GROUP ANNUAL REPORT 2018

AS Tallinna Sadam

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Auditor	KPMG Baltics OÜ

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Tallinna Sadam at a glance

1 Tallinna Sadam at a glance

1.1 BUSINESS MODEL

The business model of Tallinna Sadam (Port of Tallinn) is based on four balanced business lines: passengers, cargo, shipping and real estate




Passengers

- 10.6 million passengers per year
- 5,540 ferry and cruise ship calls per year
- The Old City Harbour and the Saaremaa Harbour
- Receiving ferries and cruise ships, providing and developing port infrastructure, servicing passengers and vehicles
- Ferry routes: Tallinn-Helsinki, Tallinn-Stockholm, Tallinn-St Petersburg; cruise ships

Cargo

- 20.6 million tonnes of cargo per year
- 1,754 cargo ship calls per year
- The Muuga Harbour, the Paldiski South Harbour
- Receiving cargo ships, providing and developing port infrastructure
- Liquid bulk, dry bulk, container, ro-ro, and general cargo

Shipping

OÜ TS Laevad:

- Operating ferries on the Rohuküla-Heltermaa and Virtsu-Kuivastu routes, 2.3 million passengers, 1.0 million vehicles per year
- Five ferries: Leiger, Tiiu, Tõll, Piret, and Regula

OÜ TS Shipping:

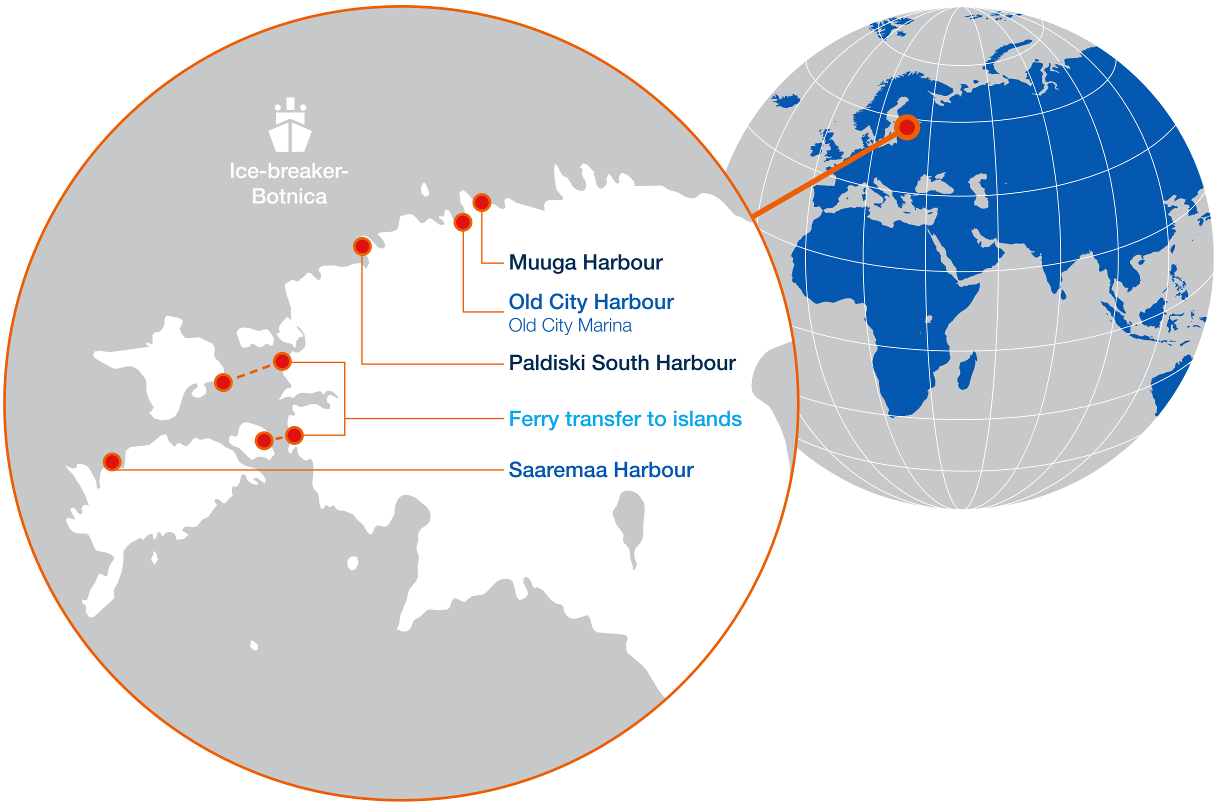
- Icebreaker Botnica
- Icebreaking activities in Northern Estonian ports and harbours, off-shore activities during the summer

