TALLINK

YEARBOOK 2019

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STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

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

2019, Tallink Grupp's 30th anniversary year, was a year of many successes, achievements and great teamwork across the group and with our many partners. We upgraded and modernised several of our ships at the start of the year, made many technological advances, signed significant contracts paving the way for our future and strengthened our group with top senior leaders and professionals in many areas. The decisions that were made and the steps that were taken were all focused on ensuring that Tallink Grupp would continue to evolve and grow, not only in the areas of the company's core business, but also expanding beyond this. There is great expertise, knowledge and potential in the group to look beyond the usual horizons and I am confident that with the Management Board and team we have in place right now, we can reach new heights.

There is certainly much I could highlight from the year to you, but most of this you will already be aware of from the regular communications shared with you throughout 2019 and early 2020. In many ways, I hope the communications and regular updates with greater transparency and regularity, are something you have appreciated and noted. Indeed we have put ever greater emphasis on openness and information-sharing with you all over the last few years and I do sincerely hope you all feel you are more on this journey with us than ever before.

There is no doubt that one of the key agreements from last year was signed with Rauma Marine Constructions in spring 2019 to build a new LNG vessel – MyStar by 2022, thus laying the foundation for the establishment of the green shipping route between Estonia and Finland in the future. As the importance of working towards climate goals and a carbon-free world gathers momentum, we too continue to focus on technology and innovation to play our part in achieving the goals of the Paris Climate Agreement and more. One huge step forward in this respect has been the shore-to-ship green power solution developments in Stockholm and Tallinn, with some ships already connected in Stockholm since 2019 and more soon to be connected in Tallinn in 2020.

The acquisition of the Burger King franchise for the Baltic states was yet another great success in 2019, evidencing that global players see our group as an attractive partner with great future potential. The roll-out of the first restaurants in Tallinn already in the first half of 2020 has proved to be a success in extremely challenging conditions and we can only hope to move onwards and upwards from here with the Baltic roll-out.

All the above set the group on the course of further successes in 2020 and there really seemed like there was no stopping us with our plans in January-February 2020. But then the uninvited guest COVID-19 arrived in March 2020 and everything we had planned was put on hold. Although the current book is mainly looking back on the year 2019, it makes no sense not to highlight the unavoidable impact that the global pandemic of 2020 will have on the group and the outcome for 2020. It has already impacted many of our decisions and will, no doubt, impact many more. All I can say now is that I know that the whole group, every single individual in it right now, as well as many of our partners, are working relentlessly now to ensure we come out fighting and stronger again on the other side. I am sure that, as a result of the current team effort, we will.

The above, however, means and we have already announced this earlier this year, that due to the significant economic impact of COVID-19, we are not in a position to pay dividends this year. The Management Board and the Supervisory Board have proposed to the shareholder's Annual General Meeting in July 2020 that dividends will not be paid from the 2019 net profit due to the financial impacts of COVID-19 on the group and to secure the liquidity and sustainability of the group following the current health and economic crisis.

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 continued to be very good.

During the past financial year the meetings of the supervisory board of the Company were held in all together 5 times and without calling a meeting 4 written resolutions were adopted.

The most important resolutions were the following:

- Approval of the annual report of the financial year 2018;
- Approval of the budget of the financial year 2020;
- Determination of the agenda of the annual general meeting;
- Approval to conclude the loan agreement in amount of 60'000'000 euros;
- Determination of the sponsorship focus and budget of the financial year 2020;
- Election of Harri Hanschmidt as a member of the management board;
- Election of Kadri Land as a member of the management board;
- Election of Piret Mürk-Dubout as a member of the management board.

The Supervisory Board has examined and approved the Annual Report and profit distribution of the 2019 financial year.

It is clear that 2020 will bring some challenges for the group due to the global turbulence resulting from COVID-19, however, I am confident that the exceptionally dedicated, professional and hard-working Tallink Grupp team with an experienced and forward-thinking management team will steer the company through these rough waters and onto calmer seas once again and 2020 will simply be the year when we learned to deliver even faster, more flexibly and against all odds.

ENN PANT
CHAIRMAN OF THE SUPERVISORY BOARD

2019 HIGHLIGHTS

THE COMPANY CELEBRATED ITS 30th ANNIVERSARY

RECORD NUMBER OF PASSENGERS in one year

9 763 210

2.7 million CLUB ONE members

Tallink Grupp awarded the SILVER MARK for corporate responsibility by the Estonian Corporate Responsibility Forum

Acquisition of the Burger King franchise for the Baltic states

Starbucks • WE PROUDLY SERVE • rolled out across the company's fleet

Tallink Grupp's vessels started using **SHORE-TO-SHIP GREEN POWER SOLUTION** at the Port of Stockholm

Construction contract signed with **RAUMA MARINE CONSTRUCTIONS** for the construction of LNG-fuelled shuttle vessel **MyStar**

The company transported **MORE THAN A MILLION** passengers per month for the first time for several months in a row

Additional head office building, the so called **FIRE BUILDING,** was completed **IN SPRING 2019** and Tallink Grupp head office now has two twin office buildings located at Sadama 5 and Sadama 7

Tallink Grupp continued to grow onshore fashion franchise portfolio by acquiring the **FRANCHISE RIGHTS** for global brand **SuperDry**

SECTION I:
ABOUT US

TALLINK GRUPP AT A GLANCE

What we do

PASSENGER TRANSPORT
12 vessels

CARGO TRANSPORT
2 vessels

HOTELS AND STAND-ALONE ONSHORE RESTAURANTS
4 hotels
(3 Tallinn & 1 Riga)
and 2 stand-alone restaurants (Tallinn)

On board, onshore and online retail

Our businesses

Our brands

TALLINK | SILJA LINE

Our position in the world (*source: Generation Research 2018)

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

Tallink Grupp AS ("the Company") with its subsidiaries ("the Group") is the leading European ferry operator, which offers high quality mini-cruise and passenger transport services in the Baltic Sea region, and a leading provider of ro-ro cargo services on selected routes. 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 that include cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates three hotels in Tallinn and one in Riga. The Group's subsidiary Tallink Duty Free is a successful international travel retail organisation with a number of shops on board, on shore and online.

WHAT WE DO

Our products and services

Tallink Grupp is an essential component of Baltic transportation infrastructure, connecting regional capitals through a high frequency shuttle service between Tallinn and Helsinki as well as overnight cruise 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

With nine cruise vessels, five cruise routes and one of the youngest fleets in Europe, Tallink Grupp is the leading Baltic cruise operator with two iconic brands – Tallink and Silja Line.

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.

Shuttle service

The Tallink shuttle service is a critical transport link between Tallinn and Helsinki and provides regular daily departures all year round with the company's two shuttle vessels, Star and Megastar, specifically designed for this route. With 12 departures daily, the shuttle service departure slots are focused on morning and evening peak times and are thus highly convenient for commuter traffic. The service is an essential part of the Estonia-Finland transportation infrastructure, in essence providing a „floating bridge" between the two capital cities.

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 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.

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.

Cargo transportation

Tallink Grupp is the largest maritime cargo transportation provider in the Baltic region. 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.

> “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.

Tallink Hotels

“With 4 hotels and a total of over 1 000 rooms, Tallink operates the largest hotel chain in Estonia and the second largest hotel chain in the Baltics.

Two trendy business class hotels – Tallink City Hotel and Tallink Spa & Conference Hotel – are situated in the centre of Tallinn. Tallink Express Hotel near the Port of Tallinn is perfect for budget travellers looking for good value. 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 spring 2019, Tallink Hotels completed significant extension and modernisation works in two of its hotels. As a result of the building works, a fifth floor was added on top of Tallink Express Hotel with 25 new business class, de lux and family rooms. These rooms are now part of Tallink Spa & Conference Hotel, offering additional accommodation options at the popular hotel. As a result of the works, the hotel reception area and lounge bar, the Aqua Spa reception area, Hera Salons and the fifth floor hotel rooms were also refurbished. In addition, restaurant Nero was completely modernised and refreshed and the hotel's conference centre was updated and extended to accommodate up to 500 delegates.

The author of the new interior design for the Tallink Spa & Conference Hotel was the Finnish design agency dSign Vertti Kivi & Co with whom Tallink Grupp has cooperated before and who also designed the interior of Tallink's shuttle ferry Megastar and is designing the interior for the new shuttle vessel MyStar, which will be completed by January 2022.

In Tallink Express Hotel the main areas updated were the hotel reception area, the facade and a new underground car park. The interior of the Tallink Express Hotel lobby was designed by Estonian architectural bureau Emil Urbel.

In addition to renovation works in the hotels, Tallink Hotels also took over the management of the group's onshore restaurants in Estonia, including the popular Thai restaurant NOKNOK in Tallinn Old Town as well as the newly opened Italian Ristorante Flavore, which opened in June 2019 in the new additional head office building at Sadama 7.

Onboard services

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*. 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 2018

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.

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.

Tallink Duty Free

AS Tallink Duty Free is a subsidiary of AS Tallink Grupp, founded in January 1997, so the company has been operating on the market already for more than two decades. The company's field of activity is procurement and retail organization of onboard and offshore stores and e-shop operated by AS Tallink Grupp, which include purchasing, negotiations, assortment selection, pricing, marketing, campaigns, logistics, space management and other supportive services.

Types of trade:

- Onboard shops
- Onshore shops
- Terminal shops
- Webshop
- Pre-order: travel & pick-up

Tallink webshop

a wide range of products can also be found online at the company´s webshop and can be easily viewed on a smartphone

Pre-Order

car passengers going from Helsinki to Tallinn or from Stockholm to Tallinn can pre-order their goods online or onboard. The pick-up station is located in Tallinn

Business class shopping

business class travellers can enjoy exclusive last-minute gifts from a selection of leading brands

Car deck shopping

available on all routes. Onboard crew helps to get passengers´ purchases to the car deck

Bus shopping

passengers travelling on tour buses can pre-order goods. Payment takes place onboard and everything will be taken to the buses

Self-check-out service

this quick and efficient method can be used onboard Shuttle ships

Plenty of Payment options:

New brands and partners are constantly added and shops are continuously renovated. In total, the group has 47 shops on 11 of ships which cover altogether 15 000 square meters of shopping space on the sea. On board Tallink's and Silja Line ships we have among others also luxury- and mono brand shops. In total, we have 4 mono brand shops. Since 2015, we have a **Desigual** store of 120 square metres onboard Silja Serenade, in spring 2018 we opened onboard Baltic Princess a **Tommy Hilfiger** shop-in-shop of 70 m2 and just a year later in spring 2019 on the same route, onboard Galaxy we opened a 70 m2 shop-in-shop fully dedicated to **Superdry**. In January 2019, we opened a **Tommy Hilfiger** mono brand shop of 70 m2 on Silja Symphony as the brand was so well received by our customers already.

Tallink ships are big department stores at sea that stock a wide selection of high quality brand -, perfume- and cosmetic products, spirits and other alcoholic beverages, fashion and accessories. Tallink Duty Free has more than 1 000 brands and about 800 partners, which include world-leading companies, with whom Tallink has long-term reliable and loyal business relationships.

Tallink Logistics Center was opened already in January 2016 to optimise inventory management. With the opening of the most up-to-date logistics center in the Baltic Sea Region, AS Tallink Grupp brought together all eight logistics locations in Estonia, Finland, Sweden and Latvia into one distribution center, where the Group's fleet, hotel network and office goods are coordinated.

Thanks to the establishment of a centralised system, Tallink's supply chain is more cost-effective and faster - creating a central logistics center will give the company better and faster access to the necessary goods and raw materials and ensure an optimal supply chain. In addition, Tallink's ultimate goal is to expand its product portfolio with new and interesting products.

Club One customer loyalty programme

Club One connects 2,68 million people around the globe (2,5 million in 2018). The majority of our loyalty members come from the home markets of Finland, Sweden, Estonia and Latvia. Altogether Club One has members from almost 150 different countries.

Our loyal customers enjoy benefits both during travel and while at home. There are extensive tier level based benefits for purchasing trips, as well as on board offers at restaurants, bars and shops. There are around 500 benefits active at any given time at all main destinations, catering to any age or activity.

Loyal customers also earn bonus points from trips, on board purchases, Tallink Hotels services, web-shop purchases and restaurant visits at Flavore and NOKNOK, which can be used to purchase bonus trips, receive hotel upgrades or as part payment in the web-shop.

Onshore benefits tie together Tallink Grupp brands with our main shareholder-owned businesses and group companies, such as Tallink Hotels, Tallink Takso, Tallink Tennis & Fitness, restaurants NOKNOK and Flavore. All Tallink-owned franchises (including global brands like United Colours of Benetton and Superdry) are also a part of the Club One network.

Third party partners are carefully selected to offer the best goods and services at all our destinations.

The use of the digital loyalty card launched in 2017 has been increasing steadily to 249 000 digital card users by the end of 2019 in comparison to 163 000 at the end of 2018.

The long-term goal of Club One development sees more focus on personalised services and the use of innovative technologies, which enable loyal customers to have better access to services most relevant to their needs and more options to tailor benefits to suit each individual trip. In order to achieve this, developments to move from predominantly plastic cards to digital as well as loyalty features to be present in the Tallink & Silja Line App were initiated in 2019 and launched in early 2020.

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.

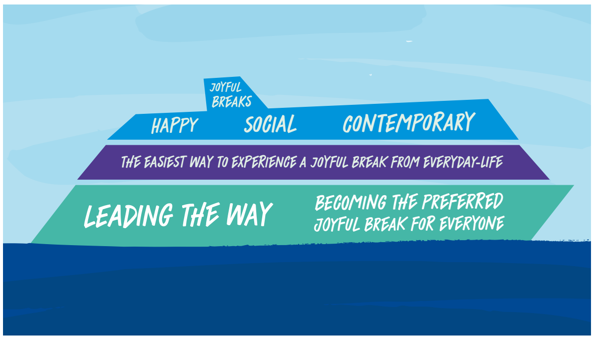
Our loyalty programme Club One supports our portfolio of brands and offers benefits from all Tallink Grupp companies, affiliates and many partners.

> “ 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.

TALLINK

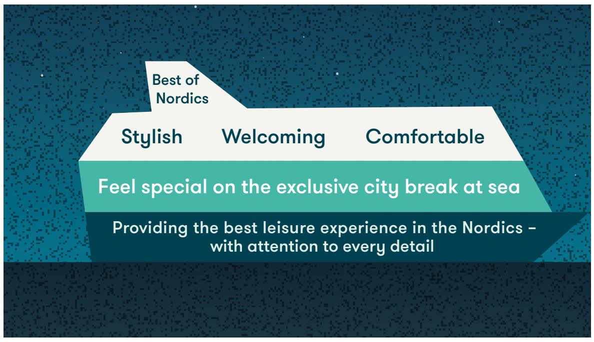


With the Tallink brand our vision is to lead the way and become the preferred joyful break for everyone. This means we innovate. And we do so all the time. It means we find fresh approaches and provide new offerings. It means we continue to be the creative force in our market. It means we do all this 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 celebrated 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, 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	SILJA LINE
Short cruises, Shuttle Hotels, Tennis Centre etc.	Short cruises

Branded Concepts & Services

Restaurants, Bars, Shops,
Cafeterias etc.

BRANDED SERVICES AND CONCEPTS:

Restaurants	Grill House Restaurant, Nok Nok, Happy Lobster, Aleksandra Russian à la carte, The Chef's Kitchen, Tavolàta Ristorante Italiano, Sushi & Co., Gourmet Victoria, Gourmet Baltic Queen, Romantika à la carte, The Dining Room
Quick Service / Buffet / Cafés	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, Luxury, Kids & Toys, Electronics, Fashion, Tobacco Shop, traveller Superstore, Trend Shop, Gifts, Step & Shine
Hotel Facilities	Nero Restaurant & Bar, Elements Restorāns, Aqua Spa, Balanss Kafejnīca, Cellar Ööklubi • Night Club, Tempo Resto & Bar, Piano Bar, Fidel Cigar Bar, Sume restaurant
Other Services	Hera Salongid, business lounge, comfort lounge, Discover New
Franchise	Burger King, Ingman Spice Ice, Moomin, Official Supplier of Santa Claus, Starbucks, Iskelmä, Vero Moda, Jack&Jones, Esprit, Lotte, Vila Clothes, United Colors of Benetton, Superdry

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 as similarly a 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 foundations 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 minimise 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 honoured. 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 behaviours 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 unauthorised 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 economic 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 comprised 47 companies. All subsidiaries are wholly owned by Tallink Grupp AS. The following diagram represents the Group's structure at the reporting date:

TALLINK GRUPP AS
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"
- Baltic SF VIII Ltd Dormant
- Tallink Superfast Ltd Dormant
- Baltic SF VII Ltd Dormant

SALES & OPERATIONS

- Tallink Silja Ab Sales & Marketing in Sweden
- Tallink Latvija AS Sales & Marketing and crewing in Latvia
- Tallink-Ru OOO Sales & Marketing in Russia
- Hansatee Cargo AS Dormant
- Tallink AS Riga-Stockholm route
- Tallink Baltic AS Dormant
- Tallink Scandinavian AS Holding company
  - Tallink Silja OY Sales & Marketing in Finland
    - Sally Ab Sales agent in Åland
    - Tallink Silja Gmbh Sales agent in Germany

SERVICE COMPANIES

- TLG Hotell OÜ Hotel operator
- TLG Hotel Latvija SIA Hotel operator
- Hera Salongid OÜ Beauty services
- Tallink Travel Club OÜ Travel services
- AS Tallink Duty Free Supply of goods
- HT Laevateenindus OÜ Technical ship Management & crewing
- Baltic Retail OÜ Retail sales
- HT Shipmanagement SIA Technical ship management in Latvia
- HTG Stevedoring OY Stevedoring services
- Hansaliin OÜ Crewing
- Hansatee Kinnisvara OÜ Lease of vehicles
- HT Meelelahutus OÜ Entertainment on ships
- Mare Catering OÜ Catering services
- Ingleby (1699) Ltd Process agent
- Baan Thai OÜ Catering services
- TLG Stividor OÜ Stevedoring services
- TLG Agent OÜ Agency services
- Tallink Asia PTE. LTD. Retail sales
- Tallink Fast Food Latvia SIA Catering services
- Tallink Fast Food OÜ Catering services
- Tallink Fast Food Lithuania UAB Catering services

The Group also owns 34% of Tallink Takso AS.

Changes in Group structure

Tallink Fast Food OÜ, a wholly-owned subsidiary of Tallink Grupp AS, was established in August 2019. In November 2019, Tallink Fast Food OÜ registered a wholly-owned subsidiary in Lithuania – Tallink Fast Food Lithuania UAB– and a wholly-owned subsidiary in Latvia – Tallink Fast Food Latvia SIA. The main business of the subsidiaries is to operate Burger King restaurants in Estonia, Latvia and Lithuania.

Tallink Asia Pte Ltd, a wholly-owned subsidiary of Tallink Grupp AS and the Group's first subsidiary in Asia, was established in September 2019. The purpose of founding a subsidiary in Singapore was to simplify the development and expansion of the Group's activities in Asia.

Vana Tallinn Line Ltd, Tallinn Stockholm Line Ltd and Tallink Finland OY, the wholly-owned subsidiaries of Tallink Grupp AS, were dissolved and deleted from the Commercial Registry.

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.

At 31 December 2019 the book value of the ships amounted to EUR 1 174 million (EUR 1 215 million at the end of 2018). The Group's vessels are regularly valued by two to three independent international shipbrokers who are also approved by the mortgagees.

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

In January 2019 the Group signed a cooperation agreement with the Tallinn Technical University to jointly develop innovative Smart Car Deck digital solutions for the group's vessels. The project will take place over the next three years.

ROUTEMAP

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

ATLANTIC VISION

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

The Group carried a record number of 9 763 210 passengers in 2019, 6 599 passengers more than in 2018. The number of cargo units transported decreased by 1.4% compared to 2018. The Group's revenue amounted to EUR 949.1 million (EUR 949.7 million in 2018). EBITDA was EUR 171.1 million (EUR 142.8 million in 2018) and net profit EUR 49.7 million or EUR 0.07 per share (EUR 40.0 million or EUR 0.06 per share in 2018).

In 2019, the Group's total revenue decreased by EUR 0.6 million to EUR 949.1 million. Total revenue for 2018 and 2017 amounted to EUR 949.7 million and EUR 967.0 million, respectively. Revenue from route operations (core business) decreased by EUR 0.6 million to EUR 883.2 million.

The core business was strongly affected by a weaker-than-expected cargo market, caused mainly by the uncertainty surrounding the UK's withdrawal from the EU, labour strikes in Finland in the fourth quarter of 2019, and added capacity, which increased competition.

In 2019, the Group's ships carried a total of 5.1 million passengers on the Estonia-Finland routes, a 0.7% increase compared to 2018, but the number of cargo units transported on the routes decreased by 1.5%. Due to pressure on ticket and cargo prices, resulting from increased competition, Estonia-Finland routes' revenue decreased by EUR 2.0 million to EUR 354.0 million. However, the segment result, which was supported by strong cost control, improved operational efficiency and lower fuel costs, grew by EUR 0.1 million to EUR 80.4 million.

The Finland-Sweden routes' revenue increased by EUR 6.9 million to EUR 344.4 million. The segment result improved by EUR 10.6 million, rising to EUR 26.8 million. The positive development was supported by the absence of lengthy maintenance and repair works of the kind the cruise ferry Baltic Princess had in the first quarter of 2018, lower fuel costs and tight cost control.

The Estonia-Sweden routes' revenue decreased by EUR 6.7 million to EUR 112.3 million. The routes' carriage volumes and financial result were affected by maintenance and repair works on the cruise ferry Baltic Queen in the first quarter of 2019.

The Latvia-Sweden route's revenue increased by EUR 1.2 million compared to 2018. Growth was driven by a 0.5% higher passenger number and a 3.4% increase in the number of transported cargo units. Supported by lower fuel costs and tight cost control, the segment result increased by EUR 1.6 million, which exceeded the route's revenue growth.

Revenue from the segment other decreased by a total of EUR 1.1 million and amounted to EUR 73.7 million. The main reason for the decrease was lower revenue from hotels, as Tallink Pirita Spa Hotel in Tallinn ceased operations from November 2018 due to sale of the hotel property by the owner. Unlike accommodation sales, there was an increase in sales at onshore shops, which was supported by a lower excise duty rate effective in Estonia from 1 July 2019 and new brand shops.

In 2019, the Group's revenue and operating results were impacted by the following operational factors:

- The number of passengers travelling on the Group's ships increased in almost all geographical segments (Estonia-Finland, Finland-Sweden and Latvia-Sweden).
- Planned dockings of seven ships. Among them, the maintenance and repair of the cruise ferry Baltic Queen lasted for 42 days, which affected the Estonia-Sweden segment's first quarter carriage volumes and financial result.
- Competition in maritime traffic between Estonia and Finland put pressure on ticket and cargo prices.
- Alcohol excise duty rate in Estonia was lowered, effective from 1 July 2019.
- Lower bunkering prices, which were attributable to lower global prices, and fuel price agreements.
- Tight cost control, investments in vessels' energy efficiency and automation projects.

