair value of derivatives

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

Customer loyalty programme

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

NOTE 3
SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

Business combinations

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

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

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

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

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

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

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

Subsidiaries

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

Investments in equity-accounted investees

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

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

Transactions eliminated on consolidation

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

3.2. Foreign currency

Foreign currency transactions

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

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign operations

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

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

3.3. Financial instruments

Non-derivative financial instruments

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

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

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

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

Derivative financial instruments

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

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

Share capital

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

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

3.4. Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

Subsequent costs

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

Depreciation

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

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

• buildings	5 to 50 years
• plant and equipment	3 to 10 years
• ships	17 to 35 years
• other equipment	2 to 5 years

Land is not depreciated.

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

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

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

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

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

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

3.5. Intangible assets

Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Research and development costs

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

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

Trademark

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

Other intangible assets

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

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

Subsequent expenditure

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

Amortisation

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

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

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

3.6. Investment property

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

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

3.7. Inventories

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

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

3.8. Borrowing costs

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

3.9. Impairment

Financial assets

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

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

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

Non-financial assets

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

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

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

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

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

3.10. Employee benefits

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

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

3.11. Share-based payments

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

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

3.12. Provisions

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

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

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

3.13. Leases

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

The Group as a lessee

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

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

The Group as a lessor

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

3.14. Revenue

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

Sale of goods – sales in restaurants and shops

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

Ticket sale and sale of cargo transport

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

Sales of hotel accommodation

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

Revenue from travel packages

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

Charter income

Charter income arising from operating charters of ships is accounted for on a straight-line basis over the charter terms.

In these financial statements the term 'charter' refers to 'lease' as defined in IFRS (EU).

Customer Loyalty Programme

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

For further information, see Note 18.

3.15. Government grants

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

3.16. Finance income and finance costs

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

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

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

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

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

3.17. Income tax

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Group companies in Estonia

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

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

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

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

Group companies in Cyprus

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

Other foreign Group companies and permanent establishments

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

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

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

3.18. Earnings per share

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

3.19. Segment reporting

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

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

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

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

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

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

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

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

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

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

3.20. Determination of fair values

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

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

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

Ships (Level 3)

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

Intangible assets (Level 3)

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

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

Investment property (Level 3)

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

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

Share-based payments (Level 2)

The fair value of the employee share options has been 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 27 Primary Financial Statements of the Parent. These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries which are stated at cost in the separate primary financial statements of the Parent.

NOTE 4
SEGMENT INFORMATION

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

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

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

Geographical segments – by the location of assets

For the year ended 31 December, in thousands of EUR
2017
Sales to external customers
Intersegment sales
Revenue
Segment result
Unallocated expenses
Net financial items
Share of profit of equity-accounted investees
Profit before income tax
Income tax
Net profit for the period
Segment's assets
Unallocated assets
Assets
Segment's liabilities
Unallocated liabilities
Liabilities
Capital expenditures
Segment's property, plant and equipment
Unallocated property, plant and equipment
Segment's intangible assets
Unallocated intangible assets
Depreciation
Unallocated depreciation
Amortisation
Unallocated amortisation
2016
Sales to external customers
Inter-segment sales
Revenue
Segment result
Unallocated expenses
Net financial items
Share of profit of equity-accounted investees
Profit before income tax
Income tax
Net profit for the period
Segment assets
Unallocated assets
Assets
Segment liabilities
Unallocated liabilities
Liabilities
Capital expenditures
Segment's property, plant and equipment
Unallocated property, plant and equipment
Segment's intangible assets
Unallocated intangible assets
Depreciation
Unallocated depreciation
Amortisation
Unallocated amortisation

Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
354 497	117 246	66 453	344 833	83 948	0	966 977
0	0	0	0	10 237	-10 237	0
354 497	117 246	66 453	344 833	94 185	-10 237	966 977
77 877	10 578	-1 200	18 475	17 536	0	123 266
						-51 308
						-21 249
						40
						50 749
						-4 253
						46 496
450 273	279 270	128 303	518 053	78 965	-430	1 454 434
						104 163
						1 558 597
48 103	18 009	8 134	64 339	7 870	-430	146 025
						576 293
						722 318
190 558	6 445	5 568	9 520	1 241	0	213 332
						1 002
0	0	3	5	155	0	163
						4 757
17 392	11 410	7 399	29 431	12 608	0	78 240
						1 984
1 155	250	99	725	167	0	2 396
						3 751
353 290	110 062	44 576	337 352	92 525	0	937 805
0	0	0	0	9 944	-9 944	0
353 290	110 062	44 576	337 352	102 469	-9 944	937 805
75 444	11 563	6 909	15 317	11 081	0	120 314
						-48 707
						-26 775
						13
						44 845
						-741
						44 104
229 652	282 230	128 642	537 549	221 639	-2 103	1 397 609
						141 400
						1 539 009
33 706	12 036	6 345	67 143	9 430	-2 103	126 557
						598 896
						725 453
21 680	1 365	292	14 080	852	0	38 269
						27 514
91	0	4	25	334	0	454
						2 621
12 946	9 424	2 502	29 946	14 810	0	69 628
						2 634
1 059	222	108	614	72	0	2 075
						3 521

Revenue by service

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Ticket sales	242 748	236 028
Sales of cargo transport	117 718	103 900
Sales of accommodation	20 810	19 592
Restaurant and shop sales on-board and on mainland	536 742	521 456
Income from charter of vessels	18 802	25 507
Other	30 157	31 322
TOTAL REVENUE OF THE GROUP	**966 977**	**937 805**

NOTE 5
OPERATING EXPENSES AND FINANCIAL ITEMS

Cost of sales

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016	Note
Cost of goods sold	-227 803	-225 047	
Port & stevedoring costs	-104 756	-101 010	
Fuel costs	-85 870	-74 250	
Staff costs	-160 041	-152 446	
Ships' operating expenses	-79 723	-89 877	
Depreciation and amortisation	-78 169	-69 510	14, 15
Cost of package sales	-11 165	-9 420	
Other costs	-24 845	-23 663	
TOTAL COST OF SALES	**-772 372**	**-745 223**	

Sales and marketing expenses

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016	Note
Advertising expenses	-34 372	-34 821	
Staff costs	-32 071	-33 114	
Depreciation and amortisation	-2 467	-2 193	14, 15
Other costs	-2 429	-2 140	
TOTAL SALES AND MARKETING EXPENSES	**-71 339**	**-72 268**	

Administrative expenses

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016	Note
Staff costs	-23 050	-24 469	
Depreciation and amortisation	-5 735	-6 155	14, 15
Other costs	-24 887	-20 349	
TOTAL ADMINISTRATIVE EXPENSES	**-53 672**	**-50 973**	

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

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Wages and salaries	-187 990	-183 844
Government grants	38 583	39 886
Social security costs	-60 521	-61 006
Staff training costs	-1 906	-2 246
Other staff costs	-3 328	-2 819
TOTAL STAFF COSTS	**-215 162**	**-210 029**

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

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

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

FOR THE YEAR ENDED 31 DECEMBER	2017	2016
Employees under employment contract	7 048	6 855
Employees under service contract	355	305
Members of the Management Board	3	3
TOTAL AVERAGE NUMBER OF EMPLOYEES	**7 406**	**7 163**

Finance income and finance costs recognised in profit or loss

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Net foreign exchange gains	8 126	0
Income from interest rate swaps	4 611	3 336
Income from foreign exchange derivatives	0	7 168
Interest income on financial assets not measured at fair value through profit or loss	1	10
TOTAL FINANCE INCOME	**12 738**	**10 514**
Net foreign exchange losses	0	-5 010
Expenses from interest rate swaps	-3 592	-4 289
Expenses from foreign exchange derivatives	-6 650	0
Interest on financial liabilities measured at amortised cost	-23 745	-27 990
TOTAL FINANCE COSTS	**-33 987**	**-37 289**
NET FINANCE COST	**-21 249**	**-26 775**

NOTE 6
INCOME TAX

Income tax contains current income tax and deferred income tax.