Real estate

- Muuga Industrial Park of 76 ha
- Paldiski South Harbour Industrial Park of 34 ha
- Old City Harbour real estate development of 16 ha (in the preparatory phase)

Tallinna Sadam is the largest cargo and passenger harbour complex in Estonia. Its harbours are navigable and easily accessible through the year and deep enough to receive all vessels passing through the Danish Straits. Estonia's geographical location is favourable for handling both north-south and east-west passenger and cargo flows. Tallinna Sadam owns two passenger harbours (the Old City Harbour and the Saaremaa Harbour) and two cargo harbours (the Muuga Harbour and the Paldiski South Harbour). In terms of the number of passengers served, Tallinn Old City Harbour is the third-largest harbour on the Baltic Sea (after Helsinki and Stockholm) and the fourth-largest in Northern Europe. The Muuga Harbour is Estonia's largest cargo harbour. Tallinna Sadam offers port services as a landlord port, i.e. it owns, administers and develops berths and port basins, leases land to cargo operators, organises vessel traffic in port basins and ensures safe navigation in port waters. Tallinna Sadam owns passenger terminals and other facilities required for passenger service but cargo harbour superstructure belongs to cargo operators. Waste management service in harbours is provided by AS Green Marine, an associate of Tallinna Sadam that offers innovative waste handling solutions.

[1] Tallinna Sadam is also the owner of Paljassaare Harbour where activities have ceased because the company has decided to exit from it.



From the end of 2016, Tallinna Sadam also operates ferries and provides passenger transport between Estonia's mainland and two largest islands – Saaremaa and Hiiumaa – through its subsidiary OÜ TS Laevad. The Group owns five ferries and the routes served are the busiest domestic ferry routes. The Group's other subsidiary, OÜ TS Shipping, is also involved in shipping. It owns the multifunctional icebreaker Botnica which provides icebreaking services in North Estonian ports and harbours in the winter season and in the summer season operates as an icebreaker and offshore construction vessel in the Arctic waters.

The real estate business line is still in the preparatory phase. To execute the development plan of the Old City Harbour, in autumn 2018 we submitted applications to Tallinn City Planning Department, requesting proceedings for the adoption of detailed plans consistent with Masterplan 2030. Proceedings for the adoption of a detailed plan for the southern part of the Old City Harbour are already underway.

The Group's operating segments, presented in financial accounting, differ somewhat from its business lines. Operating segments are Passenger harbours, Cargo harbours, Ferry and Other. The Passenger harbours segment comprises provision of port services at harbours mainly involved in passenger service – the Old City Harbour and the Saaremaa Harbour – and real estate development in the Old City Harbour. The Cargo harbours segment comprises provision of port services at harbours focused on cargo handling – the Muuga Harbour and the Paldiski South Harbour – and activities related to industrial parks created in these harbours. The Ferry segment comprises the activities of OÜ TS Laevad, i.e. the provision of passenger transport between Estonia's mainland and two biggest islands. The segment Other mainly includes the operation of the multifunctional icebreaker Botnica by the subsidiary OÜ TS Shipping and the profit/loss on investments in the associate AS Green Marine (accounted for under the equity method). Segment results are presented in section 2.5 of the management report and note 3 to the consolidated financial statements.

TALLINNA SADAM

Port services for passengers and cargo

TS LAEVAD

Ferry service to Saaremaa and Hiiumaa
Port of Tallinn share 100%

TS Shipping

Icebreaker Botnica charter
Port of Tallinn share 100%

Green Marine

Waste management
Port of Tallinn share 51%

1.2 LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Last year was the most important one for us in this century. Tallinna Sadam was listed on the stock exchange and the stock became very popular among Estonian retail investors. Altogether, around 14,000 local Estonian retail investors and reputable institutional investors well-known in international capital markets trusted us and decided to invest in the shares of Tallinna Sadam. For many Estonian people, it was their first stock market investment. The Estonian state, as the majority owner, and our new shareholders have shown their faith in us and we undertake to keep our promises.

We are a modern and profitable company and see opportunities for delivering our owners stable returns by operating efficiently in each of our four business lines. I am sure that the strong results for 2018 will be celebrated by both, the company and its owners.