SALES

The Group's revenue amounted to EUR 949.1 million in 2019 (949.7 million in 2018). Restaurant and shop sales on board and on shore in the total amount of EUR 536.6 million (524.4 million in 2018) contributed more than a half of total revenue. Ticket sales amounted to EUR 240.7 million (243.8 million in 2018) and sales of cargo transport to EUR 119.1 million (124.9 million in 2018).

Geographically, 37.3% or EUR 354.0 million of revenue was generated by the Estonia-Finland routes and 36.3% or EUR 344.4 million by the Finland-Sweden routes. Revenue from the Estonia-Sweden routes was EUR 112.3 million or 11.8% and from the Latvia-Sweden route EUR 72.5 million or 7.6%. The share of revenue generated by other geographical segments decreased to 7.8% or EUR 73.7 million.

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

Geographical segments	2019	%	2018	%	2017	%
Finland - Sweden	344 404	36.3%	337 471	35.5%	344 833	35.7%
Estonia - Finland	353 978	37.3%	355 995	37.5%	354 497	36.7%
Estonia - Sweden	112 271	11.8%	118 991	12.5%	117 246	12.1%
Latvia - Sweden	72 535	7.6%	71 292	7.5%	66 453	6.9%
Other	73 727	7.8%	74 831	7.9%	94 185	9.7%
Intercompany eliminations	-7 795	-0.8%	-8 857	-0.9%	-10 237	-1.1%
Total revenue of the Group	949 119	100.0%	949 723	100.0%	966 977	100.0%

Operating segments	2019	%	2018	%	2017	%
Restaurant and shop sales on-board and on mainland	536 569	56.5%	524 416	55.2%	536 742	55.5%
Ticket sales	240 653	25.4%	243 807	25.7%	242 748	25.1%
Sales of cargo transportation	119 078	12.5%	124 852	13.1%	117 718	12.2%
Sales of accommodation[1]	16 083	1.7%	19 183	2.0%	20 810	2.2%
Income from charter of vessels	8 289	0.9%	8 030	0.8%	18 802	1.9%
Other	28 449	3.0%	29 435	3.1%	30 157	3.1%
Total revenue of the Group	949 119	100.0%	949 723	100.0%	966 977	100.0%

[1] The operations of Tallink Pirita Spa Hotel were ceased in November 2018.

EARNINGS

Gross profit for 2019 amounted to EUR 196.9 million (EUR 183.8 million in 2018) and EBITDA to EUR 171.1 million (EUR 142.8 million in 2018). Net profit for 2019 was EUR 49.7 million (EUR 40.0 million in 2018). Net profit per share was EUR 0.07 (EUR 0.06 in 2018).

The Group's profitability was influenced mainly by the following factors:

- A total of EUR 12.9 million lower fuel costs. The fuel cost saving resulted from agreements with fuel suppliers, which fixed the price for 41% of the Group's total fuel purchasing volume for 2019, and savings on total fuel consumption, achieved through various energy efficiency initiatives. Fuel costs were also positively affected by lower global bunkering prices.
- Higher income tax due to an increase in dividends compared to 2018.
- Larger revenue from onshore shops (in the port area) due to a lower alcohol excise duty rate in Estonia, effective from 1 July 2019.
- Nonrecurring costs of EUR 2.4 million including tax related to the termination benefits of managerial personnel.

The cost of goods sold at shops and restaurants, which is the largest operating cost item, amounted to EUR 221.1 million (EUR 217.2 million in 2018).

Fuel costs for 2019 amounted to EUR 89.6 million (EUR 102.5 million in 2018). Fuel costs were impacted by lower bunkering prices, which were attributable to lower global prices, and fuel price agreements. As a result, annual fuel costs decreased by 12.6%. The Group makes continuous efforts to improve and optimise its day-to-day operations and lower the fleet's fuel costs.

The Group's personnel expenses amounted to EUR 223.5 million (EUR 218.1 million in 2018). The average number of employees in 2019 was 7 270 (7 430 in 2018).

Administrative expenses for the period amounted to EUR 56.8 million and sales and marketing expenses to EUR 67.7 million (EUR 55.2 million and 69.3 million, respectively, in 2018).

Depreciation and amortisation of the Group's assets totalled EUR 96.2 million (EUR 79.3 million in 2018). There were no impairment losses related to the Group's property, plant and equipment and intangible assets.

Net finance costs decreased by EUR 1.2 million compared to 2018. The change includes a decrease of EUR 4.5 million in interest expense and EUR 0.9 million less gain on foreign exchange differences and the revaluation of cross currency and interest rate derivatives. In addition, in 2019 there was interest expense of EUR 2.3 million from liabilities related to right-of-use assets (IFRS 16 adoption effect).

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 2019 was EUR 174.6 million (EUR 156.8 million in 2018).

The Group's cash used in investing activities was EUR 60.7 million (EUR 35.7 million in 2018). 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. In addition, in the second quarter of 2019 the Group made a prepayment of EUR 12.4 million for a new LNG shuttle vessel, MyStar.

In 2019, the Group's loan repayments totalled EUR 79.8 million (EUR 190.0 million in 2018).

Interest payments were EUR 16.7 million (EUR 19.4 million in 2018).

At 31 December 2019, the Group's cash and cash equivalents totalled EUR 38.9 million (EUR 82.2 million at 31 December 2018). In addition, available unused overdraft credit lines amounted to EUR 90.0 million (EUR 75.0 million in 2018).

The Covid-19 crisis related deterioration of the operating environment subsequent to the end of the reporting period and activities to ensure the sustainability of operations are described in more detail in Note 24.

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 the disposal of assets. At 31 December 2019, the Group's capitalisation ratio (interest-bearing liabilities as a percentage of interest-bearing liabilities and shareholders' equity) was 41.3% compared to 37.3% at 31 December 2018. The increase results from a EUR 67.7 million increase in interest-bearing liabilities and a EUR 34.1 million decrease in equity.

LOANS AND BORROWINGS

At the end of 2019, interest-bearing liabilities totalled EUR 577.9 million, a 13.3 % increase compared to the end of the previous financial year.

At 31 December 2019, the Group did not have any outstanding overdraft balance and unused overdraft credit lines amounted to EUR 90.0 million.

At the reporting date, all interest-bearing liabilities were denominated in euros.

SHAREHOLDERS' EQUITY

In 2019, the Group's consolidated equity decreased by 4.0%, from EUR 856.9 million to EUR 822.8 million. The change in equity is mainly attributable to a share capital reduction of EUR 46.9 million and dividend payments to shareholders of EUR 33.5 million. Shareholders' equity per share was EUR 1.23. At the end of 2019, the Group's share capital amounted to EUR 314 844 559. For further information about shares, please see the "Shares and shareholders" section of this report.

VESSELS AND OTHER INVESTMENTS

The Group's investments in 2019 amounted to EUR 60.9 million. The majority of the investments were made in the technical dockings of seven vessels: Baltic Queen, Galaxy, Regal Star, Star, Silja Symphony, Victoria I, Isabelle. During the dockings, a number of investments were made to upgrade the ships' restaurants, shops and other public areas. On the cruise ferry Baltic Queen, a Fast Lane restaurant was built and the Grande Buffet and show bar Starlight were renewed. On the cruise ferry Galaxy, a Fast Lane restaurant was built, the Grande Buffet and show bar Starlight were renewed, a SuperDry shop-in-shop was added to the Fashion Street and the kids area Silja Land was renewed. On the cruise ferry Silja Symphony, the Starlight show bar was refurbished according to a new concept, the restaurant Grill House, Bon Vivant and Sea Pub were renewed, a new Tommy Hilfiger shop was added and the cabin renovation project was concluded.

In addition to dockings, investments were made in the ships' technical maintenance to keep the ships in good technical working condition and innovative energy efficiency solutions, such as the upgrade of HVAC systems, fuel monitoring systems, preparations for high voltage shore power connections and hybrid battery solutions.

The Group's investments included a prepayment of EUR 12.4 million made in the second quarter of 2019 for a new LNG shuttle vessel, MyStar.

Investments were also made in the development of the online booking and sales systems.

The Group's main revenue-generating assets are vessels, which account for approximately 77% of total assets. During the financial year the Group owned 14 vessels.

Information about vessels as at the end of the financial year:

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
Atlantic Vision	High-speed ro-pax	2002	Chartered out	chartered out

At 31 December 2019 the book value of the ships amounted to EUR 1 174 million (EUR 1 215 million at the end of 2018). The Group's vessels are regularly valued by two to three independent international shipbrokers who are also approved by the mortgagees.

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

The Group does not have any substantial ongoing research and development projects.

MARKET DEVELOPMENTS

The total number of passengers carried by the Group in 2019 was 9.8 million. The total number of cargo units carried exceeded 379 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in 2019 and 2018 by route.

PASSENGERS	2019	2018	Change
Finland-Sweden	2 894 494	2 845 616	1.7%
Estonia-Finland	5 115 602	5 079 861	0.7%
Estonia-Sweden	953 153	1 035 093	-7.9%
Latvia-Sweden	799 961	796 041	0.5%
Total	9 763 210	9 756 611	0.1%

CARGO UNITS	2019	2018	Change
Finland-Sweden	78 095	74 654	4.6%
Estonia-Finland	242 142	245 867	-1.5%
Estonia-Sweden	42 845	48 427	-11.5%
Latvia-Sweden	16 552	16 010	3.4%
Total	379 634	384 958	-1.4%

PASSENGER VEHICLES	2019	2018	Change
Finland-Sweden	158 699	155 907	1.8%
Estonia-Finland	827 106	827 998	-0.1%
Estonia-Sweden	61 981	69 072	-10.3%
Latvia-Sweden	62 528	71 716	-12.8%
Total	1 110 314	1 124 693	-1.3%

The Group's market shares on routes operated in 2018 were as follows:

- The Group carried approximately 57% of passengers and 62% of ro-ro cargo on the routes between Estonia and Finland.
- The Group carried approximately 55% 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

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

Coronavirus disease Covid-19

Due to the global outbreak of Covid-19, the state of emergency declared in the Group's home markets and the restrictions imposed by the authorities, the Group's operating environment has deteriorated significantly subsequent to the end of reporting period.

Given the uncertainty regarding the duration of the crisis and the course of the post-crisis recovery, it is not possible to assess the financial impact of the Covid-19-related crisis reliably at the moment. The focus has shifted from developing the product offering and increasing retail sales to cost and cash flow management and to ensuring the sustainability of the Group's core business. The operations of several routes and hotels have been suspended or reduced to minimise costs. Negotiations with financial institutions regarding waivers of loan covenants, payment terms and obtaining additional financing have commenced. The Group has been in consultations regrading various state support measures, including different options to ensure liquidity.

Changes concerning workload and remuneration of personnel

Due to the Covid-19 situation the following decisions relating to personnel were made in Q1 2020:

- the workload and remuneration of all Estonian personnel reduced to 70% for two months
- most of the Finnish personnel are on unpaid leave, except the staff on duty on vessels;
- the workload of Swedish personnel reduced to 40% and remuneration reduced to 50%, except for the staff on duty on vessels;
- the workload and remuneration of all Latvian personnel reduced to 70%;
- the Members of Supervisory Board of Tallink Grupp AS waived their remuneration for three months.

Fuel price risk management

In the first quarter of 2020, the Group entered into agreements with its main fuel suppliers and fixed the purchase price of fuel equivalent to about 65% of its total estimated fuel volume for 2020. The average agreed price was about 5.5% lower compared to the average price of similar agreements for 2019.

Due to the Covid-19 situation, more flexible terms were negotiated and agreed with one of the fuel suppliers in April, according to which we are purchasing fuel at market prices until our performance recovers to an agreed level. From the other supplier we continue to purchase at fixed price, but as per our contractual notification in April, only in the volume of our actual consumption.

Increase of overdraft limit

In April, the Group extended its existing overdraft facility with Danske Bank A/S by EUR 20.0 million. The increase of the overdraft facility helps to improve the Group's liquidity.

Ship dockings

The modernisation of the Group's fleet will continue in 2020. In the first quarter there were planned dockings of five vessels: Seawind, Megastar, Romantika, Silja Europa and Silja Symphony.

Investments were made in the ships' technical maintenance, upgrades of public areas and a number of energy efficiency projects as well as projects to reduce emissions such as the trial of a wind-assisted ship propulsion unit on Regal Star and the installation of the ballast water treatment system and the replacement of the vessel's provision cooling system on Silja Europa. The planned service breaks of five vessels will total 69 days in the first months of 2020.

Developments with the new shuttle vessel MyStar

In the first quarter of 2020, another prepayment of EUR 12.4 million was made for a new shuttle vessel, MyStar. The physical production process of MyStar started on 6 April 2020 in Rauma shipyard in Finland.

Changes in the Group structure

In February 2020, Hansatee Cargo AS, a wholly-owned subsidiary of Tallink Grupp AS, was merged with the Group company Tallink AS and thereafter deleted from the Commercial Registry.

Earnings

The Group's earnings are not generated evenly throughout the year. The summer period is the high season in the Group's operations. In management's opinion and based on prior experience most of the Group's earnings are generated during the summer (June-August).

Due to the ongoing Covid-19 situation the earnings outlook for 2020 has become highly uncertain and will be largely subject to external factors such as the timing of opening of the borders and the duration of the recovery period.

Research and development projects

Tallink Grupp AS does not have any substantial ongoing research and development projects. The Group is continuously seeking opportunities for expanding its operations in order to improve its results.

The Group is looking for innovative ways to upgrade the ships and passenger area technology to improve its overall performance through modern solutions. The most recent project, in collaboration with ports in the Baltic Sea area, involves making preparations for the use of high-voltage shore connection during the vessels' port stays. Another ongoing collaboration project with Tallinn University of Technology (TalTech) involves the development of smart car deck solutions.

In addition, the Group is participating in a programme, funded by the European Space Agency, with a goal to develop techniques for autonomous navigation for ships, using a combination of different sensors, machine learning and artificial intelligence.

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.

The Group's strategy is to:

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

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

MODERN FLEET

- 11 core vessels have an average age of 15 years
- Ice class vessels
- Luxurious on board experience, e.g. spacious shopping areas

EXTENSIVE SALES NETWORK

- 21 own sales offices
- Network of nearly 2 000 travel agents and tour operators worldwide
- Growing online presence

EXTENSIVE ROUTE NETWORK

- Variety of short cruises between key cities
- Optimised schedules with frequent and reliable departures all year
- Established relationships with port authorities

1

TALLINK

48% MARKET SHARE OF THE NORTHEN BALTIC SEA REGION PASSENGER MARKET

COMPREHENSIVE OFFER

- Varied on board experience
- Travel packages and excursions
- Addressing all budget ranges and customer preferences

STRONG QUALITY BRAND

- Silja Line and Tallink are the most recognised cruise brands in the Northen Baltic Sea Region
- They are associated with a quality customer experience

LOYAL CUSTOMER BASE

- 9.8 million passengers in 2019
- 2.7 million Club One card holders growing at 10% annually
- Every third passenger is a Club One member

HIGH SAFETY AND ENVIRONMENTAL STANDARDS

- We proactively seek compliance with the highest standards
- In 2019, there were 12 cancellations out of the 10 017 scheduled trips

CORPORATE RESPONSIBILITY REPORT

Every single day 26 730 people begin a trip on a Tallink ship. Every single day thousands of products are purchased in Tallink Grupp's shops on board, onshore and online. 560 tons of fuel are purveyed to Tallink ships every day. Tons of food are consumed in our restaurants onshore and on sea every day.

Tallink Grupp is a large and powerful enterprise that provides jobs for thousands of people, serves millions of clients and whose business activities have an impact on the economic environment of several countries. It is important to remember that Tallink Grupp's business impacts the nature in several countries, including the marine environment. The impact of Tallink on people and the environment cannot be underestimated: such a large enterprise has the power to change internal processes as well as consumption habits of its clients.

> "It is important to acknowledge the impact of Tallink on all of its business spheres as well as on its partners' field of action. Tallink has the power to decrease the negative impacts of its actions and increase its positive influence. It is understandable that all the processes cannot be changed overnight, instead, it is important to change step by step towards a long-term goal and act as a positive example to its clients by doing so.

It is also important to acknowledge, that in order to decrease the negative impact of Tallink Grupp's business activities, several projects and initiatives have already been initiated inside the company and have been running for a number of years. Keeping these projects and initiatives going is vital, and they should also be included in an umbrella of a CSR/sustainability strategy, in marketing and communication activities.

In 2018 Tallink Grupp set itself a priority of developing a more coherent and clear corporate social responsibility strategy and agree on groupwide goals that the company wants to achieve in the area of sustainability and corporate responsibility over the next 2-3 years, but also longer term. The strategy development process started in autumn 2018 and, with the assistance of an external partner Miltton New Nordics, the company went through various stages of the strategy development process in 2019. For diagnostics Miltton New Nordics used several sources: Tallink Grupp's official sources (webpages, yearbooks 2016, 2017, Tallink Grupp's social media pages), international surveys , interviews with 17 Tallink employees in Estonia, Latvia, Finland and Sweden and insights of Miltton experts and analysis of current sponsorship activities in all mentioned countries. In the second phase, Miltton held a sustainability workshop with Tallink Grupp top and middle management from all markets where the findings from the diagnostics were presented, discussed and reflected. During the workshop a set of actions and targets were discussed.

Tallink Grupp has carried out the process of establishing a Corporate Responsibility Strategy because the company understands its impact on the world around it, realises it has a crucial role to play as a major company, service provider and employer, and realises it can do a great deal of good by focusing its activities. We believe that the decisive decade of action for achieving the UN Sustainable Development Goals is about to start now and we are ready to play our part and help make a difference.

In order to implement Tallink Grupp's CSR strategy, a set of focus areas and priority topics in each area have been identified. Next to ongoing projects, the strategy takes into account global as well as local market trends. This enables Tallink to begin implementing socially responsible business strategies systematically and reflect these actions in internal as well as in external communication. In 2019 the strategy, focus areas and priority activities in each focus area were agreed with the company's Management Board, in 2020 specific goals and KPI's for each of the priorities will be agreed and detailed action and execution plans for implementation will be created.

The focus areas, priorities and goals take into account the characteristics of Tallink Grupp as a company whose core business is maritime transport, but whose activities onshore are expanding rapidly. There are no "nice to have" activities, instead, focus is set on fields in which Tallink has the biggest impact. Influence on Tallink Grupp's employees, customers, the communities as well as the company's public image have also been important factors to consider, not to mention the positive example of Nordic countries.

The strategy, focus areas and priority activities are Tallink Grupp's first steps towards a better and cleaner society.

> "The focus areas have been chosen based on a review of Tallink Grupp's impact through its business operations. The focus areas chosen reflect areas where Tallink Grupp's impact is the greatest either due to the field of activity of the company and its relative size in the markets it operates in.

TALLINK GRUPP SUSTAINABILITY FOCUS AREAS & GOALS

According to the new sustainability strategy, Tallink will focus its sustainability activities on the following four areas:

Looking after the Sea – the bulk of our activities take place on the sea, so it is logical that we look after the key resource that enables our business to operate.

Looking after Climate – our wider operations affect the climate more widely as well, of course, particularly in the areas of emissions, but also in other aspects. Protecting the climate more widely for future generations is one of our key ambitions.

Looking after Resources – as one of the region's biggest companies, it is our duty to ensure we use all resources as sustainably as possible and promote circular economy practices where possible in our business and operations.

Looking after People – as a significant employer in the region, we must ensure we provide the best possible place to work for our own people; as a company serving 10 million customers annually, we must ensure we are a quality and reliable service provider; and as a company with thousands of suppliers and business partners, we must ensure we are a trustworthy, ethical and transparent company to work with for all our business partners.

The ultimate goal for Tallink Grupp in the area of CSR is to grow, develop and expand our business and operations for the years to come with the maximum positive benefit for our local regions and people and with the smallest possible footprint on our surrounding environment and climate.

The group will develop more detailed objectives under each of the focus areas in 2020 with a clear action plan and deadlines for achieving each of the goals. On a high level, the company's management, agreed in late 2019 to develop activities in the following areas:

These focus areas and high level goals have been aligned with the following UN Sustainable Development Goals and future reporting on the goals will be in line with the UN SDG guidelines:

TALLINK SUSTAINABILITY FOCUS AREAS	MATCH UN SUSTAINABLE DEVELOPMENT GOALS
Looking after sea	6. Clean water 14. Life below water
Looking after climate	13. Climate action 7. Clean energy
Looking after resources	12. Responsible consumption 15. Life on land
Looking after people Our customers, staff + communities	3. Good health and well-being 11. Sustainable communities

Until further development of the company's more detailed CSR goals in 2020, this Corporate Responsibility report, will currently focus on:

I SAFETY AND SECURITY

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

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

The objective of the Group's Safety Management System is to ensure that valid rules and requirements set out by the IMO (International Maritime Organization), the EU (European Union), the maritime authorities, the certification bodies and other maritime organizations as well as their applicable regulations and standards are strictly followed and, in many respects, exceeded.
Ship masters are responsible for the onboard safety and security operations of the ships managed by the Group. The task of the onshore organization is to supervise, support and develop safety and security work.

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

ONBOARD SAFETY MANAGEMENT AND EMERGENCY PLANNING

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

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

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

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

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

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.

TRAINING AND EXERCISES

Tallink Grupp's onboard employees play an important 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 specific training requirements for different positions in the company / roles on our vessels – in 2019 all these required trainings were passed by our employees accordingly.

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 agencises take place.

> “Onboard our vessels different safety, security and environment protection drills and excercises were carried out at least once a week in 2019 in which 100% of our crew members took part, on average 1 hour of safety or security related training per crew member per week was provided.

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 afterwards and often an additional exercise or training is carried out based on the incident and the lessons learned.

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.

MEDICAL EMERGENCIES

Medical assistance provided onboard our group's vessels exceeds the requirements set by the respective regulations.

> “Although regulations require ship operators to employ medical personnel on international trips lasting at least 72 hours, most of the group's vessels (excluding the cargo transportation vessels and the shuttle vessels) have professional medical personnel onboard to provide medical assistance to both passengers and crew members 24/7.

The passenger vessels have doctor's surgeries onboard, equipped with first aid supplies and drugs to provide first aid, as well as for providing 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.

Regular helicopter evacuation drills take place in partnership flag authorities to ensure all our vessels and crew have practical experience with medical evacuations for emergencies.

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.

KBRT2019

Estonian authorities run cooperation exercise KBRT2019 onboard Tallink Grupp's vessel and at Port of Tallinn Old City Harbour

In September 2019 a joint exercise KBRT2019 was carried out onboard Tallink Grupp's vessel Baltic Queen and at the Port of Tallinn Old City Harbour, during which Estonian authorities and companies practiced cooperation and joint working during a chemical, biological, radioactive and nuclear incident.

The exercise was organised and run by the Estonian Internal Security Service. During the exercise the Estonian Police and Border Guard Board, who also took part in the exercise, additionally practiced the strengthening of the Estonian maritime border controls.

The exercise was jointly organised by the Estonian Internal Security Service, Tallink Grupp and the Port of Tallinn and the Estonian Rescue Board, Police and Border Guard Board, Tax and Customs Board, Health Board, Food and Veterrinary Board, Defence Forces, Tallinn Ambulance service and the East Tallinn Hospital will participate in the exercise. The Lithuanian special forces unit ARAS also took part as an international partner and several observers from Estonian public sector organisations as well as international organisations observed the exercise.