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

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

Finance income and finance costs recognised in profit or loss

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Latvian subsidiaries	0	-17
Finnish subsidiaries	-78	-53
German subsidiary	-6	-7
Estonian subsidiaries and Parent company	-4 100	-330
Permanent establishments[1]	0	285
CURRENT PERIOD TAX EXPENSE	**-4 184**	**-122**
Swedish subsidiaries	283	-477
Finnish subsidiaries	-287	-160
German subsidiaries	-8	11
Latvian subsidiaries	-57	7
DEFERRED TAX EXPENSE	-69	-619
TOTAL TAX EXPENSE	**-4 253**	**-741**

[1] During 2015 Tallink Grupp AS chartered out two ships providing accommodation services in Canada and Australia that gave 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	2017	%	2016	%
PROFIT BEFORE TAX	**50 749**		**44 845**	
Tax using the Company's domestic rate	0	0.00	0	0.00
Tax arising on dividends declared in Estonia[1]	-4 100	-8.08	-330	-0.74
Current income tax expense in foreign jurisdiction	-84	-0.17	208	0.46
Change in recognised tax losses	-587	-1.16	-1 220	-2.72
Change in temporary differences	518	1.02	601	1.34
INCOME TAX EXPENSE	**-4 253**	**-8.39**	**-741**	**-1.65**

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

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	Assets 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Tax loss carry-forward[1]	23 670	0	24 257	0
Property, plant and equipment	3	0	68	0
Intangible assets	0	-4 951	0	-5 534
TAX ASSETS / LIABILITIES	**23 673**	**-4 951**	**24 325**	**-5 534**
Offset of assets and liabilities	-4 951	4 951	-5 534	5 534
TAX ASSETS	**18 722**	**0**	**18 791**	**0**

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

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

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

Movements in deferred tax balances

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	Balance As at 31 December 2017	Recognised in profit/loss in 2017	Balance As at 31 December 2016
Tax loss carry-forward	23 670	-587	24 257
Property, plant and equipment	3	-65	68
Intangible assets	-4 951	583	-5 534
NET DEFERRED TAX (ASSET)/LIABILITY	**18 722**	**-69**	**18 791**

NOTE 7
EARNINGS PER SHARE (EPS)

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

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Shares issued	669 882	669 882
SHARES OUTSTANDING	**669 882**	**669 882**

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Weighted average number of ordinary shares outstanding (in thousands)	669 882	669 882
Net profit attributable to equity holders of the Parent	46 496	44 104
EPS (EUR per share)	0.069	0.066

NOTE 8
CASH AND CASH EQUIVALENTS

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Cash at bank and in hand	88 048	77 012
Short-term deposits	863	1 761
TOTAL CASH AND CASH EQUIVALENTS	**88 911**	**78 773**

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

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

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

NOTE 9
TRADE AND OTHER RECEIVABLES

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Trade receivables	28 510	25 060
Allowance for doubtful trade receivables	-698	-685
Government grants receivable	14 495	11 410
Other receivables	4 159	2 889
TOTAL TRADE AND OTHER RECEIVABLES	**46 466**	**38 674**

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

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

NOTE 10
PREPAYMENTS

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Prepaid expenses	4 328	5 663
Tax prepayments	1 067	2 263
TOTAL PREPAYMENTS	**5 395**	**7 926**

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Tax prepayments		
VAT	872	1 405
Other prepayments	195	858
TOTAL TAX PREPAYMENTS	**1 067**	**2 263**

The balance of prepaid expenses includes mostly prepayments for insurance.

NOTE 11
INVENTORIES

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Raw materials (mostly fuel)	3 502	2 790
Goods for sale	37 173	35 926
Prepayments to suppliers	0	3
TOTAL INVENTORIES	**40 675**	**38 719**

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

Fuel price risk

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

NOTE 12
PREPAYMENTS

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

IN THOUSANDS OF EUR	2017	2016
Investments at the beginning of financial year	363	350
Share of profit of equity-accounted investee	40	13
INVESTMENTS AT THE END OF FINANCIAL YEAR	**403**	**363**

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

IN THOUSANDS OF EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit	Equity
As at 31 December **2017**	1119	667	1796	369	243	612	4159	4049	110	1184
As at 31 December **2016**	1086	707	1793	388	336	724	3998	3958	40	1069

NOTE 13
OTHER FINANCIAL ASSETS

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Available-for-sale financial assets	168	168
Other receivables (Note 24)	176	180
TOTAL OTHER FINANCIAL ASSETS	**344**	**348**

NOTE 14
PROPERTY, PLANT AND EQUIPMENT

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

Revaluation of ships

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

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

Valuation technique

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.