However, in society Tallinna Sadam has also a wider mission. Through our business of being a tourist gateway and a creator of public space, a ship owner and a cargo traffic hub, we contribute to the achievement of important national strategic objectives, which include improving Estonia's competitiveness as a maritime nation.

As a socially responsible company, we will continue to pursue the good corporate governance practices and promote excellent business culture at every level of management.

I thank everyone that has contributed to the success of Tallinna Sadam in this exceptional year.

Aare Tark
Chairman of the Supervisory Board of Tallinna Sadam

1.3 LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Tallinna Sadam has grown into a modern and diversified development, service and maritime company. Our business model integrates our four business lines: cargo handling, passenger service, shipping and seafront real estate. We are a well-capitalised company that is partly owned by the state, pays stable dividends and from last year is also listed on the stock exchange.

As the fourth-largest passenger harbour in Northern Europe, we have launched several large-scale projects in the field of passenger service, such as the reconstruction of passenger terminals and creation of the Smart Port traffic management system in the Old City Harbour, auto-mooring for vessels, and a smart and green cruise terminal. We consistently strive to enhance user experience and work daily to make Estonia's largest tourist and sea gateway more attractive.

As a leader of innovation in the logistics sector, we have started digitalising the logistics chain and are working with other participants to help increase Estonia's competitiveness. In addition to the east-west cargo corridor, we have shifted our focus on the north-south cargo flows and the development of Rail Baltica. Last year we signed a number of substantial agreements that provide opportunities for creating added value in the future, such as a cooperation and building title contract for establishing an oilseeds processing plant at Muuga and a memorandum of understanding for building an LNG terminal in Paldiski.

In the ferry business, we have launched a hybrid ferry project and are seeking additional opportunities for implementing environmentally friendly solutions and improving customer satisfaction. The number of passengers on the routes between Estonia's mainland and biggest islands keeps growing: last summer we hit absolute records on both routes. Cargo transport has also increased substantially because the people on the islands are enterprising and economic activity is busy. Another positive development is that we have been able to find summer work for our icebreaker Botnica, which now spends its summers on the other side of the Atlantic, providing services in Northern Canada.

In the real estate business, we have been working closely with the City of Tallinn in executing Masterplan 2030, a long-term development plan that offers profitable property development opportunities. We also continued to develop the industrial parks at Muuga and Paldiski and seek new customers for vacant plots.

As a respected and attractive employer, we offer our employees different motivation packages and continuously invest in increasing employee engagement. To be able to carry out our ambitious business projects, we increasingly need to invest in long-term human resource planning and conscious development of new specialists.

As a listed company, we work hard to meet our promises on dividend yield target and seek growth opportunities in all of our business lines.

Valdo Kalm

Chairman of the Management Board of Tallinna Sadam

1.4 VISION, MISSION, STRATEGY

The vision of Tallinna Sadam is to become the most innovative port on the shores of the Baltic Sea by offering its customers the best environment and development opportunities..

We have grown from a traditional infrastructure operator into a modern and multifaceted development and service company. We create the best environment and development opportunities for our customers by logistically combining the service of people and goods, shipping activities and the development of seaside real estate. We listen to the communities and protect the environment. We represent the image of Estonia and one of the engines of its economy. The state being our majority shareholder, we serve Estonian state and its citizens.. Our role is to improve the competitiveness of Estonia as a maritime country.

The core values of Tallinna Sadam are openness, smartness and trustworthiness.

Strategy

Tallinna Sadam sees new revenue generation opportunities in all its business lines: in the cargo, passenger, real estate and shipping business.

Our goal for the next five years is to systematically increase the competitiveness of cargo corridors passing through Estonia together with other members of the logistics chain. Our focus is on digitalising the logistics chain. We see opportunities in the growth of container transport and the liquefied gas market as well as north-south cargo flows. The replacement of fossil fuels with renewable and biofuels and alternative energy sources also presents new opportunities.

In passenger service, we see opportunities for growth in all ferry routes as well as services provided to cruise ships. This is supported by the addition of new ferries and cruise liners and Asian tourists' growing interest in travelling in the Baltic Sea region. Accordingly, in the next few years our largest investments are mainly designed to support the growth in our passenger service business and to improve our passenger service infrastructure by increasing service speed and quality.