The exercise was funded by the European Union internal security fund resources aimed at enhancing police cooperation, crime prevention and crisis management , and by the Estonian Ministry of Interior ISFR-14 programme funds.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LLINK
SILJA EUROPA

II PEOPLE

OUR PEOPLE

7 240 EMPLOYEES

(end of 2019)

5 109
on board

508
in
HOTELS

1 623
onshore
organisation*

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

PERSONNEL

On 31 December 2019, the Group had 7 240 employees (7 242 on 31 December 2018).

As of 31 December	2019	2018	Change
Onshore total	**1,623**	**1,630**	**-0.4%**
Estonia	976	934	4.5%
Finland	414	444	-6.8%
Sweden	147	165	-10.9%
Latvia	67	69	-2.9%
Russia	13	12	8.3%
Germany	6	6	0.0%
Onboard	**5,109**	**5,108**	**0.0%**
Hotel[1]	**508**	**504**	**0.8%**
Total	**7,240**	**7,242**	**0.0%**

[1] The number of hotel personnel is not included in the total number of onshore personnel.

In 2019, staff costs in the cost of sales amounted to EUR 163.1 million (EUR 160.6 million in 2018). Staff costs related to administrative staff and sales & marketing staff were EUR 28.7 million and EUR 31.6 million, respectively (EUR 24.8 million and EUR 32.7 million, respectively in 2018).

Our colleagues in 2019

	2019	2018	2017
Average age of personnel onboard	43.1	42.4	43.4
Average age of personnel ashore	38.9	38	39
	2019	**2018**	**2017**
20 or younger (% ashore)	4.9	4.8	1.8
20 or younger (% onboard)	1.8	1.9	1.1
21-30 (% ashore)	25.9	25.3	26.5
21-30 (% onboard)	23	22.7	20.7
31-40 (% ashore)	30.9	30.4	30.9
31-40 (% onboard)	21.5	20.6	20.2
41-50 (% ashore)	21.1	20.6	21
41-50 (% onboard)	21.9	20.4	22
51-60 (% ashore)	12.3	13.3	14.5
51-60 (% onboard)	24.2	26.5	28
61 or older (% ashore)	4.9	5.6	5.2
61 or older (% onboard)	7.6	7.9	7.9
male (% ashore)	32.8	33.6	34.0
male (% onboard)	44.9	45.3	46.1
female (% ashore)	67.2	66.4	66
female (% onboard)	55.1	54.7	53.9

The Group carried over 9.8 million passengers in 2019 and the number of employees as at 31 December 2019 was **7 240**. 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.

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.

“In January 2020, a new survey carried out by the Estonian recruitment portal CV Online ranked Tallink Grupp as the Top Employer of choice in the logistics sector (www.topemployer.ee).

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:

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

The Convention also requires that those responsible for training and assessment of 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.

> "During 2019 a total of 1720 training sessions were carried out with a duration of 3 hours and more across the group and on average up to 16 participants took part in every session.

Every employee within Tallink Grupp has participated in trainings organised either inhouse or externally for at least 8 hours. During 2019 we also strengtened our e-learning which is widely used for inhouse trainings (learn.tallink.com).

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.

OUR EMPLOYEE BENEFITS

> Tallink Grupp 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.

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.

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 2019, 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 2019 there were no work-related fatalities among employees of the Group.

In 2019 a total of 154 work accidents were recorded across the group. In addition, 1 355 crew illness cases were recorded in 2019.

Total number of accidents at the workplace in 2019

	Other	Cargo	Work accidents	Crew illness	Pax injury	Total
2013	153	177	156	929	430	1845
2014	148	155	185	830	476	1794
2015	187	142	188	883	382	1782
2016	232	168	204	1358	446	2408
2017	108	135	208	1113	277	1841
2018	152	130	170	1003	159	1614
2019	130	118	154	1355	163	1920

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.

Within the group most of the new hires in 2019 were in new business lines (onshore retail and restaurant) and the rest was connected to seasonal needs, where up to 500 temporary staff is hired for the high season. The group's average voluntary turnover in 2019 was similar to previous years, between 5-10% and depends on the country and workplace (ship, hotel, shore).

Significant operational changes are communicated and discussed with employees and their representatives as soon as possible, on average more than 4 weeks prior to the changes. We are improving our ability to manage changes by implementing Prosci Change Management approaches. Consulting and informing are integral parts of our Collective (Bargain) Agreements.

Performance and Development interviews (PADI) are held once per year for every employee within Tallink Grupp.

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 2019 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.

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 company started 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

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

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

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

- The Group participates in an EU funded project TWIN PORT 3, carried out in 2018-2023, which focuses on reducing the environmental impact of the increasing ro-pax ferry traffic and continues to improve the multimodal transport link between Helsinki and Tallinn. On-shore power supply systems are being installed in Tallinn Old City Harbour and Helsinki Olympia and West Terminal, the Group's ferries will also be installed with shore power reception technology in order to make it possible to turn off ships internal combustion engines while in port to assure a silent, vibration and exhaust free stay in port, contributing to a cleaner living and working environment in the surrounding areas of the ports.

> "In the framework of the previous project TWIN PORT 2, the completion of the LNG-fuelled shuttle vessel Megastar was supported with 16 million euros. The total volume of the project was 97.6 million euros.

Selection of international certificates held by Group companies and ships:

- ISO 14001:2015 Environmental Management System Certificate by Lloyds Register
- MARPOL Sewage Pollution Prevention Certificate
- MARPOL Air Pollution Prevention Certificate
- IAFS International Anti-Fouling System Certificate
- MARPOL Oil Pollution Prevention Certificate
- Document of Compliance for Anti-fouling System
- MARPOL Garbage Pollution Prevention Attestation
- Document of Compliance by Estonian Maritime Administration
- Document of Compliance by Finnish Maritime Administration
- Document of Compliance by Swedish Maritime Administration
- Document of Compliance by Latvian Maritime Administration

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

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

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

The Company has been in possession of ISO 14001:2004 certificate since 01.07.2008, issued by LRQA. Renewal of the certificate according to ISO 14001:2015 was performed in May 2017.

During 2019, the Environmental Management System was externally audited twice covering selected vessels and Head Office in Tallinn.

No non-conformities were raised during the above-mentioned surveillance audits.

ENVIRONMENTAL LEADERSHIP AND DEVELOPMENTS

Important developments and highlights in 2019 from the environmental aspect were the following:

- There were no significant environmental incidents recorded by the company in 2019;
- Considerable investments have been made in several energy efficiency projects on our ships;
- The company is making significant investments into fleet renewal and new ship build to reduce its environmental impact in the future, e.g. the signing of the contract for the construction of the new LNG vessel MyStar.

> “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.

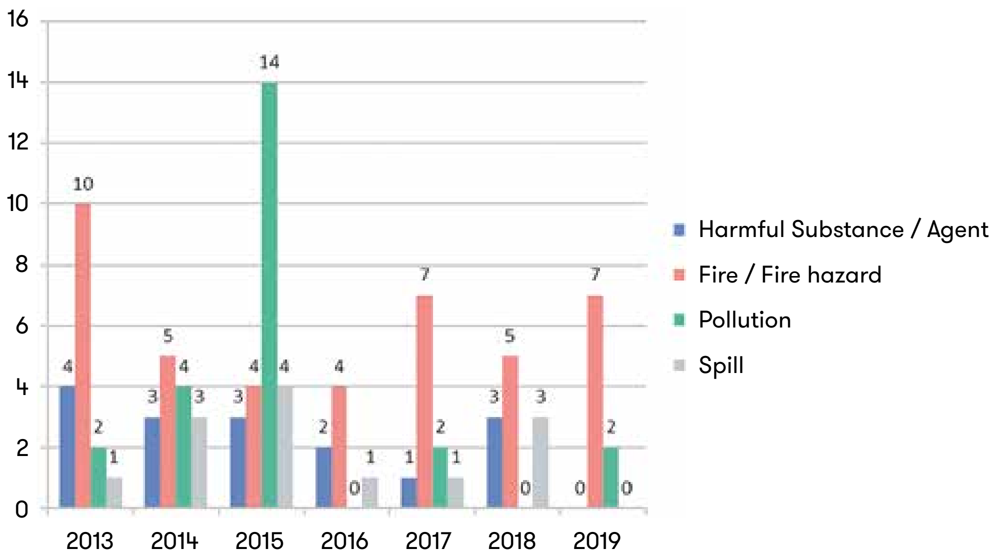
The Group is cooperating closely with scientific organisations, universities and companies, who work towards more environmentally friendly solutions suitable for decreasing the environmental footprint of the group.

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

Environment related incidents



Pollution incidents recorded in 2019 were relatively minor and minimal harm to the environment was caused. One pollution incident happened due to subcontractor equipment failure while cleaning the hull. The other incident occurred due to minor leakage from a stern tube. No supervisory measures from authorities.

A new category 'Fire Hazard' was introduced in order to record the situations where a smoke alarm goes off or smoke is visually detected, but there is no actual fire on board. Incident category 'Bunkering' was deleted due to the fact that the bunkering as an operation is part of the every-day operations and any result of the unwanted occurrence during the bunkering will be classified under the different incident category (e.g. pollution, spill, material damage).

In total there were 9 environmental incidents [(bunkering), harmful substance/agent, pollution, fire/fire hazard] in 2019, compared to 11 on 2018, 12 on 2017, 7 on 2016 and 26 on 2015.

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.

Same analysis and figures for 2019 are available. In addition we have created a CO2 Reduction Plan covering the whole fleet and specifying measures we are planning to take in order to reduce CO2 emissions. Reduction plan is based on approved investments in energy efficiency as well as developments in cooperation with ports and other parties. Comments are the same as previous year.

Other activities in 2019 included:

- **30.04.2019 ended the first reporting period where the ship-specific data for 2018 under the Regulation (EU) 757/2015 (i.e. the MRV Regulation) has to be presented to European Commission.** Data verification was performed by Verifiavia (accredited 3rd party verifier) and the process was completed on time. Verified data for each and every ship was entered into THETIS MRV database. Each ship has on board the relevant Document of Compliance.

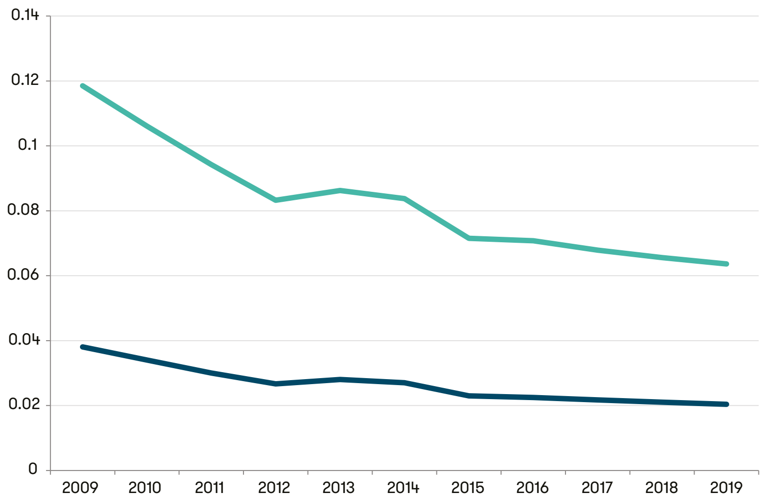
  The preparation for the second monitoring period (for 2019) have indicated that there are still some inconsistencies between voyage-based reporting (EEOI Calculation sheets) and Monthly Reports (FOLO Reports and WebFocus). Reporting routines have been followed but more strict monitoring is still required in order to identify any inconsistencies as they occur. BOQA Fleet Performance Monitoring system is currently under development (FleetRange) and its main objective is to automate the reporting routines as much as possible.

  Positions of TPM and EPS have to perform monthly crosschecks of the data reported in EEOI Calculations and Monthly Reports (FOLO) in order to identify any mistakes as soon as possible and based on gathered data to prepare relevant monthly summaries.

  Ship-specific MRV Monitoring Plans are periodically reviewed and updated as required (once in every 4 month at least) by each ship. No changes within MRV MP’s which require re-evaluation by 3rd Party Verifier have occurred so far. Valid MRV MP’s are available in OSM/MSM system.

- **Shore-to-ship 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. Silja Serenade and Silja Symphony have been using the shore power in Port of Stockholm since June 2019. Stating from December 2019 Baltic Queen and Victoria I are also using shore power while staying in port in Stockholm.

  Under the valid taxation laws, the use of shore power is less expensive than power generation using the ship’s Auxiliary Engines.



Fuel and CO_2 per passenger

CO2 ton per Pax
Fuel ton per Pax

Fuel used per Passenger has been reduced significantly since 2009 by 47,4%. CO_2 emission per Passenger in the same period has dropped by 46,2%.

- 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.

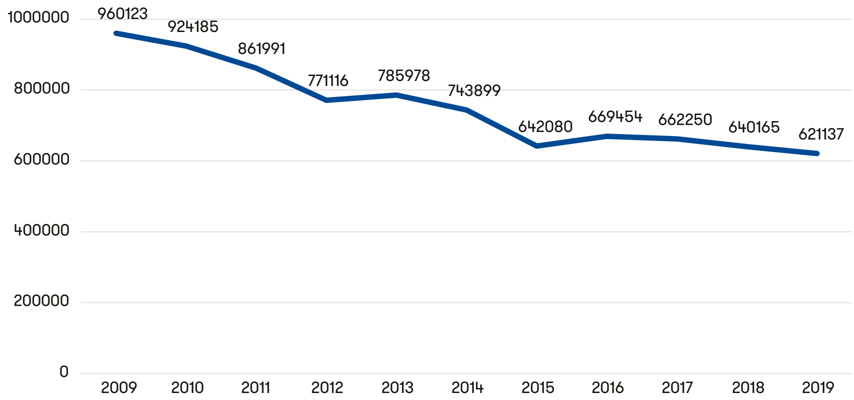
  CO_2 reduction plan – it is clear that although the potential usage of LNG is now a wider topic, today the passenger ships still run on fossil fuels such as heavy fuel oil and diesel like the rest of the transportation sector. The investments made by shipping companies during the past years into renewal 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 CO_2 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.

- 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).

Modifications to SEEMP including preparation and creation of the DCS Data Collection Plan (SEEMP Part II) according to relevant IMO rules were performed as required. SEEMP Part II's for all ships were approved by RO's by 31.12.2018. All vessels have received relevant Statements of Compliance. The first monitoring period under IMO DCS (Data Collection System) started on 01.01.2019. Aggregated ship-specific information is available already under the same routines as for EU MRV Regulation but the specific reporting requirements have to be complied with though.



Total CO2 emission

- **The process of creation of Inventory of Hazardous Materials (Regulation (EU) 1257/2013) has been initiated.** Estonian Environmental Research Centre (EKUK) is providing us the services of HazMat Experts and are performing the initial HazMat studies on board resulting in compilation of the relevant reports and the IHM Part I (the list of hazardous materials on board, their estimated quantities and locations within ship's structure and machinery).

  The process is completed on Megastar. Megastar has relevant Statement of Compliance on board. Over the year 2019 some changes have been already introduced in the Megastar's IHM Part I due to modifications. Initial study has been performed on board Sea Wind and Regal Star. Draft IHM survey report and IHM Part I together with supporting documentation has been presented to relevant RO's. No approval received yet.

  The process has to be accelerated covering the rest of the fleet in order to meet the deadline for creation of the Inventory of Hazardous Materials which is 31.12.2020.

- Fuel consumption monitoring systems have already been implemented on many vessels and this project continued in 2019 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 spring 2019, Tallink Grupp signed a contract with Rauma Marine Constructions for the order of another LNG-powered vessel for Tallink Grupp for the Tallinn-Helsinki route. The expected vessel delivery date is in early 2022.

In addition, Tallink Grupp has begun to invest in and install shore power equipment, starting with the ships which visit the Port of Stockholm and Port of Tallinn, with first vessels already connected to shore power in Stockholm since June 2019.

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.

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.

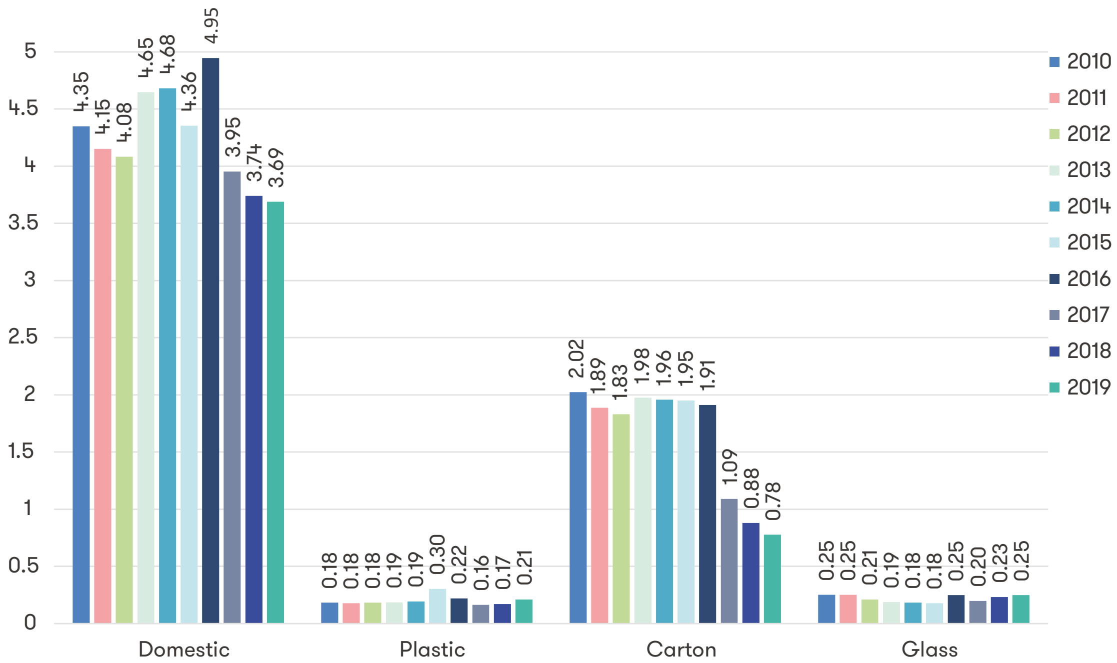
Waste water is one of our significant environmental aspect we monitor on a monthly basis. We are investigating various ways to reduce water consumption on board and by this the generation of the waste water as well. All the fresh water is taken from shore and waste water is also discharged onto shore.

Volumes of different waste categories are recorded. Relevant records are maintained. Waste quantities are recorded and monitored as the significant environmental aspects of our activities.

“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)

Tallink Grupp continues to work with suppliers to reduce the amount of materials ending up in waste coming onboard our vessels in the first place. The company strongly believes that further significant reductions in the waste generated can be achieved by reducing the amount of materials ending up as waste.

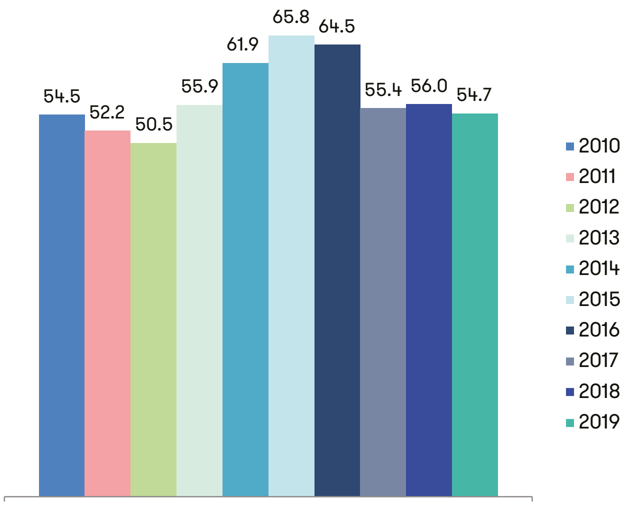


Waste handling objectives in 2019:

- 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.
- Identifying opportunities for greated group-wide recycling of usable items and opportunities for donating reusable goods. Promoting circular economy principles across the group and revising related processes.

“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.

Main environmental goals for 2020

Continuous monitoring of the Significant Environmental Aspects on a monthly basis. Will be continued to enable access to relevant information which will be analysed and compared with previous periods.

The MRV Regulation: The second Reporting period has to be completed by 30.04.2020. The ship-specific aggregated data covering the whole year of 2019 was presented to Verifavia in January 2020. Verification process is currently ongoing.

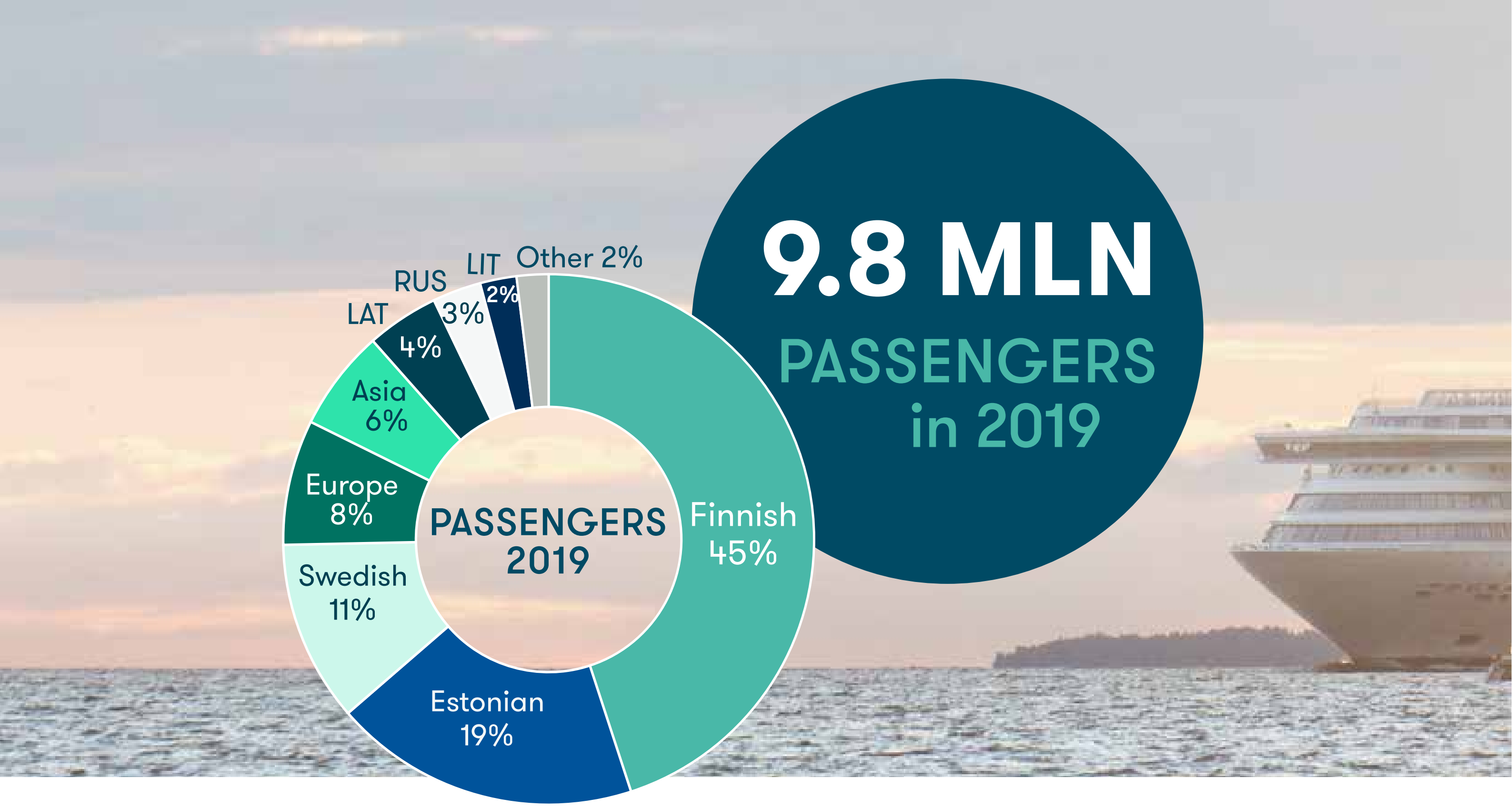
Updating the ship specific MRV MP's according to Planned Maintenance System on a regular basis (once in every 4 months). There is an idea to agree with Verifavia to delete the references to valid versions of our SMS documents from Monitoring Plans (although this is a requirement from EU Regulation). It has been introduced to Verifavia, but it's still waiting for formal approval from them. When agreed, the updated versions of MRV MP's of all ships have to be sent for reapproval to Verifavia.