Significant unobservable inputs

- Sales prices of similar ships
- Level of the demand for particular ships
- Construction prices of ships
- Maintenance and repair programme of ships

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

AS AT 31 DECEMBER 2017	In thousands of EUR
Cost	1 758 135
Accumulated depreciation	-533 130
Net carrying amount	**1 225 005**
AS AT 31 DECEMBER 2016	
Cost	1 728 405
Accumulated depreciation	-543 614
Net carrying amount	**1 184 791**

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

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

Contractual commitments

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

NOTE 15
INTANGIBLE ASSETS

IN THOUSANDS OF EUR	Goodwill[1]	Trademark[2]	Other[3]	Assets under construction	Total
Book value as at 31 December 2015	**11 066**	**30 586**	**9 084**	**1 990**	**52 726**
Additions	0	0	78	2 997	3 075
Reclassification	0	0	2 954	-2 954	0
Disposals	0	0	-78	0	-78
Amortisation for the year	0	-2 916	-2 680	0	-5 596
Book value as at 31 December 2016	**11 066**	**27 670**	**9 358**	**2 033**	**50 127**
Additions	0	0	200	4 720	4 920
Reclassification	0	0	2 839	-2 839	0
Disposals	0	0	0	0	0
Amortisation for the year	0	-2 916	-3 231	0	-6 147
Book value as at 31 December 2017	**11 066**	**24 754**	**9 166**	**3 914**	**48 900**
As at 31 December 2016					
Cost	11 066	58 288	30 507	2 033	101 894
Accumulated amortisation	0	-30 618	-21 149	0	-51 767
As at 31 December 2017					
Cost	11 066	58 288	26 329	3 914	99 597
Accumulated amortisation	0	-33 534	-17 163	0	-50 697

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

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

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

NOTE 16
INTEREST-BEARING LOANS AND BORROWINGS

AS AT 31 DECEMBER 2017, IN THOUSANDS OF EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	84	203	287
Unsecured bonds1	2018	91 288	0	91 288
Long-term bank loans	2016-2029	68 566	400 765	469 331
TOTAL BORROWINGS		**159 938**	**400 968**	**560 906**

AS AT 31 DECEMBER 2016, IN THOUSANDS OF EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	92	281	373
Unsecured bonds[1]	2018	0	98 627	98 627
Overdraft	2017	40 110	0	40 110
Long-term bank loans	2016-2029	65 910	353 885	419 795
TOTAL BORROWINGS		**106 112**	**452 793**	**558 905**

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

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

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

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

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

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

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

NOTE 17
TRADE AND OTHER PAYABLES

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016 restated[1]
Trade payables	43 097	53 514
Other payables	2 078	2 822
Payables to employees	24 421	24 487
Interest payable	3 323	2 071
Tax liabilities	18 046	18 725
Other accruals	4 583	5 351
TOTAL TRADE AND OTHER PAYABLES	**95 548**	**106 970**

[1] For further information see also Note 25 Correction of Errors

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

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Salary-related taxes	12 933	14 063
Excise duties	1 618	1 902
VAT	3 485	2 759
Other taxes	10	1
TOTAL TAX LIABILITIES	**18 046**	**18 725**

NOTE 18
DEFERRED INCOME

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

NOTE 19
SHARE CAPITAL AND RESERVES

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
The number of shares issued and fully paid	669 882	669 882
Total number of shares	669 882	669 882

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Share capital (authorised and registered)	361 736	361 736
TOTAL SHARE CAPITAL	**361 736**	**361 736**
Share premium	639	639
TOTAL SHARE PREMIUM	**639**	**639**

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

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

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

Reserves

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Translation reserve	2	-11
Ships' revaluation reserve	43 599	45 646
Mandatory legal reserve	25 345	23 139
TOTAL RESERVES	**68 946**	**68 774**

Translation reserve

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

Ships' revaluation reserve

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

Mandatory legal reserve

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

Dividends

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

NOTE 20
SHARE OPTION PROGRAMME

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

Share option programme

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

DESCRIPTION	Number of options	Weighted average exercise price
Outstanding at 1 January 2016	7 276 903	0.858
Forfeited during the year 2016	-7 276 903	0.858
EXERCISABLE AT 31 DECEMBER 2016	**0**	**0.000**
Outstanding at 1 January 2017	0	0.000
Forfeited during the year 2017	0	0.000
EXERCISABLE AT 31 DECEMBER 2017	**0**	**0.000**