In real estate development, we have started carrying out the development plan of the Old City Harbour, i.e. Masterplan 2030 created in cooperation with the internationally renowned Zaha Hadid Architects. In the long term, this will offer unique opportunities for profitable real estate development. In addition, we are going to increase the use of our existing industrial parks at the Muuga Harbour, the Paldiski South Harbour and the Saaremaa Harbour.

In shipping, the main goal is to carry out the business plan and offer good service quality in providing ferry service between Estonia's mainland and the biggest islands. Other goals include fulfilling the icebreaking contract during the winter and securing work for our multifunctional icebreaker Botnica during the summer.

VISION MASTERPLAN 2030

1.5 SIGNIFICANT EVENTS IN 2018

January

- **Construction of an LNG bunkering terminal at Muuga.** Tallinna Sadam and AS Vopak E.O.S signed a cooperation agreement and a building title agreement under the law of obligations for establishing a liquefied natural gas (LNG) bunkering terminal at the Muuga Harbour,. The LNG terminal project at the Muuga Harbour consists of several phases. In the first phase, a fleet of storage tanks with a total capacity of 4,000 m3 will be built for receiving and distributing LNG. In the second phase, the fleet of tanks may be increased and connected to the gas transmission network after which the facility would become a regional terminal.

March

- **Change of owner of Transiidikeskuse AS.** The German port and logistics group Hamburger Hafen und Logistik AG (HHLA) purchased Estonia's largest container terminal operator Transiidikeskuse AS based at the Muuga Harbour. The entry of the major international logistics group HHLA into Estonia reflects the competitiveness of our economic environment and allows expecting positive developments and growth in opportunities offered by container transport.

May

- **IPO and increase of capital.** The initial public offering (IPO) of the shares in AS Tallinna Sadam was carried out from 25 May to 7 June 2018. In connection with this, the company issued 75,404,968 new shares. In addition, during the IPO 11,300,000 existing shares were sold. The offering price was fixed at the end of the IPO at the level of EUR 1.7 per share. The IPO was more than three times oversubscribed.

June

- **Contract for an oilseeds processing plant and logistics centre.** On 28 June 2018, AS Tallinna Sadam and MPG AgroProduction OÜ (MPG) signed a cooperation contract and a contract on the right of superficies (building rights contract) for the development of an oilseeds processing and logistics complex at the Muuga Harbour. The contracts were signed for a term of 99 years. Under the contracts, MPG will build an oilseeds processing plant, superstructure for loading and unloading raw material and end products on the quays as well as loading facilities for transporting raw material and end products to and from the Muuga Harbour using the railway and road network. The complex will be situated in the eastern part of the Muuga Harbour and is scheduled to be developed to full capacity within the next five years. The estimated processing capacity of the complex is 1.5 million tonnes per year and it is expected to increase the volume of cargo handled by Tallinna Sadam by 2.5 million tonnes per year.
- **Memorandum of Understanding with the City of Tallinn for developing the Old City Harbour in line with Masterplan 2030.** Tallinna Sadam and Tallinn City Planning Department signed a memorandum of understanding in which they confirmed their common interest to develop the area of the Old City Harbour into a contemporary, attractive and vibrant city centre with high-quality public space. According to the memorandum of understanding, Tallinna Sadam and Tallinn City Planning Department will work together to implement Masterplan 2030, created in 2017 for the development of the Old City Harbour by Zaha Hadid Architects, taking into account the principles of the Tallinn seaside vision.

July

- **Contract for chartering MPSV Botnica out for the summer.** OÜ TS Shipping, a subsidiary of Tallinna Sadam, signed a contract with Baffinland Iron Mines for chartering the multifunctional icebreaker Botnica for the summer season of 2018 and, subject to certain conditions, for the summer seasons of 2019-2022. Baffinland Iron Mines LP is a Canadian mining company engaged in the mining of iron ore on Baffin Island in Northern Canada. According to the contract, Botnica will provide escort and ice management, oil spill and emergency response services.

September

- **Funding decision on the TWIN-PORT 3 project.** The ports of Tallinn and Helsinki together with the City of Helsinki and passenger ship operators obtained EUR 21.4 million of EU funding from the Connecting Europe Facility program for their infrastructure investments. The total cost of the planned investments is EUR 71.2 million. Tallinna Sadam will use the support to install auto-mooring and on-shore power supply systems in the Old City Harbour and to upgrade its safety systems and will continue building sewerage systems. The TWIN-PORT 3 project will be implemented during the period 2018-2023. The expected total cost of investments to be made by Tallinna Sadam in the framework of this project amounts to EUR 16 million.