Gathering and maintaining the information as required by the MRV Regulation to enable us to compose the third report (data set) in the THETHIS MRV Database in Q1 2021.

IMO DCS: the first data collection period for IMO Data Collection System (DCS). Closely related to EU MRV system. We have signed an agreement with RINA who will provide us the data verification services on behalf of the Flag Administrations. Aggregated ship-specific information is forwarded to RINA. Verification process is ongoing. Deadline for completion was 31.03.2020.

Preparation work for IHM in order to comply with the requirements of the Regulation (EU) 1257/2013 (Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships) on Ship Recycling. Cooperation with EKUK continues. Initial surveys on board Sea Wind and Regal Star have been completed and the documentation is forwarded to RO's for review and approval. Specific plans have to be composed in order to complete the process for the rest of the ships within Tallink's fleet. Deadline for completion is 31.12.2020.

Preparations for application of Regulation (EU) 517/2014 as a next step for prohibitions for placing into market certain fluorinated GHG's (R404A, GWP 3922) on 01.01.2020. According to this accessibility to virgin R404A is prohibited within EU. Requirement concerns also maintenance of the existing equipment containing GHG's GWP >2500. Our fleet is planning the replacement of R404A against adequate alternative (e.g. Baltic Queen and Victoria I replaced their R404A with R407F). Others are following during their scheduled DD (like Silja Europa) or topping the systems up with R407F.



IV MARKET

TALLINK GRUPP'S REPUTATION IN THE MARKET

Tallink Grupp strongly believes that quality, but service quality particularly, is a competitive advantage.

> " Training the staff, educating the managers and monitoring business activities onboard and onshore was constantly in focus.

The accessible customer satisfaction feedback clearly presents that the quality of service is connected not only to the higher loyalty of our customers, but also willingness to recommend Tallink Group and its different brands to ones friends and relatives. Our studies show that higher customer satisfaction is clearly related to higher onboard spending.

In 2019, according to an independent survey carried out by market research company Kantar Emor, Tallink was once again listed as one of the Top 10 most well-known and reputable companies in Estonia, this time ranked 7th in the list.

Mystery shopping

Mystery Shopping is a method to measure quality of service and compliance with company regulations. In 2019 total 220 mystery shopping audits were conducted on board the passenger fleet (20 appraisals on every vessel). Every audit is carefully checking out a number of details of the customer service onboard as well as offshore check-in procedures. Two major requirements are describing Tallink Group's customer service goals: greeting /noticing the customer and staff being proactive. Based on the mystery shopping audits there were two quality lineups created. Mystery shopping results were discussed and analyzed, those service units who did score low were encouraged to set up action plans in order to fix shortcomings. On the overall, according to the Mystery Shopping audits, the three best vessels were Silja Serenade, Romantika and Baltic Princess. The fleet wide score was 71 points, which was 2 points higher than year before.

NPS

Tallink Grupp uses the NPS as the key measure of our customers' overall perception of your brand. It measures customer experience and predicts business growth. It is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. The score is based on just one question: How likely is it that you would recommend Tallink to a friend or colleague? The higher the score, the better. NPS formula has been customer loyalty metric for five years. In the last three years the company's Net Promoter Score has kept the level of +34%. In 2019, the NPS trend improved in the second half of the year and was significantly higher than a year before.

In February 2020, the Estonian data and insight company Kantar Emor carried out a research among Estonian citizens to measure the net promoter score (NPS) of Estonian companies. Tallink's NPS=44 is the highest among Estonian shipping companies. The average NPS of Estonian shipping companies is 38. In the general ranking of Estonian companies, Tallink is among TOP 10, being on the 9th position.

Internal service monitoring and advising

Service is a competitive advantage. Customers are important stakeholders in our business. Our service fundamentals are about taking a service and making it meet customer's needs for that service. There are service standards for all service encounters and areas, following these standards is a required practice. Our service staff has generally been friendly, respectful and proactive, in 80% of cases have passengers given our service either very good or excellent feedback. During the 2019, the Service Quality Team conducted 12 hands-on workshops regarding the Service Card and service standards. In 2019, the additional focus was put on service and sales activities taking place on the car deck (pre-order). To explain and train the existing service standards, additional instructional sessions were organized onboard or in the Tallink Training Centre. Service advisors issued total 60 internal service summaries in total, all those were subject to discussion and analyzing with vessels service managements and service crew members.

TALLINK CITY HOTEL WINS 3RD PLACE IN NATIONAL GOOD SERVICE MONTH COMPETITION AND CAMPAIGN

In Estonia, March is traditionally celebrated as the month of good customer service. Based on the customers' feedback, the campaign „Customers Give Praise" which took place for the 16th time in 2019 revealed the top service providers among the organisations as well as service locations across Estonia. In 2019, Tallink Hotels had every reason to be overjoyed as Tallink City Hotel won the 3rd place.

For the third year running, the Tallink Hotels City, Express and Spa & Conference hotels participated in the all-Estonian good service month's campaign „Customers Give Praise". Within the good service month campaign, in 2017, Tallink Hotels came 21st among 69 participating entries. In 2018, the hotels improved teir overall ranking and finished in the 20th position. In 2019, as a hotel chain, we ended up ranking on the 28th place among the 67 organisations participating.

The aim of the campaign is to improve and develop customer service culture further both on the service and customer side and to encourage the customers to notice and praise good service. Customers are encouraged to give feedback about the best in customer service by name on the spot or via e-channels. At the end of the month, the customer praises are counted and the service locations with the highest number of praises are ranked based on the number of praises given and the honourable title "Customers praise" is awarded.

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 2019, the programme had 2.6 million members (2.4 million in 2018).

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 Group the supply chain is mostly related to our hotels, duty-free shops and other services onboard. 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, 4 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 2019, 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 2019, 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 2019.

In October 2018 a new procurement policy and procurement procedure entered into force across the group. The procurement policy sets the general framework for the purchase of goods and services within Tallink Grupp. It includes the principles and etiquette of our procurement operations for those involved in procurement procedures. The new procurement procedure is more detailed and provides specific guidelines and rules for employees on how to carry out different procurement activities.

With the procurement procedure, we agree upon rules and principles relating to procurement. Our ambition is to become the most attractive procurer in the Baltic Sea region with everyone wanting to take part in our tenders and all our tenders having many bidders, strong pricing competition and strong cooperation partners. This will only become reality if we are known as a quality procurer and if we are trusted.

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 2019, 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 entered into force in 2018.

There were no confirmed incidents of curruption in 2019.

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 2019 financial year were audited by KPMG Baltics OÜ.

Political contributions

The Group did not financially support any politician or political party in 2019.

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 2019 in any of the markets we operate in.

Customer privacy

Customer satisfaction is one of the highest priorities for Tallink Grupp and we take protecting our customers' and empoyees' privacy very seriously. Since 25th of May 2018, the European General Data Protection Regulation (GDPR) came into application, which applies to our activities related to services that we offer to our customers. The GDPR has created a range of new compliance obligations, which have caused us to change some of our business practices. In order to protect our customers' and employees' privacy on a highest level, we have added a highly qualified Data Protection Officer to our team.

Despite our best efforts, there were occasions when unauthorized parties gained access to our customers' information. In partnership with the Group Data Protection Officer we provided consistent oversight, investigation, guidance and reporting of privacy incidents.

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 2018 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.

MARITIME SAFETY AND EDUCATION

In 2019 Tallink Grupp continued to offer support to the Estonian Volunteer Rescue Association, which unites all the volunteers engaged in land and maritime rescue activities. In late 2017 Tallink Grupp signed a 3-year agreement with the association for the period 2018-2020. During the three-year period Tallink will provide the association with an annual donation of 33 000 EUR and, in addition, carry out joint training exercises and donate equipment to the volunteer association. The donation is aimed at helping the voluntary organisation 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 over 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.

Tallinn Marathon and Tallink 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 2019, the race was held for the second 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 introduce maritime professions to children. In 2018, 1-2 study visits per month were organised onboard Tallink Grupp vessels for the children.

In 2018, a number of children's and youth charities and projects was 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 Grupp additionally supports a number of organisations and events every year by providing free maritime transport to events and tickets as prizes, where possible.

In 2019 Tallink Grupp additionally donated a great number of items left over from ship and hotel renovations to charities and organisations across Estonia and Finland, thus demonstrating the circular economy principles increasingly promoted in the company.

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 organisation (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.

Tallink Silja OY supports HOPE RY

http://www.hopeyhdistys.fi/

2019 was our third year of the co-operation. Hope ry is helping disadvantaged families with kids. Tallink Silja OY donation 12 500 € was used for supporting children's sport hobbies and free time activities, such as day at indoor park, bowling, movie tickets, giftcard to sports store, downhill/outdoor sports day, new bicycles, support for different sports fees such as swimming, gym, wrestling, football, horseback riding, basketball, gymnastics, underwater rugby, futsal. We also donated cruises for 10 families. Many of them had their first cruise ever. Our staff collected clothes etc. for the charity twice, in spring and autumn and had three visits to their sorting center in Helsinki to help sorting donated clothes, shoes, etc., and organized a Christmas campaign to collect presents for kids, both customers' as well as own staff.

Hope ry have only two hired members of staff. All the others who are helping at their 20 sorting centers around Finland are volunteers.

Tallink donates staff event ticket sale proceeds to maritime rescue organisations in home markets

Tallink Grupp holds a staff recognition event for its employees every year in February to recognise the employees who have contributed significantly to the group in the previous year. For the last 2 years, the group has donated the proceeds of the ticket sales of the event to the maritime rescue organisations of its home markets. Over the last few years, the Latvian and Swedish maritime rescue organisations have been supported with thousands of euros each. This tradition will continue in the years to come.

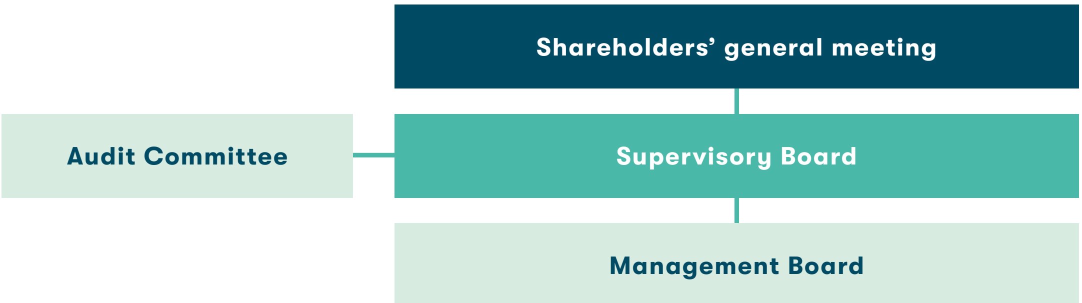
SECTION III: GOVERNANCE REPORT

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.

ORGANISATION AND ADMINISTRATION

Pursuant to the Estonian Commercial Code and the articles of association of 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. The following diagram represents the governance structure of the Group:



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 of 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 23 May 2019. The meeting was attended by the Management Board members Mr Paavo Nõgene, Mr Lembit Kitter, Mrs Kadri Land, Mr Harri Hanschmidt and Mrs Piret Mürk-Dubout. The Supervisory Board members present were Mr Enn Pant, Mr Toivo Ninnas, Mr Ain Hanschmidt, Mr Colin Douglas Clark, Mrs Eve Pant and Mr Kalev Järvelill. The meeting was also attended by the Company's auditor. The chairman of the meeting was Mr Sven Papp. The meeting was held in Estonian. The attending shareholders represented 540 057 134 votes, i.e. 80.6% of all votes. The resolutions adopted were: approval of the annual report, distribution of profits, amendment of the articles of association, reduction of share capital, extension of the authority of the members of the supervisory board, election of a member of the Supervisory Board, remuneration of the members of the Supervisory Board and appointment of an auditor.

THE SUPERVISORY BOARD

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

The Supervisory Board consists of 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 the 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, Mrs Eve Pant, Mr Ain Hanschmidt, Mr Colin Douglas Clark, Mr Kalev Järvelill and Mr Raino Paron. The members of the Supervisory Board have the knowledge and experience necessary to fulfil their duties in accordance with the Corporate Governance Recommendations and legislation.

The meetings of the Supervisory Board are held according to need, but not less frequently than every three months. The Supervisory Board convened five times in 2019, during which eleven decision were made, and four decisions were made in writing without convening. The Company's operations, development, strategies, targets and budget were discussed.

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 in 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 special benefits for the chairman and the members of the Supervisory Board.

The direct shareholdings of the members of the Supervisory Board at the end of 2019 were the following:

NAME	SHARES
Enn Pant	3 838 713
Toivo Ninnas	119 200
Eve Pant	710 000
Ain Hanschmidt	1 800 000
Raino Paron	0
Colin Douglas Clark	0
Kalev Järvelill	0

The expiry dates of the terms of office of the Supervisory Board members are as follows:

NAME	EXPIRATION OF TERM
Enn Pant	13 June 2020
Toivo Ninnas	18 September 2022
Eve Pant	18 September 2022
Ain Hanschmidt	18 September 2022
Raino Paron	18 September 2022
Colin Douglas Clark	18 September 2022
Kalev Järvelill	12 June 2021

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 in entering into contracts on behalf of the Company. The Management Board is independent in their decisions and acts in the best interests of the Company's shareholders.

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

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

At present, the Management Board has five members: Mr Paavo Nõgene – chairman, Mr Lembit Kitter, Mrs Kadri Land, Mr Harri Hanschmidt and Mrs Piret Mürk-Dubout. Mr Paavo Nõgene is responsible for leading the Board and general and strategic management of the Group, additionally he is responsible for daily operations, internal audit, data protection and hotel operations. Mr Lembit Kitter is responsible for the Group's finance, restaurant & bar operations, customer service, and internal control. Mrs Kadri Land is responsible for cargo operations, technical management, safety and security, human resources and regional offices. Mr Harri Hanschmidt is responsible for IT, operational and business development, investor relations, EU funds and new strategic projects. Mrs Piret Mürk-Dubout is responsible for the Group's sales & marketing, retail operations, onboard services and corporate social responsibility.

The Supervisory Board has concluded service agreements with the members of the Management Board. In 2019, the remuneration of the members of the Group's Management Board was EUR 2.9 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. On 20 November 2018, the Supervisory Board adopted renewed principles of remuneration of the management of Tallink Grupp AS. According to the updated 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 12-months' remuneration depending on the size of dividends. The remuneration is paid when the Group earns a profit and when the shareholders' general meeting decides to pay dividends from the profit of the previous financial year. 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 of the members of the Management Board at the end of the 2019 financial year were as follows:

NAME	SHARES
Paavo Nõgene	75 000
Lembit Kitter	0
Kadri Land	74 792
Harri Hanschmidt	12 648
Piret Mürk-Dubout	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 Nasdaq 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 does not have the 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, the Nasdaq Tallinn Stock Exchange and the Nasdaq Helsinki 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. Following the disclosure of interim reports the Company holds public webinar meetings. The information shared at the meetings is limited to data already disclosed. The Company publishes 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.

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 takes 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 2019 were audited by KPMG Baltics OÜ. In addition to audit services, in 2019 KPMG Baltics OÜ provided to the Group with a limited assurance engagement in respect of the packaging report, tax advice, and other services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

The tender for audit services was carried out in 2017 and a request for proposals was sent to four largest audit firms in Estonia. The main evaluation criteria were as follows:

- Time and location of the audit
- International network and competency in the economic sector
- Audit contract and payment terms
- Audited entities

Based on these criteria, the received proposals were evaluated. As a result of the evaluation process, the audit contract was signed with KPMG Baltics OÜ.

The audit fee and the auditor's responsibilities are fixed in an agreement which is concluded by the Management Board. According to the agreement, the fee to be paid to the auditor is not subject to disclosure and is treated as confidential. In the notice of the annual general meeting, the Group publishes the information required by the Commercial Code, which does not include the audit fee.

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 three members:
Mr Meelis Asi – chairman, Mr Ain Hanschmidt and Ms Mare Puusaag.

SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	NUMBER OF SHARES	% OF SHARE CAPITAL
Infortar AS	261 311 973	39.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
ING Luxembourg S.A. AIF Account	44 077 066	6.6%

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

SHARES AND SHAREHOLDERS

At 31 December 2019, Tallink Grupp AS had a total of 669 882 040 (31 December 2018: 669 882 040) shares issued and fully paid.

The shares of Tallink Grupp AS (ISIN: EE3100004466) are registered with Nasdaq CSD Estonian branch and traded on the Nasdaq OMX Tallinn Stock Exchange under the ticker symbol TAL1T (REUTERS: TAL1T.TL, BLOOMBERG: TAL1T ET). Starting from 3 December 2018, the shares of Tallink Grupp AS are also registered as Finnish Depository Receipts (FDRs) with Euroclear Finland Ltd and listed on the Nasdaq Helsinki Stock Exchange, where the FDRs are traded under the ticker symbol TALLINK (ISIN: FI4000349378). Each FDR entitles its holder to one share.

All 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 authorisation 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 0.47.

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. At 31 December 2019 no options had been granted 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 Nasdaq 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.

In conformity with the share buy-back conditions, approved by the Company's annual general meeting on 9 June 2015, from 2 November 2018 to 29 November 2018 the Company acquired 493 800 own shares and converted these shares into FDRs. 217 500 of the repurchased shares were used as part of a FDR reward program for a selected group of employees of Tallink Silja Oy and Tallink Silja AB. The Company's Management Board approved the FDR reward program on 1 November 2018. The remaining 276 300 repurchased shares were sold to liquidity providers to ensure their readiness to support, upon necessity, the liquidity of the FDRs on Nasdaq Helsinki.

The Supervisory Board is authorised to increase share capital by EUR 25 000 000 to up to EUR 339 844 559 within three years from 1 July 2019. The Management Board of Tallink Grupp AS has not been granted the right to issue new shares.

The table below presents the breakdown of share capital by ownership size at 31 December 2019:

OWNERSHIP SIZE	SHAREHOLDERS	% OF SHARE-HOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
1 - 99	913	7.56%	33 288	0.00%
100 - 999	3 762	31.16%	1 675 501	0.25%
1 000 - 9 999	6 429	53.25%	14 576 459	2.18%
10 000 - 99 999	817	6.77%	20 090 008	3.00%
100 000 - 999 999	113	0.94%	32 780 443	4.89%
1 000 000 - 9 999 999	30	0.25%	89 600 608	13.38%
10 000 000 +	9	0.07%	511 125 733	76.30%
Total	12 073	100.00%	669 882 040	100.00%

The account NORDEA BANK ABP / CLIENTS FDR represented 1 598 FDR-holders at 31 December 2019. The total number of shareholders and FDR-holders was 13 670.

The table below presents the largest shareholders of the Group at 31 December 2019:

SHAREHOLDER	NUMBER OF SHARES	% OF SHARE CAPITAL
Infortar AS	261 311 973	39.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
ING Luxembourg S.A. AIF Account	44 077 066	6.6%
Baltic Cruises Investment L.P.	36 931 732	5.5%
Other shareholders	219 718 039	32.8%
Total	669 882 040	100.0%

The table below presents the residency of the shareholders of the Group at 31 December 2019:

RESIDENCY	SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
Estonia	11 822	356 244 908	53.2%
Cayman Islands	7	169 848 565	25.4%
Luxembourg	6	45 925 404	6.9%
Finland	85	36 135 506	5.4%
United States	15	27 413 897	4.1%
Germany	15	10 174 464	1.5%
Austria	4	5 085 914	0.8%
Latvia	21	4 723 724	0.7%
Lithuania	11	3 987 760	0.6%
Sweden	27	3 363 991	0.5%
Denmark	7	2 763 357	0.4%
United Kingdom	14	2 366 059	0.4%
France	3	1 012 765	0.2%
Belgium	2	402 429	0.1%
Switzerland	6	363 480	0.1%
Other	28	69 817	0.0%
Total	12 073	669 882 040	100%

At 31 December 2019, 7.3% of the Group's shares were held by individuals. The table below presents the investors of the Group by investor type at 31 December 2019:

INVESTOR TYPE	SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
Principal shareholder, Infortar AS	1	261 311 973	39.01%
Institutional investors	980	359 642 685	53.69%
Private individuals	11 092	48 927 382	7.30%

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 rights 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 Nasdaq Tallinn Stock Exchange and the Nasdaq Helsinki Stock Exchange or the Corporate Governance Recommendations of the Nasdaq Tallinn Stock Exchange.