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

NOTE 21
CONTINGENCIES AND COMMITMENTS

Legal claims

Disputes with former seafarers of Superfast vessels

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

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

Key Management Personnel's termination benefits

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

Income tax on dividends

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

Non-cancellable operating leases

The Group as the lessee

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

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

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

Minimum non-cancellable operating lease payments are as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
< 1 year	14 592	17 025
1-5 years	34 779	43 512
> 5 years	23 864	28 617
TOTAL MINIMUM LEASE PAYMENTS	**73 235**	**89 154**

The Group as the lessor

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

Minimum non-cancellable charter payments are as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
< 1 year	6 688	18 311
1-5 years	0	18 569
TOTAL MINIMUM CHARTER PAYMENTS	**6 688**	**36 880**

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

NOTE 22
RELATED PARTY DISCLOSURES

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

The companies controlled by the Key Management Personnel

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

Associated companies

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

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

FOR THE YEAR ENDED 31 DECEMBER 2017, IN THOUSANDS OF EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
The companies controlled by the Key Management Personnel	327	24 573	20	2 178
Associated companies	3	185	2	13
TOTAL	**330**	**24 758**	**22**	**2 191**

FOR THE YEAR ENDED 31 DECEMBER 2016, IN THOUSANDS OF EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
The companies controlled by the Key Management Personnel	450	18 414	17	1 736
Associated companies	5	150	5	14
TOTAL	**455**	**18 564**	**22**	**1 750**

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

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

Key Management Personnel's compensation

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

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

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

NOTE 23
GROUP ENTITIES

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

NOTE 24
CONTINGENCIES AND COMMITMENTS

Overview

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

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

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

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

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

Credit risk

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

Maximum credit risk was as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Cash and cash equivalents (Note 8)	88 911	78 773
Trade and other receivables (Notes 9, 13)	32 147	27 444
TOTAL	**121 058**	**106 217**

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

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

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

The aging of receivables at the reporting date was:

AS AT 31 DECEMBER 2017, IN THOUSANDS OF EUR	Gross	Impairment	Net
Not past due	26 482	0	26 482
Past due 0-30 days	4 310	0	4 310
Past due 31-90 days	907	-20	887
Past due 91 days - one year	855	-278	577
Past due over one year	291	-400	-109
TOTAL	**32 845**	**-698**	**32 147**

AS AT 31 DECEMBER 2016, IN THOUSANDS OF EUR	Gross	Impairment	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**

Movements in the impairment allowance for trade receivables was:

IN THOUSANDS OF EUR	2017	2016
Balance at 1 January	685	804
Amounts written off	-431	-152
Impairment loss recognised	660	468
Reversal of prior period impairment loss	-216	-435
BALANCE AT 31 DECEMBER	**698**	**685**

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

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

Liquidity risk

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

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

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

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

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

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

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

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

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

Market risk

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

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

Foreign exchange rate risk

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

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

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

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

IN THOUSANDS OF EUR, 2017	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**

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

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017 Profit or loss	2017 Profit or loss
USD	13	-21
SEK	295	-1 431
NOK	-375	-889
Other	13	4

Interest rate risk

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

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

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Fixed rate financial liabilities	175 267	373
Variable rate financial liabilities	420 037	590 891
TOTAL	**595 304**	**591 264**

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

IN THOUSANDS OF EUR	2017	2016
10 basis point increase	-299	-370
10 basis point decrease	299	370

Fair values of financial instruments

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

Hedge activities

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

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	Hierarchy	Maturity	2017 Notional amount	Fair value	2016 Notional amount	Fair value
Interest rate swap	Level 3	2019	100 000	-4 688	100 000	-9 256
Interest rate swap	Level 3	2018	70 000	0	70 000	-43
Foreign exchange derivative[1]	Level 3	2018	60 000	-14 855	60 000	-11 530
Foreign exchange derivative[1]	Level 3	2018	60 000	-14 855	60 000	-11 530
TOTAL DERIVATIVES WITH NEGATIVE VALUE				**-34 398**		**-32 359**

[1] Foreign exchange derivatives

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

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

VALUATION TECHNIQUE	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
• Hull White Model • 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 2017 the shareholders' equity was EUR 836 279 thousand (2016: EUR 809 866 thousand). The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