November

- **Memorandum of Understanding for building an LNG terminal in Paldiski.** On 1 November 2018, Tallinna Sadam and AS Alexela Invest signed a Memorandum of Understanding for finding the best solution for the development and implementation of an LNG terminal and servicing LNG tankers and bunker vessels, and establishing port facilities for loading and unloading LNG on the Pakri peninsula by the Lahepere bay in Paldiski. Tallinna Sadam and Alexela will continue to negotiate the terms and conditions of their joint activities with the aim of reaching a contract by the end of 2020. According to the Memorandum of Understanding, in the Paldiski LNG terminal project Tallinna Sadam would be responsible for developing and maintaining the necessary port facilities and Alexela would be responsible for building and operating the terminal.

December

- **Chartering out of MPSV Botnica for the summer of 2019.** Baffinland Iron Mines announced that it will exercise the contractual option to charter the multifunctional icebreaker Botnica during the period from the end of June to the end of October 2019. The precise number of days for which the icebreaker will be chartered out and the number of trips it will make to Northern Canada will depend on the weather and other relevant conditions.

1.6 KEY PERFORMANCE INDICATORS

Figure	Unit	2018	2017	Change	%
Revenue	EUR '000	130,635	121,295	9,340	7.7%
Operating profit	EUR '000	52,075	40,317	11,758	29.2%
Adjusted EBITDA [2]	EUR '000	74,380	66,521	7,859	11.8%
Depreciation, amortisation and impairment	EUR '000	–22,345	–26,430	4,085	–15.5%
Income tax	EUR '000	–26,199	–11,955	–14,244	119.1%
Profit for the period	EUR '000	24,423	26,425	–2,002	–7.6%
Investment	EUR '000	14,251	35,847	–21,596	–60.2%
Number of employees (average)		496	508	–12	–2.4%
Cargo volume	t '000	20,608	19,182	1,427	7.4%
Number of passengers	'000	10,619	10,560	59	0.6%
Number of vessel calls		7,652	7,716	–64	–0.8%
Total assets at period-end	EUR '000	623,639	597,137	26,502	4.4%
Net debt at period-end	EUR '000	171,049	228,646	–57,597	–25.2%
Equity at period-end	EUR '000	367,674	325,792	41,882	12.9%
Number of shares at period-end	'000	263,000	185,203	77,797	42.0%
Operating profit/revenue		39.9%	33.2%		
Adjusted EBITDA/revenue		56.9%	54.8%		
Profit for the period/revenue		18.7%	21.8%		
EPS: Profit for the period/weighted average number of shares	EUR	0.11	0.14	–0.04	–25.1%
Equity/number of shares	EUR	1.40	1.76	–0.36	–20.5%
Profit for the period/total assets		3.9%	4.4%		
Profit for the period/equity		6.6%	8.1%		
Share price at period-end		2.04			
P/E: Share price/earnings per share		19.1			

[2] Adjusted EBITDA = profit before depreciation, amortisation and impairment losses, finance income and costs (net) and income tax expense, adjusted for amortisation of government grants

Business Review

2 Business Review

2.1 ECONOMIC ENVIRONMENT

The global economic growth rate for 2018 was 3.7%, once again falling short of expectations (3.9%) as well as the growth rate of the year before (3.8%). Global growth is projected to slow to 3.5% in 2019. Risks to global growth include uncertainty about the Brexit outcome, a slowdown in China, persisting trade tensions and increasing risk aversion in financial markets against the backdrop of high levels of public and private debt.[3] According to different sources, Russia's economic growth is also slowing, requiring a revision of the previously projected 2.0% growth rate to 1.6%.