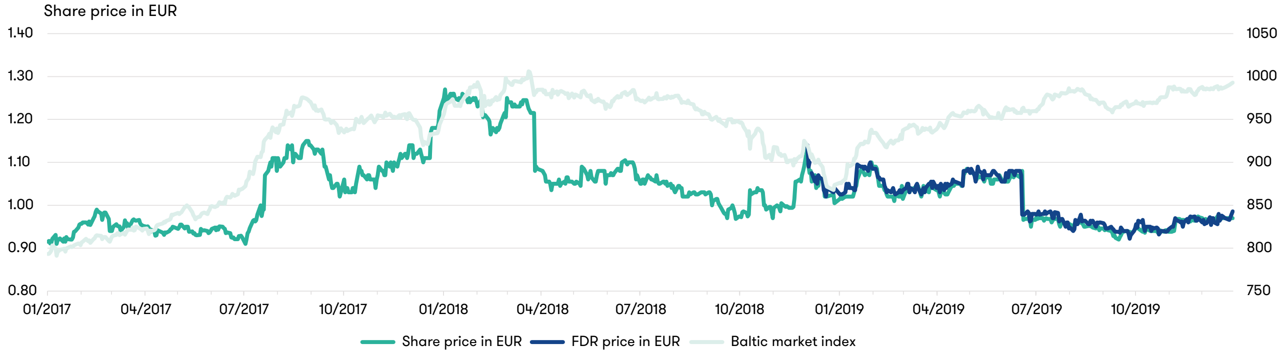
Two shareholders of Tallink Grupp AS, Baltic Cruises Holding L.P. ("BCH") and Baltic Cruises Investment L.P. ("BCI"), and another shareholder, Citigroup Venture Capital International Growth Partnership (Employee) II L.P. ("CVCI"), concluded an agreement that restricts the free transferability of Tallink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

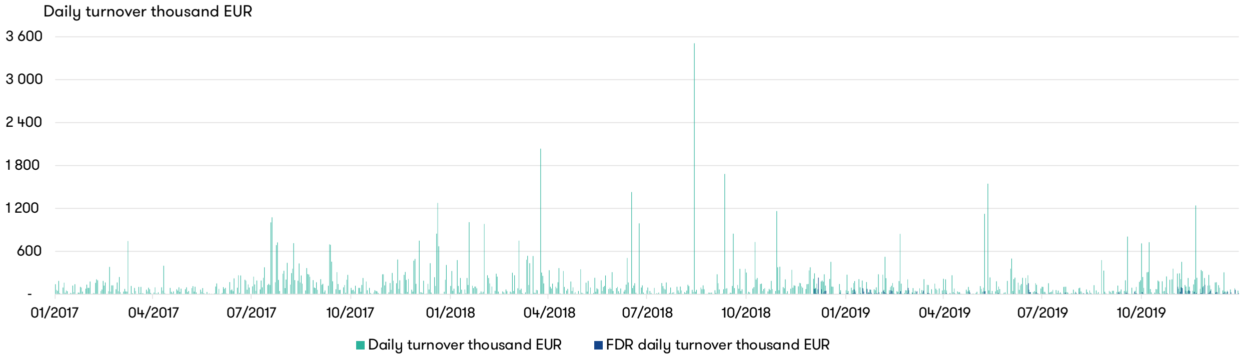
TRADING

During 2019, 31 904 722 Tallink Grupp AS shares were traded on the Nasdaq Tallinn Stock Exchange. The highest share price on the Nasdaq Tallinn Stock Exchange was EUR 1.10 and the lowest share price was EUR 0.92. The average daily turnover of Tallink Grupp AS shares on the Nasdaq Tallinn Stock Exchange was EUR 126.9 thousand.

In 2019, 3 641 989 Tallink Grupp AS FDRs were traded on the Nasdaq Helsinki Stock Exchange. The highest price was EUR 1.11 and the lowest price was EUR 0.92. The average daily turnover of Tallink Grupp AS FDRs on the Nasdaq Helsinki Stock Exchange was EUR 14.6 thousand.

The following charts and table give an overview of the performance of the share price, FDR price, turnover developments and the Baltic market index from 1 January 2017 to 31 December 2019 as well as distributions to shareholders in 2019 and implied market valuation and P/E ratio at the end of 2019.





INSTRUMENT	Open	Close	Daily close average	Payout	Market value, EUR million	P/E ratio
TAL1T	1.02	0.970	0.998	0.12	649.79	13.07
TALLINK FDR	1.04	0.99	1.005	0.12	660.50	13.28

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 made in recent years. The Group's policy has been to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business.

In October 2018, the Management Board of Tallink Grupp AS decided to supplement the Company's dividend policy, according to which if the economic performance enables it, dividends would be paid in the minimum amount of EUR 0.05 per share.

In May 2019, the annual general meeting decided to pay a dividend of EUR 0.05 per share from net profit for 2018. The total dividend of EUR 33.5 million (83.6% of 2018 net profit) was paid out on 3 July 2019. In addition, to improve the Company's capital structure, the shareholders' annual general meeting decided to reduce the Company's share capital by EUR 0.07 per share or by EUR 46.9 million, which was paid out on 3 December 2019.

Due to a deteriorated operating environment after the reporting date and considering the Company's long-term interests, the Management Board has decided to propose to the Supervisory Board not to pay dividends from net profit for 2019.

KEY MANAGEMENT PERSONNEL

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.

Mr Enn Pant
(born 1965)

Chairman of the Supervisory Board since 2015

- Chairman of the Management Board from 1996 to 2015, Chief Executive Officer
- Chairman of the Supervisory Board of Infortar AS
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated from the Faculty of Economics, the 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
- Member of the Supervisory Board of Infortar AS
- Served at ESCO (Estonian Shipping Company) from 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

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

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 the Bank of Scotland in Edinburgh in various positions
- Holds a Bachelor's degree in Accountancy and Management from the 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 Infortar AS
- 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, the University of Tartu, Estonia, in 1993

Mr Raino Paron
(born 1965)

Member of the Supervisory Board since September 2019

- Head of Banking & Finance and EU & Competition practice groups in the law firm Raidla Ellex
- Member of the Management Board of Finance Estonia
- Member of the Supervisory Board of Inbank AS
- Partner and attorney-at-law at law firm Ellex Raidla since 1998
- Chairman of the Supervisory Board of the Arbitration Court of the Tallinn Stock Exchange
- Graduated from the University of Tartu, Estonia in 1990 (cum laude) and from Georgetown University, USA in 1993 with a LL.M degree (Master of Laws) with honours.

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 in entering into contracts on behalf of the Company. The Management Board is independent in their decisions and acts in 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.

Mr Paavo Nõgene (born 1980)

Chairman of the Management Board since May, 2018

- Secretary-General of the Ministry of Culture of the Republic of Estonia from 2013 to 2018
- General Manager of Vanemuine Theatre in Estonia from 2007 to 2012
- Chairman of the Supervisory Board of the Art Museum of Estonia
- Member of the Supervisory Board of Estonian Public Broadcasting
- Graduated from the University of Tartu, Estonia, in 2012 with a degree in Journalism and Communications

Mr Lembit Kitter (born 1953)

Member of the Management Board, since 2006

- Worked in the banking sector in Estonia since 1992 in leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank
- Over 40 years' experience in businesses with both an Estonian and international customer base, with responsibility for business areas ranging from finance to sales and marketing.
- Graduated from the Faculty of Economics, the University of Tartu, Estonia, in 1976

Mrs Kadri Land (born 1964)

Member of the Management Board since February 2019

- Has been working for the Group since 2005 and, during that time, has held several senior positions within the organisation, including the roles of a Member of the Management Board between 2012 and 2015, and since 2016 the role of the Head of the Group's Global Operations and Logistics
- Member of the Supervisory Board of AS Tallinna Lennujaam and Chairwoman of the Supervisory Board of Tallink Silja AB
- Member of the Management Board of the Swedish Maritime Employers' Association and Member of the Management Board of the Swedish Chamber of Commerce in Estonia
- Graduated from the Faculty of Chemistry and Physics, the University of Tartu, Estonia, in 1987

Mr Harri Hanschmidt (born 1982)

Member of the Management Board since February 2019

- Has been working for the Group since 2009 and has held positions of Head of Investor Relations and Head of the Finance Department among other roles
- Since 2015 has held the position of the Group Head of Strategic Projects
- Worked in various roles in Estonian IT sector organisations prior to joining Tallink Grupp
- Holds a Master's degree in Business Informatics from Tallinn Technical University since 2008

Mrs Piret Mürk-Dubout (born 1970)

Member of the Management Board since April 2019

- Prior to joining the Group, worked in Tallinn Airport where held the position of Chief Executive Officer and Chairman of the Management Board since 2016
- Worked in several senior positions in Telia Company group companies between 2010 and 2016
- Holds an Executive Master of Business Administration degree from the Estonian Business School, a diploma in Jurisprudence from the University of Tartu, and a Master's degree in Media & Communications from the University of Tartu

THE ECONOMIC ENVIRONMENT AND RISKS

ECONOMIC ENVIRONMENT

The Group operates shipping routes to and from Finland, Sweden, Estonia and Latvia and therefore considers these countries its home markets. As nearly half of all the passengers are Finns, the Group is exposed the most to economic developments in Finland. Similarly, the Group faces high exposure to economic developments in Estonia (19% of total passengers in 2019) and Sweden (11%). The number of passengers from Latvia accounted for 4% of the total passengers in 2019 with the remaining 21% from the rest of the world, mainly Europe.

According to the latest data, in 2019 the real growth of the economies of all the Group's home markets slowed relative to 2018. Both the business confidence indicators and growth of imports of goods and services decreased in all home markets throughout the year. The growth of exports slowed in Estonia and Latvia but improved in Finland and Sweden.

The dynamics of the environment are reflected also in the volume of cargo units transported by the Group in 2019 – down 1.4% overall, but up 4.6% on the Finland-Sweden route. The Group's cargo operations were further affected by labour strikes in Finland at the end of 2019 and increased competitive pressure.

The cooler economic environment, and the situation with trade and cargo transportation in particular, weighed on the Group's core operations. Revenues from core shipping operations slipped by 0.1% in 2019 with cargo revenues down by 4.6%. The weak confidence of Finnish and Swedish consumers in 2019 is reflected in passenger operations revenue, which grew by 0.7%, falling short of the GDP growth rates in the respective markets. The more buoyant confidence of the Estonian and Latvian consumers, combined with the reduction of alcohol excise duty rates in Estonia in the second half of the year as well as growing passenger numbers from outside the home markets had a positive impact on the development of passenger operations revenue.

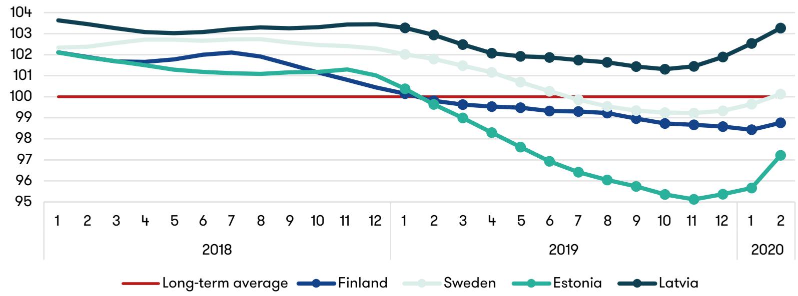
Despite slower GDP growth in the home markets and the broad issues with business confidence, for employers the labour situation remained challenging in 2019. Except for Sweden, the unemployment rates decreased in all markets and were particularly low, at just 5.0% in Estonia. On the flip side, high employment supports consumer confidence and purchasing power. The latter particularly in combination with low or moderate inflation. The consumer price inflation continued to be subdued in Finland, broadly around the ECB target of 2% in Sweden and Estonia, and the fastest at 2.7% in Latvia.

The average fuel prices were notably lower in 2019 than in the previous year. Combined with the effect from fuel price-fixing agreements with suppliers, the effective fuel prices remained, on average, 10% lower relative to 2018. The global fuel prices are expected to remain volatile due to uncertainties in the global economy and politics.

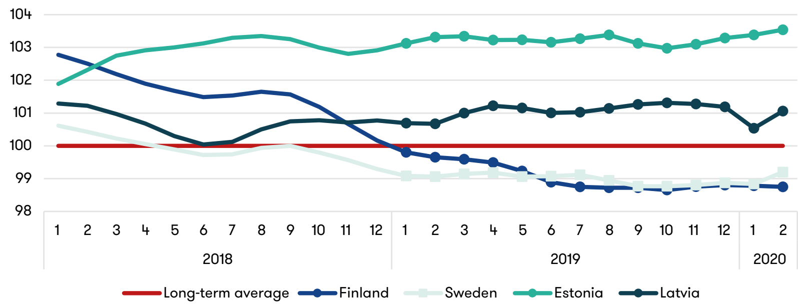
Although the early 2020 show encouraging signs regarding the stabilisation and improvement of business confidence levels, the situation has now deteriorated significantly following the global outbreak of a new coronavirus disease, Covid-19. At this stage, the outlook and latest available forecast remains highly uncertain, with lower demand, restrictions on travel and holding public events, potential disruptions to supply chains and the likely ripple effect in business activity and consumer confidence being the key risk factors. Because of the Covid-19 outbreak, the global economic environment will be weaker than initially expected with the travel and transportation sectors likely to experience higher than average adverse impacts. Much will depend on the extent and duration of the Covid-19 outbreak and measures taken by authorities to mitigate its impact.

In addition to the direct and indirect risks arising from the Covid-19 situation, we continue to see risks to the economic environment from the protectionist tendencies – the US relations with China and the EU as well as the UK's withdrawal from the EU. All leading potentially to the deferral of investments and, as an extension, to decreased trade for all of the open economies around the Baltic Sea.

Business confidence index



Consumer confidence index



Real GDP, change	2018	2019	2020f
Finland	1.7%	1.3%	1.0%
Sweden	2.4%	1.4%	1.2%
Estonia	4.8%	3.2%	2.2%
Latvia	4.6%	2.3%	2.5%

Source: OECD (2020), Real GDP forecast (indicator). doi: 10.1787/1f84150b-en (Accessed on 6 April 2020)

Unemployment rate (% of labour force)	2018	2019	2020f
Finland	7.4%	6.6%	6.6%
Sweden	6.3%	6.8%	7.0%
Estonia	5.4%	5.0%	5.1%
Latvia	7.4%	6.4%	6.4%

Source: OECD (2020), Unemployment rate forecast (indicator). doi: 10.1787/b487f2cf-en (Accessed on 6 April 2020)

Harmonised index of consumer prices	2018	2019	2020e
Finland	1.2%	1.1%	1.4%
Sweden	2.0%	1.7%	1.4%
Estonia	3.4%	2.3%	2.1%
Latvia	2.6%	2.7%	2.3%

Source: Eurostat, f - European Comission, Winter 2020 Economic Forecast

RISKS

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

- Covid-19 situation and developments
- 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

SECTION IV: FINANCIAL STATEMENTS

2019 KEY FIGURES

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

Equity per share: shareholders' equity / number of shares outstanding

Gross margin: gross profit / revenue

EBITDA margin: EBITDA / revenue

Net profit margin: net profit or loss / revenue

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

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

Current ratio: current assets / current liabilities

For the year ended 31 December
Revenue (million euros)
Gross profit (million euros)
EBITDA[1] [2] (million euros)
EBIT[1] (million euros)
Net profit for the period (million euros)
Depreciation and amortisation[3] (million euros)
Capital expenditures[1] [5](million euros)
Weighted average number of ordinary shares outstanding
Earnings per share[1]
Number of passengers[1]
Number of cargo units[1]
Average number of employees[1]
As at 31 December
Total assets[3] (million euros)
Total liabilities (million euros)
Interest-bearing liabilities[4] (million euros)
Net debt[1] (million euros)
Net debt to EBITDA[1]
Total equity (million euros)
Equity ratio[1] (%)
Number of ordinary shares outstanding
Equity per share[1]
Ratios[1]
Gross margin (%)
EBITDA margin (%)
EBIT margin (%)
Net profit margin (%)
ROA (%)
ROE (%)
ROCE (%)
Current ratio

[1] Alternative performance measures based on ESMA guidelines are disclosed in the "Alternative performance measures" section of the report.
[2] EBITDA adjusted for 2019 without the IFRS 16 adoption effect was EUR 153.7 million.
[3] Please see note 14 for the IFRS 16 adoption effect on assets.
[4] Please see note 16 for the IFRS 16 adoption effect on interest-bearing liabilities.
[5] Does not include additions to right-of-use assets.

	2019	2018	2017
	949.1	949.7	967.0
	196.9	183.8	194.6
	171.1	142.8	158.3
	74.9	63.5	72.0
	49.7	40.0	46.5
	96.2	79.3	86.4
	60.9	36.4	219.3
	669 881 045	669 859 148	669 882 040
	0.074	0.060	0.069
	9 763 210	9 756 611	9 755 720
	379 634	384 958	364 296
	7 270	7 430	7 406

	2019	2018	2017
	1 533.0	1 500.9	1 558.6
	710.1	644.0	722.3
	577.9	510.1	560.9
	539.0	428.0	472.0
	3.15	3.00	2.98
	822.8	856.9	836.3
	53.7%	57.1%	53.7%
	669 882 040	669 865 540	669 882 040
	1.23	1.28	1.25

	2019	2018	2017
	20.7%	19.4%	20.1%
	18.0%	15.0%	16.4%
	7.9%	6.7%	7.4%
	5.2%	4.2%	4.8%
	4.8%	4.1%	4.3%
	6.0%	4.8%	5.6%
	5.7%	5.2%	5.3%
	0.54	0.79	0.57

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December, in thousands of EUR	2019	2018
Revenue (Note 4)	949 119	949 723
Cost of sales (Note 5)	-752 234	-765 892
Gross profit	**196 885**	**183 831**
Sales and marketing expenses (Note 5)	-67 727	-69 315
Administrative expenses (Note 5)	-56 555	-55 223
Impairment loss on receivables (Note 23)	-228	-272
Other operating income	2 599	4 633
Other operating expenses	-106	-153
Result from operating activities	**74 868**	**63 501**
Finance income (Note 5)	995	8,631
Finance costs (Note 5)	-18 674	-27 552
Share of loss/profit of equity-accounted investees (Note 12)	-4	4
Profit before income tax	**57 185**	**44 584**
Income tax (Note 6)	-7 467	-4 535
Net profit	49 718	40 049
Net profit attributable to equity holders of the Parent	49 718	40 049
Other compherensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	161	267
Other comprehensive income	**161**	**267**
Total comprehensive income	49 879	40 316
Total comprehensive income attributable to equity holders of the Parent	49 879	40 316
Basic and diluted earnings per share (in EUR, Note 7)	0.074	0.060

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, in thousands of EUR	**2019**	**2018**
ASSETS		
Cash and cash equivalents (Note 8)	38 877	82 175
Trade and other receivables (Note 9)	37 606	43 805
Prepayments (Note 10)	6 805	6 084
Prepaid income tax	67	46
Inventories (Note 11)	37 255	35 741
Current assets	**120 610**	**167 851**
Investments in equity-accounted investees (Note 12)	403	407
Other financial assets and prepayments(Note 13)	1 619	320
Deferred income tax assets (Note 6)	18 674	17 934
Investment property	300	300
Property, plant and equipment (Note 14)	1 347 093	1 267 928
Intangible assets (Note 15)	44 264	46 164
Non-current assets	**1 412 353**	**1 333 053**
TOTAL ASSETS	**1 532 963**	**1 500 904**
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings (Note 16)	89 198	78 658
Trade and other payables (Note 17)	98 926	100 682
Derivatives (Note 23)	0	918
Payables to owners	6	2
Income tax liability	0	116
Deferred income (Note 18)	33 314	32 113
Current liabilities	**221 444**	**212 489**
Interest-bearing loans and borrowings (Note 16)	488 682	431 477
Derivatives (Note 23)	0	0
Other liabilities	0	22
Non-current liabilities	**488 682**	**431 499**
Total liabilities	**710 126**	**643 988**
Share capital (Note 19)	314 844	361 736
Share premium (Note 19)	663	662
Reserves (Note 19)	69 608	69 474
Retained earnings	437 722	425 044
Equity attributable to equity holders of the Parent	**822 837**	**856 916**
Total equity	**822 837**	**856 916**
TOTAL LIABILITIES AND EQUITY	**1 532 963**	**1 500 904**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, in thousands of EUR	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	49 718	40,049
Adjustments for:		
Depreciation and amortisation (Notes 14, 15)	96 249	79 280
Net loss on disposals of property, plant and equipment	-80	-104
Net interest expense (Note 5)	17 644	19 806
Net income/expense from derivatives (Note 5)	111	-5 055
Loss/profit from equity-accounted investees (Note 12)	4	-4
Net unrealised foreign exchange loss	107	4,294
Treasury shares	18	6
Income tax (Note 6)	8 207	4 535
Adjustments	**122 260**	**102 758**
Changes in:		
Receivables and prepayments related to operating activities	4 740	2 407
Inventories	-1 514	4 934
Liabilities related to operating activities	-311	6,723
Changes in assets and liabilities	2 915	14 064
Cash generated from operating activities	174, 893	156 871
Income tax paid	-317	-87
NET CASH FROM OPERATING ACTIVITIES	**174 576**	**156 784**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-60 887	-36 037
Proceeds from disposals of property, plant, equipment	192	368
Proceeds from other financial assets	0	0
Interest received	1	7
NET CASH USED IN INVESTING ACTIVITIES	**-60 694**	**-35 662**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans received	45 000	110 000
Repayment of loans received	-79 750	-69 666
Repayment of bonds (Note 16)	0	-120 303
Change in overdraft (Note 16)	0	0
Payments for settlement of derivatives	-1 029	-3 569
Payment of lease liabilities	-14 822	-108
Interest paid	-16 717	-19 440
Payment of transaction costs related to loans	-1 431	-1 113
Dividends paid (Note 19)	-33 443	-20 096
Reduction of share capital	-46 888	-1
Income tax on dividends paid (Note 19)	-8 100	-3 562
NET CASH USED IN FINANCING ACTIVITIES	**-157 180**	**-127 858**
TOTAL NET CASH FLOW	**-43 298**	**-6 736**
Cash and cash equivalents at the beginning of period	82 175	88 911
Change in cash and cash equivalents (Note 8)	-43 298	-6 736
Cash and cash equivalents at the end of period	**38 877**	**82 175**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of EUR	Share capital	Share premium	Translation reserve	Ships re-valuation reserve	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2018	**361 736**	**662**	**269**	**41 552**	**27 670**	**-17**	**425 044**	**856 916**	**856 916**
Initial application of IFRS 16	0	0	0	0	0	0	-3 590	-3 590	-3 590
Adjusted balance as at 1 January 2019	361 736	662	269	41 552	27 670	-17	421 454	853 326	853 326
Net profit for 2019	0	0	0	0	0	0	49 718	49 718	49 718
Other comprehensive income for 2019									
Exchange differences on translating foreign operations	0	0	161	0	0	0	0	161	161
Total comprehensive income for 2019	0	0	161	0	0	0	49 718	49 879	49 879
Transactions with owners of the Company recognised directly in equity									
Transfer from profit for 2018	0	0	0	0	2 003	0	-2 003	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	-33 494	-33 494	-33 494
Share-based payment transactions	0	1	0	0	0	17	0	18	18
Cancellation of own shares	0	0	0	0	0	0	0	0	0
Reduction of share capital	-46 892	0	0	0	0	0	0	-46 892	-46 892
Total transactions with owners of the Company recognised directly in equity	-46 892	1	0	-2 047	2 003	17	-33 450	-80 368	-80 368
As at 31 December 2019	**314 844**	**663**	**430**	**39 505**	**29 673**	**0**	**437 722**	**822 837**	**822 837**
As at 31 December 2017	**361 736**	**639**	**2**	**43 599**	**25 345**	**0**	**404 958**	**836 279**	**836 279**
Initial application of IFRS 9 and IFRS 15	0	0	0	0	0	0	411	411	411
Adjusted balance as at 1 January 2018	361 736	639	2	43 599	25 345	0	405 369	836 690	836 690
Net profit for 2018	0	0	0	0	0	0	40 049	40 049	40 049
Other comprehensive income for 2018									
Exchange differences on translating foreign operations	0	0	267	0	0	0	0	267	267
Total comprehensive income for 2018	0	0	267	0	0	0	40 049	40 316	40 316
Transactions with owners of the Company recognised directly in equity									
Transfer from profit for 2017	0	0	0	0	2 325	0	-2 325	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	-20 096	-20 096	-20 096
Share-based payment transactions	0	23	0	0	0	-17	0	6	6
Total transactions with owners of the Company recognised directly in equity	0	23	0	-2 047	2 325	-17	-20 374	-20 090	-20 090
As at 31 December 2018	**361 736**	**662**	**269**	**41 552**	**27 670**	**-17**	**425 044**	**856 916**	**856 916**

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 2019 were authorised for issue by the Management Board on 14 April 2020.