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

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

NOTE 25
CORRECTION OF ERRORS

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

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

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

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

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

IN THOUSANDS OF EUR	As previously reported	Adjustments	As restated
As at 31 December2016			
LIABILITIES AND EQUITY			
Interest-bearing loans and borrowings	106 112	0	106 112
Trade and other payables	103 280	3 690	106 970
Payables to owners	4	0	4
Income tax liability	10	0	10
Deferred income	30 895	0	30 895
Current liabilities	**240 301**	**3 690**	**243 991**
Interest-bearing loans and borrowings	452 793	0	452 793
Derivatives	32 359	0	32 359
Non-current liabilities	**485 152**	**0**	**485 152**
TOTAL LIABILITIES	**725 453**	**3 690**	**729 143**
Share capital	361 736	0	361 736
Share premium	639	0	639
Reserves	68 774	0	68 774
Retained earnings	382 407	-3 690	378 717
Equity attributable to equity holders of the Parent	**813 556**	**-3 690**	**809 866**
TOTAL EQUITY	**813 556**	**-3 690**	**809 866**
TOTAL LIABILITIES AND EQUITY	**1 539 009**	**0**	**1 539 009**

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

NOTE 26
SUBSEQUENT EVENTS

Changes on the Management Board

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

Termination of the exploration of potential strategic options

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

Changes in the Group structure

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

NOTE 27
PRIMARY FINANCIAL STATEMENTS OF THE PARENT

Statement of comprehensive income

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2017	2016
Revenue	457 589	455 667
Cost of sales	-368 820	-379 728
GROSS PROFIT	**88 769**	**75 939**
Sales and marketing expenses	-41 923	-40 909
Administrative expenses	-25 482	-22 835
Other operating income	7 274	612
Other operating expenses	-133	-37
RESULT FROM OPERATING ACTIVITIES	**28 505**	**12 770**
Finance income	12 437	10 504
Finance costs	-36 753	-56 235
Share of profit of subsidiaries	357 750	0
Share of profit of equity-accounted investees	40	13
PROFIT/LOSS BEFORE INCOME TAX	**361 979**	**-32 948**
Income tax	0	-45
NET PROFIT/LOSS FOR THE YEAR	**361 979**	**-32 993**

Statement of financial position

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

Statement of cash flows

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

Statement of changes in equity

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

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

[1] For further information see also Note 25 Correction of Errors

Independent Auditors' Report[1]

To the Shareholders of Tallink Grupp AS

Report on the Audit of the Consolidated Financial Statements

Opinion

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

What we have audited

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

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

Basis for Opinion

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

Independence

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

[1] This Auditors' Report has been issued on the Group's consolidated financial statements, published in the Group's annual report, which is available at https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=835732&messageId=1050798

Audit Scope

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

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

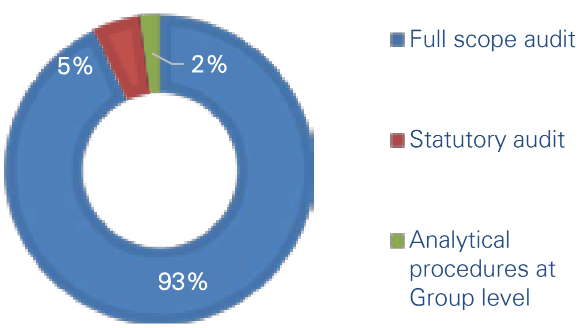
We have used the results of statutory audits of financial statements of Tallink Duty Free AS, HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

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

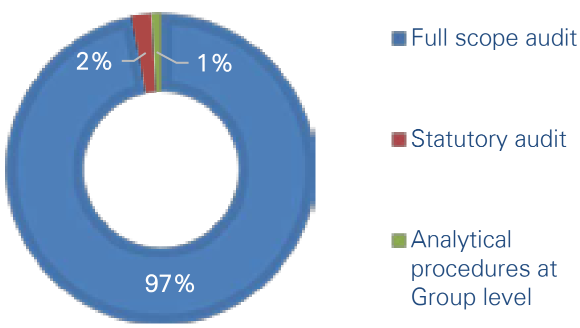
We also performed procedures over the consolidation process at Group level.

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

Consolidated revenue



Consolidated assets



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

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

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 2017 was EUR 1 269 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.