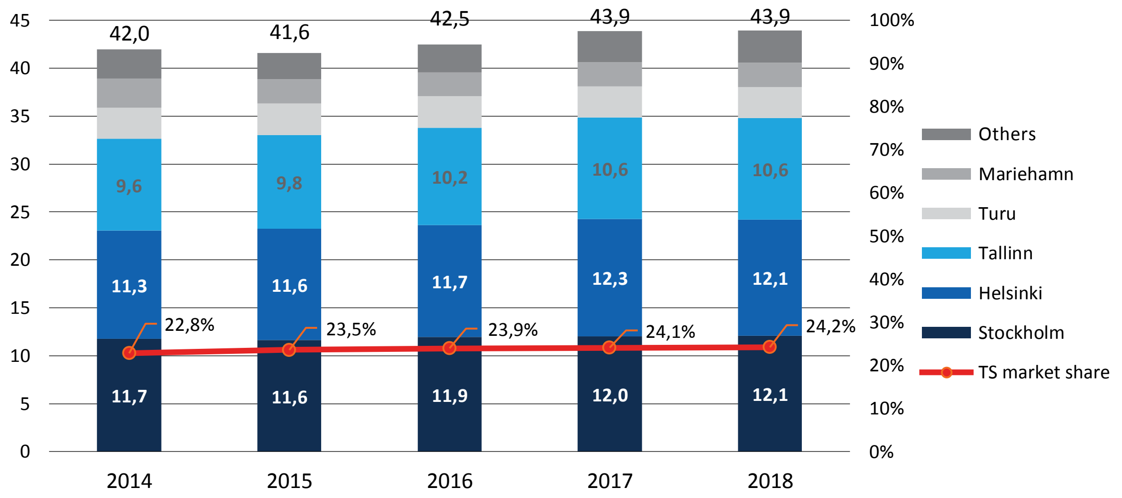
According to preliminary estimates, in 2018 Estonia's GDP grew by around 3.5%. Although momentum seems to have passed its peak and there are signs of a slowdown, annual growth remained at the level projected a year earlier. In 2019, GDP is expected to grow by 3-3.5%, fuelled by domestic demand. On the other hand, Estonia is strongly influenced by developments in the economies of its main trading partners. Thus, the more subdued growth forecasts for Finland and Sweden and, more indirectly, the slowdown in Germany and China are likely to have an impact. Moreover, the number of people entering the Estonian labour market is decreasing. Along with wage growth, this is undermining the competitiveness of production by pushing up output prices. In 2018, consumer prices grew by 3.4%, the rise exceeding the 3% forecast. However, this should remain the highest level for the near term because in 2019, consumer price inflation is expected to slip back to 2-3%. Price growth was driven by energy prices and rises in different excise duty rates.[4]

The volatile growth environment of 2018 also had an impact on the Group's business volumes. Ro-ro and container cargo throughput, which is directly related to external economic activity, grew and in the passenger business the number of cruise passengers increased. Growth in construction market activity and prices pushed up the costs of work related to port infrastructure. Rising energy prices and employee wages also affected the Group's expenses. On the other hand, a rise in inflation indices brought about an increase in the contractual consideration received for the provision of ferry service between Estonia's mainland and biggest islands and Botnica's icebreaking activities. Despite an ongoing slump in the offshore services market, we were able find our icebreaker Botnica additional summer work as an escort and ice management vessel in Northern Canada.

2.1.1 OVERVIEW OF THE MARKET: PASSENGERS

In terms of vessel traffic, the Baltic Sea is one of the busiest inland seas in the world. Almost 85 million people live in the catchment area of the Baltic Sea and vessels are one of the main means of transport for internal tourists in the area. It is estimated that over 40 million passengers a year use vessels to travel across the eastern part of the Baltic Sea, which is why international ferry traffic in this area is the busiest in the Baltic Sea region. Tallinn is one of the busiest passenger ports in the area after Helsinki and Stockholm.

Number of passengers of the largest ports on the eastern coast of the Baltic Sea*



* Excluding ports where most of the number of passengers results from short trips (lasting <1h)

[3] IMF "World Economic Outlook Update", January 2019
[4] Statistics Estonia, Eesti Pank (Central Bank of Estonia), Ministry of Finance, SEB

The largest ferries of the Baltic Sea, mostly designed for passenger traffic, also travel between those ports. Compared to other areas around the Baltic Sea, busy vessel traffic between Estonia, Finland and Sweden is supported by the facts that the distance between the destination ports is optimal for ferry traffic and most of the traffic is between the countries' capitals which are all located on the coast.