According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the Management Board must first be approved by the Supervisory Board and ultimately 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 Tallinn. Tallink Grupp AS shares have been publicly traded on the Nasdaq 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 Group's principal activities is presented in Note 4 Segment information. At 31 December 2019 the Group employed 7 240 people (7 242 at 31 December 2018).

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 23)
- equity securities 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

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 2019.

Changes in significant accounting policies

The Group applied IFRS 16 initially on 1 January 2019.

IFRS 16 Leases

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 remains largely unaffected by the introduction of the new standard and the distinction between operating and finance leases is retained.

The Group adopted IFRS 16 Leases retrospectively from 1 January 2019, with the cumulative effect of initially applying IFRS 16 recognised in the opening balance of retained earnings at the date of initial application, instead of restating comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in this Note in the section Leases.

On transition to IFRS 16, the Group elected to apply the practical expedient to 'grandfather' the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

The Group as a lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average rate applied was 2.23%. The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

As at 1 January, in thousands of EUR	2019
Impact on the consolidated statement of financial position	
Right-of-use assets - property, plant and equipment	100 770
Lease liabilities	104 360
Retained earnings	**-3 590**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied was 2.23 %.

As at 1 January, in thousands of EUR	2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	118 173
Discounted using the incremental borrowing rate at 1 January 2019	106 910
Finance lease liabilities recognised at 31 December 2018	428
Recognition exemption for leases of short term and low-value assets	-2 550
Lease liabilities recognised at 1 January 2019	**104 788**

The Group as a lessor

The Group charters out its vessel. The Group has classified this lease as an operating lease. The Group is not required to make any adjustments on transition to IFRS 16 for leases under which it is a lessor.

Effective standards and interpretations

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses must be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information. Amendments to IFRIC 23 did not have a material impact on the Group's financial statements.

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 2019 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

Effective for annual periods beginning on or after 1 January 2020.

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that the IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- 'Highly probable' requirement
- Risk components
- Prospective assessments
- Retrospective effectiveness test (for IAS 39)
- Recycling of the cash flow hedging reserve.

The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The European Commission decided to defer the endorsement indefinitely.

The amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements.

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020

These amendments are not yet endorsed by the EU.
The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Other changes

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'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:

Lease term

Judgement to determine whether the Group is reasonably certain to exercise extension options.

As at 31 December 2019, the Group had entered into lease agreements for four hotel buildings, four office buildings, one warehouse building, two restaurant buildings and sixteen shops (31 December 2018: four hotel buildings, three office buildings, one warehouse building and one restaurant building and fifteen shops). Starting from 2019 the Group accounts for leases according to the principles of IFRS 16. See Note 20 for more detailed information on the minimum lease payments of the lease agreements.

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 2019. 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 2019 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 2019. Further details are given in Note 3.4 and Note 14.

Determination of the useful lives 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.

During 2019, the Group conducted an in-service expectancy review of its vessels. Previously the Group estimated the maximum useful life of its vessels to be 35 years. Based on the intensity of usage analysis of its older vessels, the Group concluded, that the maximum estimated useful life of its vessels can be extended by 5 years. As a result, the expected useful life of three vessels was increased from 35 years to 40 years and their estimated residual value remained the same. The effect of these changes is disclosed in Note 14.

Management's estimates of the useful lives of the Group's property, plant and equipment and the Group's intangible assets are 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 2019 amounted to EUR 11 066 thousand (31 December 2018: 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 provided in Note 6.

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 separate performance obligation, which is deferred at the date of the initial sale. The credits are recognised based on the relative stand-alone selling price allocation method. See also 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 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

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI – debt investment;
- FVOCI – equity investment; or
- FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets 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 amount outstanding.

All financial assets not classified as measured at amortised cost as described above or FVOCI are measured at FVTPL. This includes all derivative financial assets.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method.

The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

The Group also enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

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

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 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) is added to the carrying amount of the asset, 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 40 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 40 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 an 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 the 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. 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 a 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.

3.12. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

3.13. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer. The following provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies. 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 goods are delivered and have been accepted by customers at their locations, i.e. 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 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 revenue that has not yet been earned in relation to prepaid room days.

Revenue from travel packages

The Group sells travel 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 travel packages in its revenue in full instead of recognising only the commission fee for accommodation, tours and entertainment events, as the Group is able to determine the price of the content of the package and has discretion in selecting the suppliers for the service. Revenue from sales of travel 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 16.

Customer loyalty programme

The Group allocates a portion of the consideration received to Club One loyalty points. This allocation is based on the relative stand-alone selling price method. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote. The deferred revenue is included in contract liabilities. See also Note 4 and Note 18.

3.14. 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.

3.15. Finance income and finance costs

Finance income comprises interest income on funds invested (including equity instruments), dividend income, gains on the disposal of equity instruments, 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.

3.16. Income tax

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

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

With the exception of Group companies domiciled in Estonia and Latvia, 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.

Recognition of deferred income tax on investments made in Estonian and Latvian subsidiaries, associates and joint ventures.

In 2018, a new income tax system was introduced in Latvia that is similar to the one used in Estonia. However, after its implementation deferred income is recognised in IFRS statements in a way that differs from the approach that is currently used in Estonia.

According to the approach in Latvia, deferred income on investments made in subsidiaries, associates and joint ventures must also be recognised when these investments have been made in such countries (e.g. Estonia and Latvia) where corporate income tax is payable on distributable profits unless the group is able to control the timing of the reversal of temporary differences and their reversal in the near future is not probable. According to the approach currently used in Estonia, the deferred income tax liability is not recognised in this case.

Currently there is no common position in Estonia as to which approach is correct. The Ministry of Finance has asked the IFRIC's opinion on the correct interpretation of IAS 12 Income Taxes. IFRIC is expected to issue its final decision by June 2020.

The Group's Management Board has decided to continue using the current accounting policy for the recognition of the deferred tax liabilities on investments in subsidiaries, associates and joint ventures. Under this approach, the deferred tax liability is always zero in countries where corporate income tax is payable on distributable profits (e.g. Estonia and Latvia) because according to paragraph 52A of IAS 12, the deferred tax liability that arises on investments in such countries is measured at the zero rate applicable to retained earnings.

If the Group were to change its accounting policy and recognise deferred income tax on such investments, the amount of the liability would be immaterial as at 31 December 2019.

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 of 14% or 20% (calculated as 14/86 or 20/80 of the net dividends to be paid in 2019). 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 a revised dividend taxation regime in Estonia including a lower income tax rate of 14% (14/86 of the 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 20.

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, a company's net profit and the profit from permanent establishments, adjusted for temporary and permanent differences as determined by the local income tax legislation, is subject to current income tax in the countries in which the Group's 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 the profits of companies derived in 2018 and subsequent periods are taxed similarly to Estonia at the moment of distribution with corporate income tax at a rate of 20% (at 20/80 of the net amount).

3.17. 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.

3.18. 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.

3.19. 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.

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.

3.20. Separate financial statements of the Parent

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 25 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 organised and managed separately according to the nature of the different markets. As at 31 December 2019 the Group operated in the following business segments:

- Estonia - Finland routes: 4 ships (31 December 2018: 4 ships)
- Estonia - Sweden routes: 3 ships (31 December 2018: 3 ships)
- Latvia - Sweden route: 2 ships (31 December 2018: 2 ships)
- Finland - Sweden routes: 4 ships (31 December 2018: 4 ships)
- Other segment
    - Ships chartered out by the Group: 1 ship (31 December 2018: 1 ship)
    - Hotels in Estonia: 3 hotels (31 December 2018: 3 hotels)
    - Hotels in Latvia : 1 hotel (31 December 2018: 1 hotel)
    - Shops in Estonia: 16 shops (31 December 2018: 15 shops)
    - Restaurants in Estonia: 2 restaurants (31 December 2018: 1 restaurant)

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 2019 and 31 December 2018.

Geographical segments – by the location of assets

FOR THE YEAR ENDED 31 DECEMBER IN THOUSANDS OF EUR
2019
Sales to external customers
Intersegment sales
Revenue
Segment result
Unallocated expenses
Net financial items
Share of loss 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
2018
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

Estonia-Finland routes	Estonia-Sweden routes	Latvia-Sweden route	Finland-Sweden routes	Other	Intersegment elimination	Total
353 977	112 271	72 535	344 404	65 932	0	949 119
0	0	0	0	7 795	-7 795	0
353 977	112 271	72 535	344 404	73 727	-7 795	949 119
80 435	4 724	606	26 771	16 622	0	129 158
						-54 290
						-17 679
						-4
						57 185
						-7 467
						49 718
425 129	267 695	118 042	493 764	146 778	-490	1 450 918
						82 045
						1 532 963
62 108	24 022	9 932	75 157	87 737	-490	258 466
						451 660
						710 126
7 306	10 606	4 153	18 073	1 958	0	42 096
						13 815
2	27	20	0	139	0	188
						4 805
17 649	12 086	8 163	28 698	16 409	0	83 005
						6 351
731	153	45	517	229	0	1 675
						5 218
355 995	118 991	71 291	337 471	65 975	0	949 723
0	0	0	0	8 857	-8 857	0
355 995	118 991	71 291	337 471	74 832	-8 857	949 723
80 317	5 844	-982	16 182	13 155	0	114 516
						-51 015
						-18 921
						4
						44 584
						-4 535
						40 049
435 618	270 254	121 419	512 641	75 535	-591	1 414 876
						86 028
						1 500 904
30 003	10 984	8 858	68 446	7 916	-591	125 616
						518 372
						643 988
4 078	3 265	869	23 980	1 285	0	33 477
						2 352
20	20	0	2	2	0	44
						3 179
18 067	11 761	7 833	27 782	5 475	0	70 918
						2 411
628	140	54	405	207	0	1 434
						4 517

Revenue by service

For the year ended 31 December, in thousands of EUR	Routes 2019	Other 2019	Total 2019	Routes 2018	Other 2018	Total 2018
Revenue from contracts with customers						
Restaurant and shop sales on-board and onshore	504 606	31 962	536 568	495 777	28 639	524 416
Ticket sales	240 653	0	240 653	243 807	0	243 807
Sales of cargo transport	119 078	0	119 078	124 852	0	124 852
Sales of accommodation	0	16 084	16 084	0	19 183	19 183
Other	9 970	9 597	19 567	10 345	10 123	20 468
Total revenue from contracts with customers	**874 307**	**57 643**	**931 950**	**874 781**	**57 945**	**932 726**
Revenue from other sources						
Income from charter of vessels	0	8 289	8 289	0	8 030	8 030
Other	8 880	0	8 880	8 967	0	8 967
Total revenue from other sources	**8 880**	**8 289**	**17 169**	**8 967**	**8 030**	**16 997**
Total revenue of the Group	**883 187**	**65 932**	**949 119**	**883 748**	**65 975**	**949 723**

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

In thousands of EUR	31 December 2019	31 December 2018
Trade and other receivables	37 606	43 805
Contract liabilities		
Club One points	11 250	11 303
Prepaid revenue	22 064	20 810
Total contract liabilities	**33 314**	**32 113**

The contract liabilities relate to the advance consideration received from customers and to the unredeemed customer loyalty points. Loyalty points are recognised as revenue when the points are redeemed by customers, which is expected to occur over the next two years.

NOTE 5
OPERATING EXPENSES AND FINANCIAL ITEMS

Cost of sales

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Cost of goods sold	-221 139	-217 429
Port & stevedoring costs	-103 469	-104 772
Fuel costs	-89 614	-102 473
Staff costs	-163 148	-160 608
Ships' operating expenses	-72 698	-75 657
Depreciation and amortisation (Notes 14, 15)	-82 710	-70 917
Cost of travel package sales	-10 684	-11 001
Other costs	-8 772	-23 035
TOTAL COST OF SALES	**-752 234**	**-765 892**

Sales and marketing expenses

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Advertising expenses	-30 350	-32 372
Staff costs	-31 612	-32 652
Depreciation and amortisation (Notes 14, 15)	-1 970	-1 435
Other costs	-3 795	-2 856
TOTAL SALES AND MARKETING EXPENSES	**-67 727**	**-69 315**

Administrative expenses

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Staff costs	-28 748	-24 849
Depreciation and amortisation (Notes 14, 15)	-11 569	-6 927
Other costs	-16 238	-23 447
TOTAL ADMINISTRATIVE EXPENSES	**-56 555**	**-55 223**

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	2019	2018
Wages and salaries	-195 829	-189 816
Government grants	36 724	35 807
Social security costs	-59 490	-58 797
Staff training costs	-1 577	-1 772
Other staff costs	-3 336	-3 531
TOTAL STAFF COSTS	**-223 508**	**-218 109**

During the reporting period EUR 36 724 thousand was deducted from the cost of sales in connection with government grants related to seamen's salaries in Finland and Sweden (2018: EUR 35 806 thousand). The grants are received according to law. Government grants receivable are disclosed in Note 9.

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

FOR THE YEAR ENDED 31 DECEMBER	2019	2018
Employees under employment contract	69 39	7 018
Employees under service contract	326	408
Members of the Management Board	5	4
TOTAL AVERAGE NUMBER OF EMPLOYEES	**7 270**	**7 430**

Finance income and finance costs recognised in profit or loss

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Net foreign exchange gain	76	0
Income on foreign exchange derivatives	0	4 854
Interest income on financial assets not measured at fair value through profit or loss	0	0
Income on interest rate swaps	918	3 770
Income from other financial assets	1	7
TOTAL FINANCE INCOME	**995**	**8 631**
Net foreign exchange loss	0	-4 170
Expenses on foreign exchange derivatives	0	0
Interest expense on financial liabilities measured at amortised cost	-15 308	-19 813
Expenses on interest rate swaps	-1 029	-3 569
Interest expense on lease liabilities related to right-of-use assets	-2 337	0
Total finance costs	-18 674	-27 552
Net finance costs	-17 679	-18 921

NOTE 6
INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, German, Russian and Singaporean subsidiaries and Polish branch office

In accordance with the Swedish, Finnish, German, Russian, Singaporean and Polish tax laws, a company's net profit, adjusted for temporary and permanent differences as determined by the local income tax legislation, is subject to income tax in Finland, Sweden, Germany, Russia, Poland and Singapore. As at 31 December 2019, the tax rate was 20% in Finland, 21.4% in Sweden, 15% in Germany, 20% in Russia, 19% in Poland and 17% in Singapore (as at 31 December 2018, 20% in Finland, 22% in Sweden, 15% in Germany, 20% in Russia, 19% in Poland and 17% in Singapore).

Income tax expense

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

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Latvian subsidiaries	-3	-3
Finnish subsidiaries	-150	-169
German subsidiary	-4	-1
Estonian subsidiaries and Parent company	-8 050	-3 562
CURRENT PERIOD TAX EXPENSE	**-8 207**	**-3 735**
Swedish subsidiaries	-625	-407
Finnish subsidiaries	1 365	-377
German subsidiaries	0	-16
Latvian subsidiaries	0	0
DEFERRED TAX EXPENSE	**740**	**-800**
TOTAL TAX EXPENSE	**-7 467**	**-4 535**

Reconciliation of the effective tax rate

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	%	2018	%
Profit before tax	57 185		44 584	
Tax using the Company's domestic rate	0	0.00%	0	0.00%
Tax arising on dividends declared in Estonia	-8 050	-14.08%	-3 562	-7.99%
Current income tax expense in foreign jurisdictions	-157	-0.27%	-170	-0.38%
Change in recognised tax losses	157	0.27%	-1 367	-3.07%
Change in temporary differences	583	1.02%	564	1.27%
Income tax expense	-7 467	-13.06%	-4 535	-10.17%

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	Assets 2019	Liabilities 2019	Assets 2018	Liabilities 2018
Tax loss carry-forward[1]	22 458	0	22 302	0
Intangible assets	0	-3 784	0	-4 368
Tax assets / liabilities	22 458	-3 784	22 302	-4 368
Offset of assets and liabilities	-3 784	3 784	-4 368	4 368
Tax assets	18 674	0	17 934	0

[1] Deferred tax assets of EUR 21 219 thousand (2018: EUR 20 438 thousand) in Finland and of 1 239 thousand (2018: EUR 1 864 thousand) in Sweden have been recognised in respect of losses carried forward. The recognised Finnish tax losses will expire from 2024 to 2029 (2018: 2024-2028) and the Swedish tax losses have no expiration date. The tax losses of the Finnish subsidiary that will expire before 2024 have not been recognised due to estimation uncertainty. Such unrecognised tax losses amounted to EUR 126 819 thousand as at 31 December 2019 (EUR 134 180 thousand as at 31 December 2018).

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's estimations, the Finnish subsidiary will be profitable from 2020 onwards (2018: from 2021 onwards). The estimations are based on the business plan of the Finnish operations. The change in the assumption of the first profitable year of the Finnish subsidiary is related to the application of effective cost control measures. The revenue growth rate of the Finnish operations for the years 2020-2029 used in the calculations was 2-2.5% and the growth rate used for the cost increase was 0.5-2% (as at 31 December 2018, the revenue growth rate for the years 2019-2028 of the Finnish operations used in the calculations was 2-2.5% and the growth rate used for the cost increase was 0.5-2%).

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 the average revenue growth rate for the years 2020-2029 would change the value of recognised tax assets by EUR +12 388 thousand / EUR -2 132 thousand, respectively; 2) +/- 1 percentage point change in average costs' growth rate for the years 2020-2029 would change the value of recognised tax assets by EUR -1 109 thousand / EUR +12 099 thousand, respectively.

Movements in deferred tax balances

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	Balance as at 31 December 2019	Recognised in profit in 2019	Balance as at 31 December 2018
Tax loss carry-forward	22 458	156	22 302
Intangible assets	-3 784	584	-4 368
NET DEFERRED TAX (ASSET)/LIABILITY	**18 674**	**740**	**17 934**

NOTE 7
EARNINGS PER SHARE (EPS)

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

AS AT 31 DECEMBER, IN THOUSANDS	2019	2018
Shares issued	669 882	669 882
Treasury shares	0	-17
SHARES OUTSTANDING	**669 882**	**669 866**

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Weighted average number of ordinary shares outstanding (in thousands)	669 881	669 859
Weighted average number of ordinary shares outstanding (in thousands)	669 881	669 859
Net profit attributable to equity holders of the Parent	49 718	40 049
EPS (EUR)	0.074	0.060

NOTE 8
CASH AND CASH EQUIVALENTS

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Cash at bank and in hand	38 877	82 175
TOTAL CASH AND CASH EQUIVALENTS	**38 877**	**82 175**

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2019 the rates were in the range of 0.00-0.01% and in 2018 in the range of 0.00-0.01%).

The Group's exposure to currency risk is disclosed in Note 23.

NOTE 9
TRADE AND OTHER RECEIVABLES

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Trade receivables	24 067	30 386
Allowance for doubtful receivables	-594	-436
Government grants receivable	9 285	9 322
Receivables from related parties	211	33
Other receivables	4 637	4 500
TOTAL TRADE AND OTHER RECEIVABLES	**37 606**	**43 805**

During the reporting period EUR 228 thousand of trade receivables was expensed as doubtful and uncollectible (2018: EUR 272 thousand).

The Group's exposure to the credit and currency risks of receivables (excluding government grants receivable) is disclosed in Note 23. Additional information about government grants is disclosed in Note 5.

NOTE 10
PREPAYMENTS

AS AT 31 DECEMBER IN THOUSANDS OF EUR	2019	2018
Prepaid expenses	5 654	5 313
Tax prepayments	1151	771
TOTAL PREPAYMENTS	**6 805**	**6 084**

AS AT 31 DECEMBER IN THOUSANDS OF EUR	2019	2018
Tax prepayments		
VAT	806	541
Other prepayments	345	230
TOTAL TAX PREPAYMENTS	**1151**	**771**

The balance of prepaid expenses includes mostly prepayments for insurance.

NOTE 11
INVENTORIES

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Raw materials (mostly fuel)	3 382	3 615
Goods for sale	33 873	32 126
TOTAL INVENTORIES	**37 255**	**35 741**

In 2019 the write-down of inventories to net realisable value amounted to EUR 546 thousand (2018: EUR 351 thousand). The write-downs are included in the cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as part of 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 2019 (as well as at 31 December 2018) there were no derivative contracts for fuel outstanding. For more information, see Note 23.

NOTE 12
INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

At 31 December 2019 the Group had a 34% interest in the equity-accounted investee Tallink Takso AS, incorporated in Estonia (as at 31 December 2018: 34%).

IN THOUSANDS OF EUR	2019	2018
Investments at the beginning of financial year	407	403
Share of profit/loss of equity-accounted investee	-4	4
INVESTMENTS AT THE END OF FINANCIAL YEAR	**403**	**407**

The key figures of the equity-accounted investee Tallink Takso AS are below. The figures as at and for the year ended 31 December 2019 are unaudited. The figures reflect 100% of the assets, liabilities and result of the associate.