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 information included in the consolidated annual report, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Tallinn, 23 April 2018

Eero Kaup
Certified Public Accountant, Licence No 459

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GRI CONTENT INDEX

This report has been prepared in accordance with the GRI Standards: Core option.

GRI Standard	Disclosure number	Disclosure title	Location	Information
GRI 101: Fondation 2016				
GRI 102: General Disclosures 2016				
	Organizational profile			
	102-1	Name of the organization	166	
	102-2	Activities, brands, products, and services	12-17, 20-23	
	102-3	Location of headquarters	166	
	102-4	Location of operations	12-16, 30, 38, 41	
	102-5	Ownership and legal form	80-82	
	102-6	Markets served	12-16, 30, 38, 41	
	102-7	Scale of the organization	8, 38, 41, 48	
	102-8	Information on employees and other workers	48-49	Disclosures includes information that is considered relevant for outlining differences between different employee and other worker categories, also taking into consideration regular seasonal changes.
	102-9	Supply chain	18-20, 23, 68-69	
	102-10	Significant changes to the organization and its supply chain	36	
	102-11	Precautionary Principle or approach	58	
	102-12	External initiatives	45-46, 49, 54, 57, 61	
	102-13	Membership of associations	6-7	
	Strategy			
	102-14	Statement from senior decision-maker	8-9	The statement does not cover the relevance and strategy of sustainability.
	102-15	Key impacts, risks, and opportunities	93	
	Ethics and integrity			
	102-16	Values, principles, standards, and norms of behavior	24-27	
	Governance			
	102-18	Governance structure	84-92	

	Stakeholder engagement			
	102-40	List of stakeholder groups	43	
	102-41	Collective bargaining agreements	50, 54	
	102-42	Identifying and selecting stakeholders	43	
	102-43	Approach to stakeholder engagement	43, 67	
	102-44	Key topics and concerns raised	43	Customer satisfaction results on page 51
	Reporting practice			
	102-45	Entities included in the consolidated financial statements	28	GRI disclosures take into consideration all entities included in the consolidated financial statements.
	102-46	Defining report content and topic Boundaries	43	
	102-47	List of material topics	43	
	102-48	Restatements of information		There are no restatements of information given in previous reports
	102-49	Changes in reporting		There are no significant changes from previous reporting periods in the list of material topics and topic boundaries
	102-50	Reporting period		01.01.2017 – 31.12.2017
	102-51	Date of most recent report		24.04.2018
	102-52	Reporting cycle		Annual
	102-53	Contact point for questions regarding the report		Katri Link, Group Communications Director, katri.link@tallink.ee
	102-54	Claims of reporting in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards: Core option
	102-55	GRI content index	160-165	
	102-56	External assurance		GRI information has not been subjected to external assurance
Material topics	**Economic Performance**			
GRI 103: Management Approach 2016	103-1 to 103-3		36-41	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	36-41, 73, 53, 96-97	
	201-2	Financial implications and other risks and opportunities due to climate change	93	
	Procurement Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		68-69	
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	68	Reported based on proportion of number of suppliers (more extensive group-wide monitoring has not been a strategic priority).

	Anti-corruption			
GRI 103: Management Approach 2016	103-1 to 103-3		70	
GRI 205: Anti-corruption 2016	205-3	Confirmed incidents of corruption and actions taken	70	
	Energy			
GRI 103: Management Approach 2016	103-1 to 103-3		56-62	
GRI 302: Energy 2016	302-3	Energy intensity	61	Disclosure includes information about fuel consumption as the major source of energy
	Water			
GRI 103: Management Approach 2016	103-1 to 103-3		62, 64	
GRI 303: Water 2016	303-3	Water recycled and reused	64	Disclosure includes information about general principles of water discharge and volume of sewage (more extensive group-wide monitoring has not been a strategic priority).
	Biodiversity			
GRI 103: Management Approach 2016	103-1 to 103-3		57, 64-65	
GRI 304: Biodiversity 2016	304-2	Significant impacts of activities, products, and services on biodiversity	58, 64	
	Emissions			
GRI 103: Management Approach 2016	103-1 to 103-3		58, 60-62	
GRI 305: Emissions 2016	305-4	GHG emissions intensity	61	
	Effluents and Waste			
GRI 103: Management Approach 2016	103-1 to 103-3		56, 63-64	
GRI 306: Effluents and waste	306-1	Water discharge by quality and destination	64	Disclosure includes information that can be directly managed by the Company (more extensive group-wide monitoring has not been a strategic priority).
GRI 103: Management Approach 2016	306-2	Waste by type and disposal method	63	Disclosure includes major types of waste
GRI 307: Environmental Compliance 2016	306-3	Significant spills	58-59	Disclosure includes general overview of spills