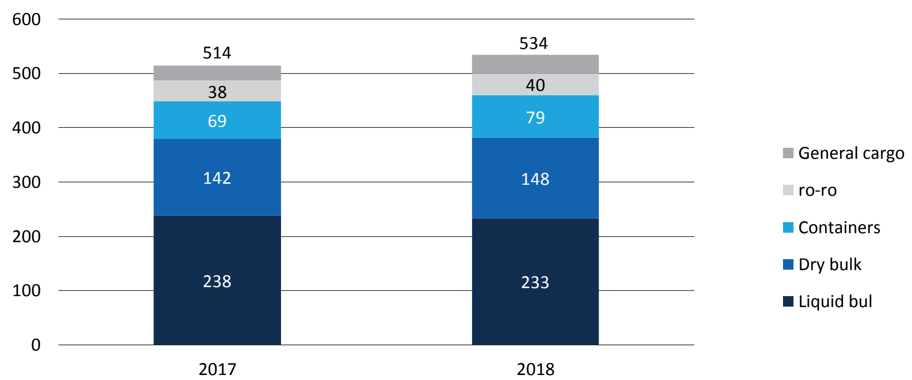
Other contributing factors are increasingly densifying economic relations and the region's growing attractiveness as a destination for Asian tourists who increasingly travel between the countries of the Baltic Sea region by ferry. Accordingly, international ferry traffic between Tallinn and its main destination ports – Helsinki and Stockholm – accounts for a significant share of the business of Tallinna Sadam.

In the past five years, the reference group's number of passengers grew by 1.9 million, i.e. 5%. During the same period, the number of passengers passing through the ports belonging to Tallinna Sadam grew by 1.1 million (11%), i.e. at the fastest pace in the region, which increased its share of the region's total number of passengers. In 2018, the largest port in terms of the number of passengers was Stockholm (12.10 million passengers), followed by Helsinki (12.08 million passengers) and Tallinn (10.62 million passengers). On the whole, in the past five years the number of passengers passing through major ports on the east coast of the Baltic Sea has remained relatively stable.

2.1.2 OVERVIEW OF THE MARKET: CARGO

The cargo market overview comprises major ports of countries on the east coast of the Baltic Sea (Poland, Lithuania, Latvia, Estonia, and Russia) including large Finnish ports on the Gulf of Finland, many of which are also involved in handling east-west transit cargo flows. In recent years, the operations of major ports on the east coast of the Baltic Sea have been consistently growing. In 2018, the total cargo turnover of those ports was 534 million tonnes, an improvement of 20 million tonnes, i.e. around 4% on the record-high level of 2017.

Cargo volume of the largest ports on the eastern coast of the Baltic Sea (million t)



Together with the cargo throughput of smaller Estonian ports (8.7 million tonnes), in 2018 the turnover of Tallinna Sadam and its competitors extended to 543 million tonnes, 20 million tonnes (3.8%) up on 2017.

In terms of cargo types, the biggest change was in the volume of container cargo that grew by 10 million tonnes (15%) and dry bulk cargo that increased by 6 million tonnes (4.1%), mainly through growth in the volume of coal. The volume of liquid bulk cargo continued to decrease (-4.8 million tonnes, i.e. 2%), primarily through a decline in the volume of crude oil (-6.8 million tonnes). The volume of ro-ro cargo grew by 1.3 million tonnes (3.2%).

In terms of ports, the biggest growth in cargo volumes was achieved by the ports of Gdansk (growth of 8.4 million tonnes, i.e. 20.7%) and St. Petersburg (5.7 million tonnes, i.e. 10.6%). Their rise stemmed mainly from growth in the volume of general cargo and, to a lesser extent, liquid bulk cargo. Cargo volumes declined the most in Russian ports mainly engaged in the handling of liquid bulk cargo, due to a decrease in the volumes of oil and oil products. For example, cargo volumes at Ust-Luga and Primorsk dropped by -4.6 million tonnes (-4.4%) and -4.1 million tonnes (-7.1%) respectively.

Because of the changes, in the comparison of Russian and Baltic ports the market share of Russian ports decreased, the market shares of Latvian and Lithuanian ports increased and the market share of Estonian ports remained stable. The market shares were: Russian ports 60.9%, Lithuanian ports 13.9%, Latvian ports 15.9%, and Estonian ports 9.2% (corresponding adjusted figures for 2017: 62.3%, 13.3%, 15.2%, and 9.2%).

The largest ports on the east coast of the Baltic Sea were Russian ports: Ust-Luga (99 million tonnes, market share 18.2%) and St Petersburg (59 million tonnes, 10.9%). Klaipeda-Butinge rose to the third position (56 million tonnes, 10.4%). Tallinna Sadam was in the ninth position with a market share of 3.8% (2017: 2.7%).