IN THOUSANDS OF EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2019	1 077	613	1 690	363	142	505
As at 31 December 2018	1 012	686	1 698	355	145	500

IN THOUSANDS OF EUR	REVENUES	EXPENSES	PROFIT	EQUITY
For the year ended 31 December 2019	4 068	4 072	-4	1 185
For the year ended 31 December 2018	4 242	4 228	14	1 198

NOTE 13
OTHER FINANCIAL ASSETS AND PREPAYMENTS

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Equity securities	167	167
Other receivables	151	153
Prepaid expenses	1 301	0
TOTAL OTHER FINANCIAL ASSETS	**1 619**	**320**

NOTE 14
PROPERTY, PLANT AND EQUIPMENT

IN THOUSANDS OF EUR	Land and buildings	Ships	Plant and equipment	Right-of-use assets	Assets under construction	Total
Book value as at 31 December 2018	**2 324**	**1 215 295**	**43 658**	**0**	**6 651**	**1 267 928**
Initial application of IFRS 16	0	0	0	100 770	0	100 770
Adjusted book value as at 1 January 2019	2 324	1 215 295	43 658	100 770	6 651	1 368 698
Additions	0	0	13 103	12 297	42 808	68 208
Reclassification	68	18 061	14 349	0	-32 478	0
Disposals	0	0	-154	-303	0	-457
Depreciation for the period	-522	-59 822	-13 971	-15 041	0	-89 356
Book value as at 31 December 2019	**1 870**	**1 173 534**	**56 985**	**97 723**	**16 981**	**1 347 093**
AS AT 31 DECEMBER 2019						
Gross carrying amount	8 264	1 646 370	101 257	112 670	16 981	1 885 542
Accumulated depreciation	-6 394	-472 836	-44 272	-14 947	0	-538 449
Book value as at 31 December 2017	**2 308**	**1 268 604**	**32 958**	**0**	**4 571**	**1 308 441**
Additions	0	6 595	19 938	0	6 651	33 184
Reclassification	792	2 488	1 291	0	-4 571	0
Disposals	0	0	-368	0	0	-368
Depreciation for the period	-776	-62 392	-10 161	0	0	-73 329
Book value as at 31 December 2018	**2 324**	**1 215 295**	**43 658**	**0**	**6 651**	**1 267 928**
AS AT 31 DECEMBER 2018						
Gross carrying amount	8 226	1 629 933	76 999	0	6 651	1 721 809
Accumulated depreciation	-5 902	-414 638	-33 341	0	0	-453 881

Right-of-use assets distribution according to PPE classes

IN THOUSANDS OF EUR	Buildings and premises	Plant and equipment	Total right-of-use assets
Book value as at 31 December 2018	0	0	0
Initial application of IFRS 16	99 701	1 069	100 770
Adjusted book value as at 1 January 2019	99 701	1 069	100 770
Additions	12 256	41	12 297
Reclassification	0	0	0
Disposals	-288	-15	-303
Depreciation for the period	-14 527	-514	-15 041
Book value as at 31 December 2019	97 142	581	97 723
As at 31 December 2019			
Gross carrying amount	111 608	1 062	112 670
Accumulated depreciation	-14 466	-481	-14 947

Revaluation of ships

The Group used the valuations of three independent appraisers to determine the fair value of 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 of chartered ships if needed. The following table shows the valuation techniques used in measuring the ships' fair values, as well as the significant unobservable inputs used.

Valuation technique

Market comparison technique, cost approach: independent appraisers consider both approaches. They scan the market and look at second-hand sales of similar ships and analyse 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 the construction prices of similar new ships today.

Significant unobservable inputs

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

The frequency of revaluations depends on changes in fair values which are assessed at each year-end. When fair value differs materially from the carrying amount, further revaluation is performed. As at 31 December 2019 there were no material differences between the carrying amounts and fair values (as well as at 31 December 2018).

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

AS AT 31 DECEMBER 2019	In thousands of EUR
Cost	1 771 452
Accumulated depreciation	-637 423
Net carrying amount	**1 134 029**

AS AT 31 DECEMBER 2018	In thousands of EUR
Cost	1 755 015
Accumulated depreciation	-581 272
Net carrying amount	**1 173 743**

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 2019 by EUR 2 047 thousand (2018: EUR 2 047 thousand) and retained earnings were increased by the same amount.

As at 31 December 2019 the Group's ships with a book value of EUR 1 079 572 thousand (2018: EUR 1 037 488 thousand) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 16.

Change in useful life of vessels

During 2019, the Group conducted an in-service expectancy review of its vessels. Previously the Group estimated the maximum useful life of its vessels to be 35 years. Based on the analysis of the intensity of usage, regular maintenance and investments of its older vessels, the Group concluded, that the maximum estimated useful life of its vessels can be extended by 5 years.

As a result, the expected useful life of the Group's vessels Silja Europa, Silja Serenade and Silja Symphony was increased from 35 years to 40 years and their estimated residual value remained the same. The total effect of the change was EUR 6 319 thousand less depreciation expense in 2019.

Contractual commitments

As at 31 December 2019 the Group had a contractual commitment for a new vessel, MyStar, of EUR 234 650 thousand. For information about a new vessel order placed in 2019, see Note 24.

The Group did not have any other substantial contractual commitments related to property, plant and equipment.

NOTE 15
INTANGIBLE ASSETS

IN THOUSANDS OF EUR	Goodwill[1]	Trademark[2]	Other[3]	Assets under construction	Total
Book value as at 31 December 2018	**11 066**	**21 838**	**12 000**	**1 260**	**46 164**
Additions	0	0	712	4 281	4 993
Reclassification	0	0	4 320	-4 320	0
Disposals	0	0	0	0	0
Amortisation for the period	0	-2 916	-3 977	0	-6 893
Book value as at 31 December 2019	**11 066**	**18 922**	**13 055**	**1 221**	**44 264**
As at 31 December 2019					
Cost	**11 066**	**58 288**	**36 870**	**1 221**	**107 445**
Accumulated amortisation	**0**	**-39 366**	**-23 815**	**0**	**-63 181**
Book value as at 31 December 2017	**11 066**	**24 754**	**9 166**	**3 914**	**48 900**
Additions	0	0	3 223	0	3 223
Reclassification	0	0	2 654	-2 654	0
Disposals	0	0	-8	0	-8
Amortisation for the period	0	-2 916	-3 035	0	-5 951
Book value as at 31 December 2018	**11 066**	**21 838**	**12 000**	**1 260**	**46 164**
As at 31 December 2018					
Cost	11 066	58 288	31 996	1 260	102 610
Accumulated amortisation	0	-36 450	-19 996	0	-56 446

Intangible asset classes

[1] Goodwill in the amount of EUR 11 066 thousand is related to the Estonia-Finland routes 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 2019, a revenue growth rate of 0% p.a. (2018: 0%) and a discount rate of 4% (2018: 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 2019 the remaining amortisation period of the trademark was 6.5 years.

As at 31 December 2019, the book value of the trademark was tested for impairment. For testing purposes the average annual revenue growth rate of 2.5% (2018: 2.5%), a royalty rate of 2.25% (2018: 2.25%) and a discount rate of 4.0% (2018: 4.0%) were used. There was no need to recognise an impairment loss.

[3] Other intangible assets include mostly the licences and the development costs of IT software. 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 2019, IN THOUSANDS OF EUR	Maturity	Current portion	Non-current portion	Total borrowings
Lease liabilities	2020-2021	72	232	304
Lease liabilities related to right-of-use assets[1]	2020-2030	14,175	87,402	101,577
Overdraft		0	0	0
Long-term bank loans	2020-2029	74,951	401,048	475,999
TOTAL BORROWINGS		**89,198**	**488,682**	**577,880**

As at 31 December 2018, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019-2021	77	351	428
Unsecured bonds [1]		0	0	0
Overdraft		0	0	0
Long-term bank loans	2019-2029	78,581	431,126	509,707
TOTAL BORROWINGS		**78,658**	**431,477**	**510,135**

[1] Lease liabilities related to the adoption of IFRS 16.

As at 31 December 2019 the Group had the right to use bank overdrafts of up to EUR 90 000 thousand (2018: EUR 75 000 thousand). Bank overdrafts are secured with a commercial pledge of EUR 20 204 thousand (2018: EUR 20 204 thousand) and mortgages on ships (see Note 14). In the year ended 31 December 2019 the average effective interest rate of bank overdrafts was EURIBOR + 2.23% (2018: EURIBOR + 2.23%). As at 31 December 2019 and 31 December 2018 the balance of overdrafts in use was zero.

At the year's end, 31 December 2019. the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 2.25% (2018: EURIBOR + 2.25%).

As at 31 December 2019, Tallink Grupp AS had given guarantees to Nordea Bank Plc and Danske Bank A/S for loans of EUR 162 239 thousand (2018: EUR 192 792 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc and Swedbank AS for the loans granted to Tallink Grupp AS. As at 31 December 2019 the book value of the loan was EUR 313 760 thousand (31 December 2018: EUR 316 915 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 2019 the total amount of the guarantees was EUR 8 057 thousand (2018: EUR 8 057 thousand). The guarantees issued are not recognised in the statement of financial position as, according to historical experience and 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 2019 (as well as in 2018) the Group complied with all financial covenants.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

IN THOUSANDS OF EUR	Long-term bank loans	Unsecured bonds	Lease libilities	Right-of-use assets liabilities	Derivatives	Reserves	Retained earnings	Total
Balance as at 31 December 2018	509 707	0	428	0	918	69 474	425 044	1 005 571
Initial application of IFRS 16	0	0	0	104 360	0	0	0	104 360
Adjusted balance as 1 January 2019	**509 707**	**0**	**428**	**104 360**	**918**	**69 474**	**425 044**	**1 109 931**
Changes from financing cash flows								
Proceeds from loans	45 000	0	0	0	0	0	0	45 000
Repayment of loans	-79 750	0	0	0	0	0	0	-79 750
Repayment of bonds	0	0	0	0	0	0	0	0
Change in overdraft	0	0	0	0	0	0	0	0
Payments for settlement of derivatives	0	0	0	0	-1 029	0	0	-1 029
Payment of lease liabilities	0	0	-101	-14 721	0	0	0	-14 822
Interest paid	0	0	0	0	0	0	-16 717	-16 717
Payment of transaction costs related to loans	-1 431	0	0	0	0	0	0	-1 431
Dividends paid	0	0	0	0	0	0	-33 443	-33 443
Reduction of share capital	0	0	0	0	0	0	-46 888	-46 888
Income tax on dividends paid	0	0	0	0	0	0	-8 100	-8 100
Total changes from financing cash flows	**-36 181**	**0**	**-101**	**-14 721**	**-1 029**	**0**	**-105 148**	**-157 180**
The effect of changes in foreign exchange rates	**0**	**0**	**-9**	**-45**	**0**	**161**	**0**	**107**
Changes in fair value	**0**	**0**	**0**	**0**	**111**	**0**	**0**	**111**
Liability-related changes								
New leases	0	0	17	12 297	0	0	0	12 314
Transfer from retained earnings	0	0	0	0	0	2 003	-2 003	0
Transfer from revaluation reserve	0	0	0	0	0	-2 047	2 047	0
Termination of old leases	0	0	-31	-314	0	0	0	-345
Amortisation of capitalised borrowing costs	1 172	0	0	0	0	0	0	1 172
Capitalised borrowing costs	1 301	0	0	0	0	0	0	1 301
Treasury shares	0	0	0	0	0	17	0	17
Reduction of share capital	0	0	0	0	0	0	46 888	46 888
Income tax on dividends paid	0	0	0	0	0	0	8 049	8 049
Interest paid	0	0	0	0	0	0	16 717	16 717
Total liability-related changes	**2 473**	**0**	**-14**	**11 983**	**0**	**-27**	**71 698**	**86 113**
Total equity-related changes	**0**	**0**	**0**	**0**	**0**	**0**	**46 128**	**46 128**
Balance as at 31 December 2019	**475 999**	**0**	**304**	**101 577**	**0**	**69 608**	**437 722**	**1 085 210**

IN THOUSANDS OF EUR	Long-term bank loans	Unsecured bonds	Lease libilities	Right-of-use assets liabilities	Derivatives	Reserves	Retained earnings	Total
Balance as at 31 December 2017	**469 331**	**91 288**	**287**	**0**	**34 398**	**68 946**	**404 958**	**1 069 208**
Changes from financing cash flows								
Proceeds from loans	110 000	0	0	0	0	0	0	110 000
Repayment of loans	-69 666	0	0	0	0	0	0	-69 666
Repayment of bonds	0	-120 303	0	0	0	0	0	-120 303
Change in overdraft	0	0	0	0	0	0	0	0
Payments for settlement of derivatives	0	0	0	0	-3 569	0	0	-3 569
Payment of finance lease liabilities	0	0	-108	0	0	0	0	-108
Interest paid	0	0	0	0	0	0	-19 440	-19 440
Payment of transaction costs related to loans	-1 113	0	0	0	0	0	0	-1 113
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	-3 562	-3 562
Total changes from financing cash flows	**39 221**	**-120 303**	**-108**	**0**	**-3 569**	**0**	**-43 099**	**-127 858**
The effect of changes in foreign exchange rates	**0**	**28 838**	**-9**	**0**	**-24 856**	**267**	**0**	**4 240**
Changes in fair value	**0**	**0**	**0**	**0**	**-5 055**	**0**	**0**	**-5 055**
Liability-related changes								
New finance leases	0	0	370	0	0	0	0	370
Transfer from retained earnings	0	0	0	0	0	2 325	-2 325	0
Transfer from revaluation reserve	0	0	0	0	0	-2 047	2 047	0
Termination of old finance leases	0	0	-112	0	0	0	0	-112
Amortisation of capitalised borrowing costs	1 155	177	0	0	0	0	0	1 332
Capitalised borrowing costs	0	0	0	0	0	0	0	0
Treasury shares	0	0	0	0	0	-17	0	-17
Reduction of share capital	0	0	0	0	0	0	1	1
Income tax on dividends paid	0	0	0	0	0	0	3 562	3 562
Interest paid	0	0	0	0	0	0	19 440	19 440
Total liability-related changes	**1 155**	**177**	**258**	**0**	**0**	**261**	**22 725**	**24 576**
Total equity-related changes	**0**	**0**	**0**	**0**	**0**	**0**	**40 460**	**40 460**
Balance as at 31 December 2018	**509 707**	**0**	**428**	**0**	**918**	**69 474**	**425 044**	**1 005 571**

NOTE 17
TRADE AND OTHER PAYABLES

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Trade payables	42 316	43 824
Other payables	2 751	4 533
Payables to employees	25 393	25 258
Interest payable	2 174	2 418
Tax liabilities	20 120	19 221
Other accruals	6 172	5 428
Total trade and other payables	**98 926**	**100 682**

The Group's exposure to currency and liquidity risks (excluding tax liabilities and other accruals) is disclosed in Note 23. Additional information about tax liabilities is disclosed below.

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Salary-related taxes	15 072	13 771
Excise duties	1 799	2 000
VAT	3 248	3 449
Other taxes	1	1
Total tax liabilities	**20 120**	**19 221**

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 and the deferred income is recognised based on the relative stand-alone selling price allocation method.

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Club One points	11 250	11 303
Prepaid revenue	22 064	20 810
Total deferred income	**33 314**	**32 113**

NOTE 19
SHARE CAPITAL AND RESERVES

AS AT 31 DECEMBER, IN THOUSANDS	2019	2018
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	2019	2018
Share capital (authorised and registered)	314 844	361 736
TOTAL SHARE CAPITAL	314 844	361 736
Share premium	663	662
TOTAL SHARE PREMIUM	663	662

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.

Shareholders' annual general meeting of 2019 decided to reduce the Company's share capital by EUR 0.07 per share and the amount of the share capital reduction of EUR 46 892 thousand was paid out on 3 December 2019.

Tallink Grupp AS has 669 882 040 registered shares (31 December 2018: 669 882 040) without nominal value and the notional value of each share is EUR 0.47 (31 December 2018: EUR 0.54).

Reserves

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Translation reserve	430	269
Ships' revaluation reserve	39 505	41 552
Mandatory legal reserve	29 673	27 670
Reserve for treasury shares	0	-17
TOTAL RESERVES	**69 608**	**69 474**

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 is related 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 to make distributions to owners.

Reserve for treasury shares

In conformity with the share buy-back conditions, approved by the Company's annual general meeting on 9 June 2015, from 2 November 2018 to 29 November 2018 the Company acquired 493 800 own shares and converted these shares into FDRs. As at 31 December 2019, the Company did not hold own shares (2018: 16 500 own shares).

Dividends

Dividends declared and paid by the Company in 2019 amounted to EUR 33 494 thousand (2018: EUR 20 097 thousand), i.e. 0.05 EUR per ordinary share (2018: 0.03 EUR). This gave rise to income tax expense of EUR 8 050 thousand (2018: EUR 3 562 thousand). About income tax on dividends, see also Note 6.

NOTE 20
CONTINGENCIES AND COMMITMENTS

Key Management Personnel's termination benefits

The 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 2019, the maximum amount of such benefits was EUR 882 thousand (EUR 2 394 thousand in 2018) (see Note 21).

Income tax on dividends

The Group's retained earnings as at 31 December 2019 were EUR 437 722 thousand (2018: EUR 425 044 thousand). As at 31 December 2019, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 87 544 thousand (2018: EUR 85 009 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 2019 (2018: 31 December 2018).

Leases

The Group as the lessee

The Group leases hotel and office buildings, warehouse, restaurant and shop premises. The leases typically run for a fixed period, with the Group's option to renew the lease further. Some lease payments are increased every year and some leases provide for additional lease payments that are based on the result of operations.

Minimum lease payments are as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
< 1 year	18 313	16 746
1-5 years	70 422	65 102
> 5 years	29 487	36 325
Total minimum lease payments	**118 222**	**118 173**

Right-of-use assets

Right-of-use assets are presented as property, plant and equipment.

IN THOUSANDS OF EUR	Buildings and premises	Plant and equipment	Total right-of-use assets
Adjusted book value as at 1 January 2019	99 701	1 069	100 770
Additions	12 256	41	12 297
Disposals	-288	-15	-303
Depreciation for the period	-14 527	-514	-15 041
Book value as at 31 December 2019	**97 142**	**581**	**97 723**

Amounts recognised in profit or loss

FOR THE YEAR ENDED 31 DECEMBER 2019	In thousands of EUR
Depreciation for the period	-15 041
Interest expense on lease liabilities related to right-of-use assets	-2 337
Expenses on short-term and low-value leases	-2 550
Lease expenses under IFRS 16	**-19 928**

FOR THE YEAR ENDED 31 DECEMBER 2018	In thousands of EUR
Lease expense	-19 781
Contingent lease expense	-1 053
Operating lease expenses under IAS 17	**-20 834**

The Group as the lessor

The Group's charter income from 1 January to 31 December 2019 was EUR 8 289 thousand (2018: EUR 8 030 thousand).

Minimum non-cancellable charter payments are as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
< 1 year	8 773	7 018
1-5 years	0	0
Total minimum charter payments	**8 773**	**7 018**

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

NOTE 21
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's financial or operating policies.

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 2019, IN THOUSANDS OF EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Companies controlled by the Key Management Personnel	950	24 093	211	1 833
Associated companies	1	187	0	20
TOTAL	**951**	**24 280**	**211**	**1 853**

FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Companies controlled by the Key Management Personnel	949	25 029	33	1 942
Associated companies	6	241	0	24
TOTAL	**955**	**25 270**	**33**	**1 966**

The following goods and services were purchased from related parties:

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSAND OF EUR	2019	2018
Leases	14 922	14 987
Fuel	6 727	7 489
Other goods and services	2 631	2 794
TOTAL GOODS AND SERVICES	**24 280**	**25 270**

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. In 2019, the Key Management Personnel's compensation was EUR 3 011 thousand (2018: EUR 1 211 thousand). Key Management Personnel's compensation includes termination benefits of EUR 1 512 thousand paid to Management Board members Mr Janek Stalmeister and Mr Andres Hunt recalled in February 2019.

The 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 2019, the maximum amount of such benefits was EUR 882 thousand (EUR 2 394 thousand in 2018).

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

NOTE 22
GROUP ENTITIES

GROUP ENTITIES	Interest as at 31 December 2019	Interest as at 31 December 2018	Country of incorporation	Parent company
Baan Thai OÜ	100%	100%	Estonia	Tallink Grupp AS
Baltic Retail 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
Hera Salongid OÜ	100%	100%	Estonia	TLG Hotell OÜ
HT Laevateenindus OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Meelelahutus OÜ	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 Fast Food OÜ	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 Agent OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Hotell OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Stividor OÜ	100%	100%	Estonia	Tallink Grupp AS
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%	Cyprus	Tallink Grupp AS
Tallinn Swedish Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Vana Tallinn Line Ltd	-	100%	Cyprus	Tallink Grupp AS
HTG Stevedoring OY	100%	100%	Finland	Tallink Grupp AS
Tallink Finland OY	-	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 Fast Food Latvia SIA	100%	-	Latvia	Tallink Fast Food OÜ
Tallink Fast Food Lithuania UAB	100%	-	Lithuania	Tallink Fast Food OÜ
Tallink-Ru OOO	100%	100%	Russia	Tallink Grupp AS
Tallink Asia Pte. Ltd	100%	-	Singapore	Tallink Grupp AS
Tallink Silja AB	100%	100%	Sweden	Tallink Grupp AS
Ingleby (1699) Ltd.	100%	100%	UK	Tallink Grupp AS

NOTE 23
FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

Credit risk

Credit risk is the risk of financial loss that the Group would suffer if the counterparty failed to perform its financial obligations, and arises principally from the Group's receivables from customers and cash. The credit risk concentration related to accounts receivable is not material due to the extensive number of customers.

Maximum credit risk was as follows:

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Cash and cash equivalents (Note 8)	38 877	82 175
Trade and other receivables (Notes 9, 13)	28 472	34 636
TOTAL	**67 349**	**116 811**

The Group's credit risk exposure from trade receivables is mainly influenced by the characteristics of each customer. In monitoring 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 to provide bank guarantees to cover their payment risk.

According to IFRS 9, the Group measures an allowance for impairment of receivables at an amount of lifetime expected credit loss. Lifetime expected credit loss is calculated as a product of total trade receivables in the aging bucket and the respective credit loss ratio. The expected credit loss ratio is recalculated once a quarter based on actual write-offs during the last 12 quarters. The effect of the first-time application of IFRS 9 at 1 January 2018 was recognised in retained earnings in the amount of EUR 68 thousand.

IN THOUSANDS OF EUR	2019	2018
Balance at 1 January	436	698
Amounts written off	-57	-523
Impairment loss recognised	228	272
Reversal of prior period impairment loss	-13	-11
BALANCE AT 31 DECEMBER	**594**	**436**

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 they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its 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 the 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 four committed bank overdraft facilities to minimise 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, 2019	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Lease liabilities	**-72**	**-232**	**0**	**0**	**-304**
Lease liabilities related to right-of-use assets	-14 175	-13 935	-36 613	-36 854	-101 577
Trade and other payables	-72 634	0	0	0	-72 634
Secured bank loan repayments	-76 083	-175 083	-159 750	-69 000	-479 917
Bond repayment	0	0	0	0	0
Interest payments[1]	-10 169	-8 429	-11 830	-4 049	-34 476
TOTAL	**-173 133**	**-197 679**	**-208 193**	**-109 903**	**-688 908**

IN THOUSANDS OF EUR, 2018	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Finance lease liabilities	-77	-351	0	0	-428
Trade and other payables	-76 033	0	0	0	-76 033
Secured bank loan repayments	-79 750	-76 083	-233 250	-125 583	-514 667
Bond repayment	0	0	0	0	0
Interest payments[1]	-11 129	-9 414	-18 699	-6 911	-46 154
Derivative financial liabilities					
Interest rate swaps[2]	-1 029	0	0	0	-1 029
TOTAL	**-168 019**	**-85 848**	**-251 949**	**-132 494**	**-638 310**

[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 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 Group's income or the value of financial instruments held. 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 risk.

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) and the Swedish krona (SEK). Exposure to USD results from the purchase of ship fuel and insurance and exposure to SEK arises from the fact that it is the operational currency on some routes.

The Group seeks to minimise currency risk by matching foreign currency inflows with outflows.