	Environmental Compliance			
GRI 103: Management Approach 2016	103-1 to 103-3		56-57, 70	
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	70	
	non-GRI	Environmenal related incidents	59	
	Supplier Environmental Assessment			
GRI 103: Management Approach 2016	103-1 to 103-3		57, 68-69	The Supplier Code of Conduct does not include environmental aspects.
GRI 308: Supplier Environmental Assessment	308-2	Negative environmental impacts in the supply chain and actions taken	69	
	Employment			
GRI 103: Management Approach 2016	103-1 to 103-3		48-49	
GRI 401: Employment	401-1	New employee hires and employee turnover	54	Disclosure includes information in as much detail as is collected by Group companies in line with the concept of materiality.
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	52-53	Disclosure includes overview of benefits provided to employees (more extensive group-wide monitoring has not been a strategic priority).
	non-GRI	Employer brand attractiveness	49	
	Labor/Management Relations			
GRI 103: Management Approach 2016	103-1 to 103-3		54	
GRI 402: Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes|	54	
	Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 to 103-3		53	
GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees	53	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	53	Disclosure includes information about Company` s employees (more extensive group-wide monitoring and sub-contractor monitoring has not been a strategic priority).

	Training and Education			
GRI 103: Management Approach 2016	103-1 to 103-3		50-52, 54	
GRI 404: Training and Education	404-1	Average hours of training per year per employee	52	Disclosure includes general overview of hours of trainings (more extensive group-wide monitoring has not been a strategic priority).
	404-2	Programs for upgrading employee skills and transition assistance programs	51-52	Disclosure includes information about programs for upgrading employee skills (more extensive group-wide monitoring has not been a strategic priority).
	404-3	Percentage of employees receiving regular performance and career development reviews	50	
	non-GRI	Employees who received trainings	51	
	Diversity and Equal Opportunity			
GRI 103: Management Approach 2016	103-1 to 103-3		50, 54	
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	49, 84-87	
	Non-discrimination			
GRI 103: Management Approach 2016	103-1 to 103-3		54	
GRI 406: Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	54	
	Freedom of Association and Collective Bargaining			
GRI 103: Management Approach 2016	103-1 to 103-3		54	Disclosure includes information about Company` s employees (more extensive group-wide monitoring has not been a strategic priority).
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	54	
	Security Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		54	
GRI 410: Security Practices 2016	410-1	Security personnel trained in human rights policies or procedures	54	

	Local Communities			
GRI 103: Management Approach 2016	103-1 to 103-3		72-75	
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	45-47, 56-59, 72-73	Disclosure focuses on information about passenger and cargo transport as these operations have major impact on environmental and local communities
	non-GRI	Contribution to community projects	73	
	Supplier Assessment for Labor Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		68-69	
GRI 414: Supplier Social Assessment	414-2	Negative social impacts in the supply chain and actions taken	69	
	Public Policy			
GRI 103: Management Approach 2016	103-1 to 103-3		70	
GRI 415: Public Policy 2016	415-1	Political contributions	70	
	Customer Health and Safety			
GRI 103: Management Approach 2016	103-1 to 103-3		45-47	
GRI 416: Customer Health and Safety 2016	416-1	Assessment of the health and safety impacts of product and service categories	45-47, 93	Disclosure focuses on information about fleet and marine safety as these operations carry the major health and safety risks
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	45	
	non-GRI	Marine Safety and Security Trainings	46, 51	
	Marketing and Labeling			
GRI 103: Management Approach 2016	103-1 to 103-3		70	
GRI 417: Marketing and Labeling 2016	417-3	Incidents of non-compliance concerning marketing communications	70	
	Customer Privacy			
GRI 103: Management Approach 2016	103-1 to 103-3		71	
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	71	
	Compliance			
GRI 103: Management Approach 2016	103-1 to 103-3		70	
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	70	

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