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

IN THOUSANDS OF EUR, 2019	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	30 845	9	7 924	0	99	38 877
Trade receivables, net of allowance	23 147	0	509	0	28	23 684
Other financial assets	2 888	0	1 889	0	11	4 788
TOTAL	**56 880**	**9**	**10 322**	**0**	**138**	**67 349**
Current portion of borrowings	-88 009	0	-1 127	0	-62	-89 198
Trade payables	-39 677	-174	-4 038	0	-280	-44 169
Other current payables	-26 872	0	-7 771	0	0	-34 643
Interest rate swaps	0	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0	0
Non-current portion of borrowings and other liabilities	-488 044	0	-633	0	-5	-488 682
TOTAL	**-642 602**	**-174**	**-13 569**	**0**	**-347**	**-656 692**
Net, EUR	**-585 722**	**-165**	**-3 247**	**0**	**-209**	**-589 343**

IN THOUSANDS OF EUR, 2018	EUR	USD	SEK	NOK	Muu	Kokku
Cash and cash equivalents	74 288	1	7 663	0	223	82 175
Trade receivables, net of allowance	27 886	0	2 058	0	36	29 980
Other financial assets	529	0	4 119	0	8	4 656
TOTAL	**102 703**	**1**	**13 840**	**0**	**267**	**116 811**
Current portion of borrowings	-78 585	0	-73	0	0	-78 658
Trade payables	-40 721	-188	-4 577	0	-305	-45 791
Other current payables	-27 292	0	-8 380	0	0	-35 672
Interest rate swaps	-918	0	0	0	0	-918
Foreign exchange derivatives	0	0	0	0	0	0
Non-current portion of borrowings and other liabilities	-431 126	0	-351	0	0	-431 477
TOTAL	**-578 642**	**-188**	**-13 381**	**0**	**-305**	**-592 516**
Net, EUR	**-475 939**	**-187**	**459**	**0**	**-38**	**-475 705**

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 2018.

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019 Profit or loss	2018 Profit or loss
USD	17	19
SEK	670	-46
NOK	2	1
Other	19	3

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 – results mainly from bank loans. 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	2019	2018
Fixed rate financial liabilities	144 890	160 213
Variable rate financial liabilities	331 413	350 840
Total	**476 303**	**511 053**

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 2018.

IN THOUSANDS OF EUR	2019	2018
10 basis point increase	-331	-326
10 basis point decrease	331	326

Fair values of financial instruments

All financial assets and liabilities are measured at amortised cost excluding derivatives, which are measured at fair value.

According to the assessment of the Group's management, as at 31 December 2019 and 31 December 2018, the fair values of assets and liabilities measured at amortised cost did not differ materially from their carrying amounts.

Hedging 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 IFRS 9. Changes in the fair value of these derivative financial instruments are recognised directly in profit or loss: fair value changes on forward exchange contracts and currency options are recorded in exchange gains and losses and those on interest rate swaps and interest rate options in interest income and expense.

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

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	Hierarchy	Maturity	2019 Notional amount	2019 Fair value	2018 Notional amount	2018 Fair value
Interest rate swap	Level 3	2019	0	0	100 000	-918
TOTAL DERIVATIVES WITH NEGATIVE VALUE				**0**		**-918**

Capital management

The Group considers total shareholders' equity as capital. As at 31 December 2019, the shareholders' equity was EUR 822 837 thousand (2018: EUR 856 916 thousand). The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business.

The Group has made significant investments in recent years 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 2019, the Group's equity ratio was 53.7% and the net debt to EBITDA ratio was 3.1 (2018: 57.1% and 3.0, respectively).

The Group may purchase its own shares from the market; the timing of these purchases may depend on 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 24
SUBSEQUENT EVENTS

Changes in the Group structure

In February 2020, Hansatee Cargo AS, a wholly-owned subsidiary of Tallink Grupp AS, was merged with the Group company Tallink AS and thereafter deleted from the Commercial Registry.

Prepayments for new shuttle vessel MyStar

In March 2019, Tallink Grupp AS and Rauma Marine Constructions signed a contract for the construction of a new LNG powered shuttle ferry for the Tallinn-Helsinki route. The contractual cost of the new vessel is 247 million euros and it will be built at the Rauma shipyard in Finland. The delivery of the vessel is expected in January 2022.

In March 2020, another prepayment of EUR 12.4 million was made for the new shuttle vessel, MyStar, raising prepayments for MyStar to EUR 24.7 million.

Coronavirus disease Covid-19

Due to the extensive outbreak of Covid-19 and the restrictions imposed by the authorities in the Group's home markets, the Group's operating environment has deteriorated significantly subsequent to the end of reporting period.

The Group has taken strict measures to prevent the spread of the virus on its vessels and in its hotels and to minimise the costs in response to recent changes in the operating environment. The Management Board of the Group has decided to temporarily suspend operations of the Tallinn-Stockholm, Riga-Stockholm, Tallinn-Helsinki and Helsinki-Stockholm route cruise ferries, effective from 15, 16, 17 and 19 March 2020, respectively, until further notice.

Currently, the operations of the Turku-Stockholm route and cargo vessel continue according to regular schedule until further notice. From 18 March 2020 the Estonia-Finland shuttle service continues with only one ferry, Megastar, operating according to regular schedule until further notice. The ferry Star operated from 27 March until 18 April between Paldiski (Estonia) and Sassnitz (Germany). Tallink City Hotel, Tallink Hotel Riga and Tallink Spa & Conference Hotel are closed from 18 March 2020.

Given the uncertainty regarding the duration of the coronavirus crisis and the related travelling and movement restrictions and the course of the post-crisis recovery, it is not possible to assess the financial impact of the Covid-19-related crisis reliably at the moment. In a typical year, about 85% of the Group's revenue (2019: EUR 949 119 thousand) is generated by the services rendered to passengers on the Group's ships and in the Group's hotels, restaurants and shops. For the duration of the restrictions, passenger-related revenue will remain largely unearned. Due to the seasonal nature of passenger-related operations, most of the revenue and profit are typically generated during the summer months of June, July and August.

In addition to the changes described above the Group has taken steps to find alternative income, reduce costs, postpone payments, obtain waivers of loan covenants, renegotiate loan repayment schedules, secure additional financing and obtain state support to ensure the sustainability of its operations. The financial effect of these measures cannot be estimated reliably. However, in management's opinion, the Group has sufficient liquidity to support its operations.

Due to the global nature of the crisis caused by Covid-19 and the leisure, tourism and transportation industries being among the ones impacted the most, there may be risks related to the impairment of assets such as vessels and right-of-use-assets, changes in allowances for overdue debt, and reclassification of interest-bearing liabilities in 2020.

NOTE 25
PRIMARY FINANCIAL STATEMENTS OF THE PARENT

Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
Revenue	450 274	460 392
Cost of sales	-360 126	-376 102
Gross profit	**90 148**	**84 290**
Sales and marketing expenses	-38 602	-40 711
Administrative expenses	-29 102	-25 960
Impairment loss on receivables	-194	-132
Other operating income	1 081	1 236
Other operating expenses	-43	-68
Result from operating activities	**23 288**	**18 655**
Finance income	14 619	43 662
Finance costs	-21 309	-53 910
Share of profit of subsidiaries	401 600	107 500
Share of loss/profit of equity-accounted investees	-4	4
Profit before income tax	**418 194**	**115 911**
Income tax	**-8 049**	**-2 787**
NET PROFIT FOR THE YEAR	**410 145**	**113 124**

Statement of financial position

AS AT 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018 restated
ASSETS		
Cash and cash equivalents	2 260	18 165
Receivables from subsidiaries	111 179	157 417
Receivables and prepayments	19 831	23 741
Tax assets	0	0
Inventories	10 026	10 037
Current assets	**143 296**	**209 360**
Investments in subsidiaries	541 679	484 962
Receivables from subsidiaries	557 746	208 205
Investments in equity-accounted investees	403	407
Other financial assets and prepayments	68	68
Property, plant and equipment	379 281	112 818
Intangible assets	13 584	12 852
Non-current assets	**1 492 761**	**819 312**
Total assets	**1 636 057**	**1 028 672**
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings	138 000	111 259
Derivatives	0	918
Payables and deferred income	96 590	111 901
Dividends payable to shareholders	6	2
Tax liabilities	3 738	3 739
Current liabilities	**238 334**	**227 819**
Interest-bearing loans and borrowings	604 331	320 719
Derivatives	0	0
Non-current liabilities	**604 331**	**320 719**
TOTAL LIABILITIES	**842 665**	**548 538**
Share capital	314 844	361 736
Share premium	663	662
Reserves	29 673	27 653
Retained earnings	448 212	90 083
Equity attributable to equity holders of the Parent	793 392	480 134
Equity	**793 392**	**480 134**
TOTAL LIABILITIES AND EQUITY	**1 636 057**	**1 028 672**

Statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER, IN THOUSANDS OF EUR	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	**410 145**	**113 124**
Adjustment for:		
Depreciation and amortisation	69 281	42 648
Net gain on disposals of property, plant, equipment and intangible assets	-12	-104
Net interest expense	6 642	6 588
Net unrealised foreign exchange loss/gain	0	4 036
Income from subsidiaries	-401 600	-107 500
Income tax	8 049	2 787
Other adjustments	22	7 206
Adjustments	**-317 618**	**-44 339**
Changes in:		
Receivables and prepayments related to operating activities	-2 433	-55 783
Inventories	11	349
Liabilities related to operating activities	36 565	47 776
Changes in assets and liabilities	**34 143**	**-7 658**
Cash generated from operating activities	**126 670**	**61 127**
Income tax paid/repaid	0	0
NET CASH FROM OPERATING ACTIVITIES	**126 670**	**61 127**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-26 438	-13 137
Proceeds from disposals of property, plant, equipment	8	104
Increase in share capital of subsidiaries	-56 750	-23 003
Loans granted to subsidiaries	-67 735	-28 150
Repayments of loans granted	90 600	47 300
Dividends received from subsidiaries	6 400	18 052
Interest received	12 076	10 160
NET CASH USED IN/FROM INVESTING ACTIVITIES	**-41 839**	**11 326**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	45 000	110 000
Proceeds from loans from subsidiaries	26 800	5 600
Repayment of loans	-48 750	-35 000
Repayment of loans to subsidiaries	-1 700	0
Repayment of bonds	0	-120 303
Change in overdraft	46 390	0
Payments for settlement of derivatives	-1 029	-3 569
Payment of lease liabilities	-59 435	0
Interest paid	-19 451	-13 135
Payment of transaction costs related to loans	-130	-1 113
Dividends paid	-33 443	-20 096
Reduction of share capital	-46 888	-1
Income tax on dividends paid	-8 100	-2 787
NET CASH USED IN FINANCING ACTIVITIES	**-100 736**	**-80 404**
NET CASH FLOW	**-15 905**	**-7 951**
Cash and cash equivalents at the beginning of period	**18 165**	**26 116**
Decrease	-15 905	-7 951
Cash and cash equivalents at the end of period	**2 260**	**18 165**

Statement of changes in equity

IN THOUSANDS OF EUR	Share capital	Share premium	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Total equity
As at 31 December 2018 restated	**361 736**	**662**	**27 670**	**-17**	**90 083**	**480 134**
Initial application of IFRS 16	0	0	0	0	-16 519	-16 519
Adjusted balance as at 1 January 2019	**361 736**	**662**	**27 670**	**-17**	**73 564**	**463 615**
Net profit for 2019	0	0	0	0	410 145	410 145
Transfer from profit for 2018	0	0	2 003	0	-2 003	0
Dividends	0	0	0	0	-33 494	-33 494
Share-based payment transactions	0	1	0	17	0	18
Reduction of share capital	-46 892	0	0	0	0	-46 892
As at 31 December 2019	**314 844**	**663**	**29 673**	**0**	**448 212**	**793 392**
As at 31 December 2017 restated	**361 736**	**639**	**25 345**	**0**	**-804**	**386 916**
Initial application of IFRS 9 and IFRS 15	0	0	0	0	184	184
Adjusted balance as at 1 January 2018	**361 736**	**639**	**25 345**	**0**	**-620**	**387 100**
Net profit for 2018	0	0	0	0	113 124	113 124
Transfer from profit for 2017	0	0	2 325	0	-2 325	0
Dividends	0	0	0	0	-20 096	-20 096
Share-based payment transactions	0	23	0	-17	0	6
Reduction of share capital	0	0	0	0	0	0
As at 31 December 2018 restated	**361 736**	**662**	**27 670**	**-17**	**90 083**	**480 134**

IN THOUSANDS OF EUR	2019	2018 restated
Unconsolidated equity at 31 December	**793 392**	**480 134**
Interests under control and significant influence:		
Carrying amount	-542 082	-485 369
Value under the equity method	571 527	862 151
Adjusted unconsolidated equity at 31 December	**822 837**	**856 916**

STATEMENT BY THE MANAGEMENT BOARD

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

The Management Board confirms that:

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

Paavo Nõgene
Chairman of the Management Board

Lembit Kitter
Member of the Management Board

Kadri Land
Member of the Management Board

Harri Hanschmidt
Member of the Management Board

Piret Mürk-Dubout
Member of the Management Board

Tallinn, 16 April 2019

Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallink Grupp AS and its subsidiaries (collectively, the Group) as at 31 December 2019, 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 2019,
- 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.

Emphasis of Matter

We draw attention to Note 24 of the consolidated financial statements, which describes the materialized and potential negative effects of the COVID-19 outbreak on the Company's operations. Our opinion is not modified in respect of this matter.

Independence

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

Audit Scope

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

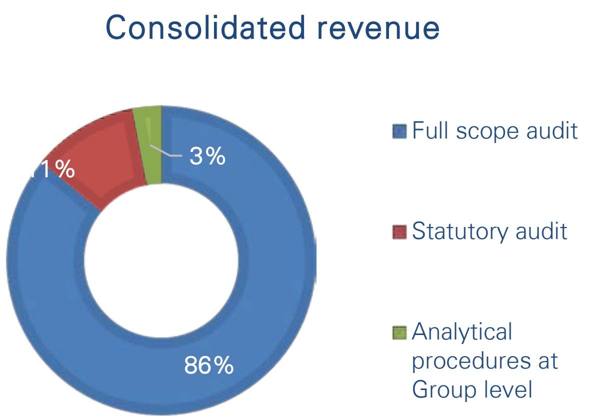
We, as group auditors, determined 15 of the Group's 46 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink Ltd, Tallink Fast Ltd, Tallink Victory Line Ltd, Tallink Autoexpress Ltd, Tallink High Speed Line Ltd, Tallink Sea Line Ltd, Tallink Hansaway Ltd, Baltic SF VII Ltd, Baltic SF IX Ltd, Tallinn – Helsinki Line Ltd, Tallink Line Ltd, Hansalink Ltd, Tallinn Swedish Line Ltd.

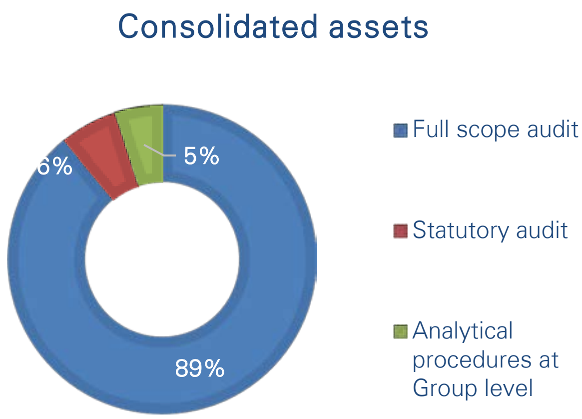
We have used the results of statutory audits of financial statements of Tallink AS, Tallink Duty Free AS, HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

For the remaining 26 non-significant components, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

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

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





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

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

Key Audit Matters

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

Fair value of ships

Refer to Note 14 to the consolidated financial statements for further information.

The key audit matter	How the matter was addressed in our audit
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 2019 was EUR 1 173 534 thousand. The fair value of ships depends on many factors, including changes in the fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. In order to assess the fair value of the ships, the Group's management used independent appraisers. We have identified the carrying value of ships as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's ships as well the depreciation charge for the current year and future years.	Our audit procedures in this area included, among others: • assessing the methodologies used by the external appraisers to estimate the fair values of the ships; • evaluating the independent external appraisers' competence, capabilities and objectivity; • evaluating the historical accuracy of the Group's assessment of the fair values of the ships by comparing them to transaction prices in prior years; • testing the adequacy of the capitalized expenditures of the ships; • analysing the estimates of useful lives and residual values and comparing them to published estimates of other international ship operators; and • assessing the adequacy of the consolidated financial statement disclosures.

KPMG

Recognition of deferred tax assets	
Refer to Note 6 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019 the Group has recognised deferred tax assets of EUR 22 458 thousand 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 23 May 2019 to audit the financial statements of Tallink Grupp AS for the year ended 31 December 2019. Our total uninterrupted period of engagement is 13 years, covering the periods ending 31 August 2007 to 31 December 2019.

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, 14 April 2020

Eero Kaup
Certified Public Accountant, Licence No 459

Priit Heinaste
Certified Public Accountant, Licence No 666

KPMG Baltics OÜ
Licence No 17

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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: Foundation 2016				
GRI 102: General Disclosures 2016				
	Organizational profile			
	102-1	Name of the organization	13, 14	
	102-2	Activities, brands, products, and services	14-25	
	102-3	Location of headquarters	178	
	102-4	Location of operations	13, 178	
	102-5	Ownership and legal form	30, 86-94	
	102-6	Markets served	13, 34, 37, 76	
	102-7	Scale of the organization	13-34	
	102-8	Information on employees and other workers	56-57	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	78-79	
	102-10	Significant changes to the organization and its supply chain	78-79	
	102-11	Precautionary Principle or approach	42-43	
	102-12	External initiatives	47-49, 54, 65-66, 68-70, 74-75, 80-83	
	102-13	Membership of associations	62-63, 65, 83-84	
	Strategy			
	102-14	Statement from senior decision-maker	6-7	The statement does not cover the relevance and strategy of sustainability.
	102-15	Key impacts, risks, and opportunities	42-43, 100-101	
	Ethics and integrity			
	102-16	Values, principles, standards, and norms of behavior	26-29, 59-63	
	Governance			
	102-18	Governance structure	86-91	

	Stakeholder engagement			
	102-40	List of stakeholder groups	21-22, 30, 57, 93	
	102-41	Collective bargaining agreements	62-63	
	102-42	Identifying and selecting stakeholders	21-22, 47-49	
	102-43	Approach to stakeholder engagement	21-22, 47-49, 76-79	
	102-44	Key topics and concerns raised	26-27, 42-43	
	Reporting practice			
	102-45	Entities included in the consolidated financial statements	30	GRI disclosures take into consideration all entities included in the consolidated financial statements.
	102-46	Defining report content and topic Boundaries	47-50	
	102-47	List of material topics	48-49	
	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		01.01.2019 – 31.12.2019
	102-51	Date of most recent report		20.04.2020
	102-52	Reporting cycle		Annual
	102-53	Contact point for questions regarding the report		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	172-177	
	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, 44-45	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	104-107	
	201-2	Financial implications and other risks and opportunities due to climate change	100-101	
	Procurement Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		78-79	
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	78-79	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		27	
GRI 205: Anti-coruption 2016	205-3	Confirmed incidents of corruption and actions taken		N/A
	Energy			
GRI 103: Management Approach 2016	103-1 to 103-3		66-71	
GRI 302: Energy 2016	302-3	Energy intensity	68-71	Disclosure includes information about fuel consumption as the major source of energy
	Water			
GRI 103: Management Approach 2016	103-1 to 103-3		71	
GRI 303: Water 2016	303-3	Water recycled and reused	71-74	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		74	
GRI 304: Biodiversity 2016	304-2	Significant impacts of activities, products, and services on biodiversity	74-75	
	Emissions			
GRI 103: Management Approach 2016	103-1 to 103-3		68-71	
GRI 305: Emissions 2016	305-4	GHG emissions intensity	69	
	Effluents and Waste			
GRI 103: Management Approach 2016	103-1 to 103-3		72	
GRI 306: Effluents and waste	306-1	Water discharge by quality and destination	72-75	Disclosure includes information that can be directly managed by the Company (more extensive group-wide monitoring has not been a strategic priority).
	306-2	Waste by type and disposal method	72-73	Disclosure includes major types of waste. The company hands over waste at ports to port authorities.
	306-3	Significant spills	67	

	Environmental Compliance			
GRI 103: Management Approach 2016	103-1 to 103-3		65	
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations		N/A
	non-GRI	Environmenal related incidents	67	
	Supplier Environmental Assessment			
GRI 103: Management Approach 2016	103-1 to 103-3		78-79	
GRI 308: Supplier Environmental Assessment	308-2	Negative environmental impacts in the supply chain and actions taken		No negative environmental impacts were identified.
	Employment			
GRI 103: Management Approach 2016	103-1 to 103-3		58-61	
GRI 401: Employment	401-1	New employee hires and employee turnover	60-62	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	61	Disclosure includes overview of benefits provided to employees (more extensive group-wide monitoring has not been a strategic priority).
	non-GRI	Employer brand attractiveness	58	
	Labor/Management Relations			
GRI 103: Management Approach 2016	103-1 to 103-3		62-63	
GRI 402: Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes	62-63	
	Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 to 103-3		61	
GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees	61	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	61	Disclosure includes information about Company`s employees (more extensive group-wide monitoring has not been a strategic priority).

	Training and Education			
GRI 103: Management Approach 2016	103-1 to 103-3		52-54, 60	
GRI 404: Training and Education	404-1	Average hours of training per year per employee	60	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	60	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	60	
	non-GRI	Employees who received trainings	52-54, 60	
	Diversity and Equal Opportunity			
GRI 103: Management Approach 2016	103-1 to 103-3		62-63,	
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	57, 62-63, 98-99	
	Non-discrimination			
GRI 103: Management Approach 2016	103-1 to 103-3		62-63	
GRI 406: Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	62-63	
	Freedom of Association and Collective Bargaining			
GRI 103: Management Approach 2016	103-1 to 103-3		62-63	
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	62-63	Disclosure includes information about Company`s employees (more extensive group-wide monitoring has not been a strategic priority).
	Security Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		51-53	
GRI 410: Security Practices 2016	410-1	Security personnel trained in human rights policies or procedures	63	
	Local Communities			
GRI 103: Management Approach 2016	103-1 to 103-3		80-83	
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	80-83	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	80-83	

	Supplier Assessment for Labor Practices			
GRI 103: Management Approach 2016	103-1 to 103-3		71-73	
GRI 414: Supplier Social Assessment	414-2	Negative social impacts in the supply chain and actions taken		No negative social impacts were identified.
	Public Policy			
GRI 103: Management Approach 2016	103-1 to 103-3		79	
GRI 415: Public Policy 2016	415-1	Political contributions	79	
	Customer Health and Safety			
GRI 103: Management Approach 2016	103-1 to 103-3		76-79	
GRI 416: Customer Health and Safety 2016	416-1	Assessment of the health and safety impacts of product and service categories	51-53	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		No incidents were identified.
	non-GRI	Marine Safety and Security Trainings	51-54	
	Marketing and Labeling			
GRI 103: Management Approach 2016	103-1 to 103-3		79	
GRI 417: Marketing and Labeling 2016	417-3	Incidents of non-compliance concerning marketing communications	79	
	Customer Privacy			
GRI 103: Management Approach 2016	103-1 to 103-3		79	
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	79	
	Compliance			
GRI 103: Management Approach 2016	103-1 to 103-3		79	
GRI 419: Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	79	

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