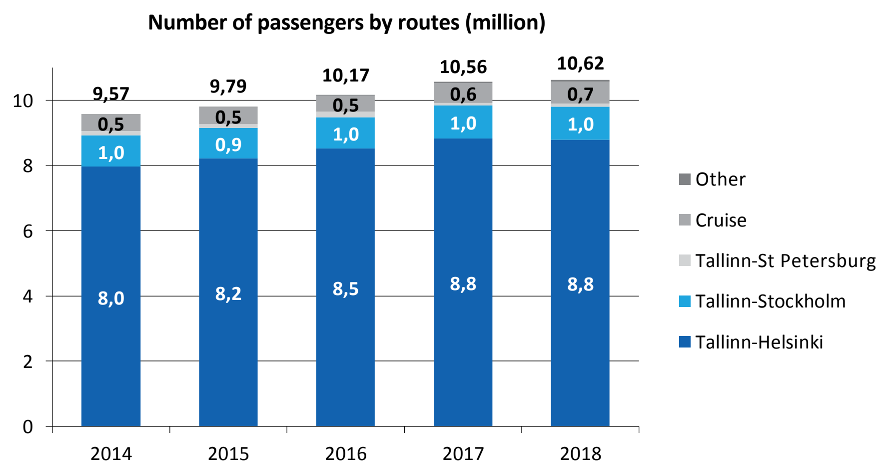
2.2 RESULTS OF OPERATIONS

For Tallinna Sadam, 2018 was another busy year. Revenue, operating profit and EBITDA broke new records. In harbour operations cargo throughput grew again after several years and the number of passengers also continued to rise, albeit slowly. The volume of cargo handled grew by 1.4 million tonnes, i.e. 7%, to 20.6 million tonnes. In terms of cargo types, the main growth driver was liquid bulk cargo (up 1.4 million tonnes), which was supported by a steady rise in the volume of ro-ro cargo and growth in the volume of container cargo in terms of TEUs. Underpinned by growth in the number of cruise passengers, the number of passengers hit a new record, rising above 10.6 million. However, after ten year of growth the rise in the number of international lines ferry passengers halted and the number remained at the same level as in 2017. In terms of segments, the revenue and result of the Cargo harbours segment improved while in the Passenger harbours segment revenue remained stable but result weakened slightly. In the Ferry segment involved in providing ferry service between Estonia's mainland and the biggest islands service volume grew through an additional ferry put in service for the summer and growth in the number of trips made. Along with the change in service fees and charges, this improved the result of the segment, particularly because the result for 2017 was weakened by higher than usual rental expenses resulting from the charter costs of substitute ferries. The year was also successful for the multifunctional icebreaker Botnica. Although the slump in the charter market for offshore support vessels used by the oil and gas industry continues, Botnica's icebreaking capacity enabled it to be charted out for the summer, i.e. the period outside the icebreaking season in Estonian waters, to provide icebreaking, escort and ice management services in Arctic waters around the Baffin islands in Northern Canada. This improved the result of the segment (Other).

The Group's revenue grew by EUR 9.3 million (8%) to EUR 130.6 million, its best ever result. The main sources of revenue growth were the summer work found for the icebreaker Botnica, use of an additional ferry on the Saaremaa route during the summer, growth in liquid bulk cargo and a rise in the number of cruise ship calls. Expenses resulting from operating activities decreased by EUR 6.3 million, i.e. by 7%, operating profit grew by EUR 11.8 million, i.e. by 29%, and net profit decreased by EUR 2.0 million, i.e. by 8%. The decrease in net profit is attributable to an increase in income tax expense which grew by EUR 14.2 million. In 2018, we paid the former sole shareholder, the Estonian state, a record dividend of EUR 105.0 million, which gave rise to income tax expense of EUR 26.2 million (2017: EUR 48.0 million and EUR 12.0 million respectively).

2.2.1 Number of passengers

In 2018, the number of passengers passing through our harbours grew to a record-high 10.62 million passengers, even though growth slowed, dropping to 59 thousand passengers, i.e. 0.6% (2017: growth of 387 thousand passengers, i.e. 3.8%). The steady rise in the number of passengers reflects the increasingly closer connections between Estonia and Finland, both in the field of tourism and economy, which in recent years have not been significantly affected by changes in the economic environment. Frequent and increasingly more available and convenient international ferry service also contributes by making travelling easier.



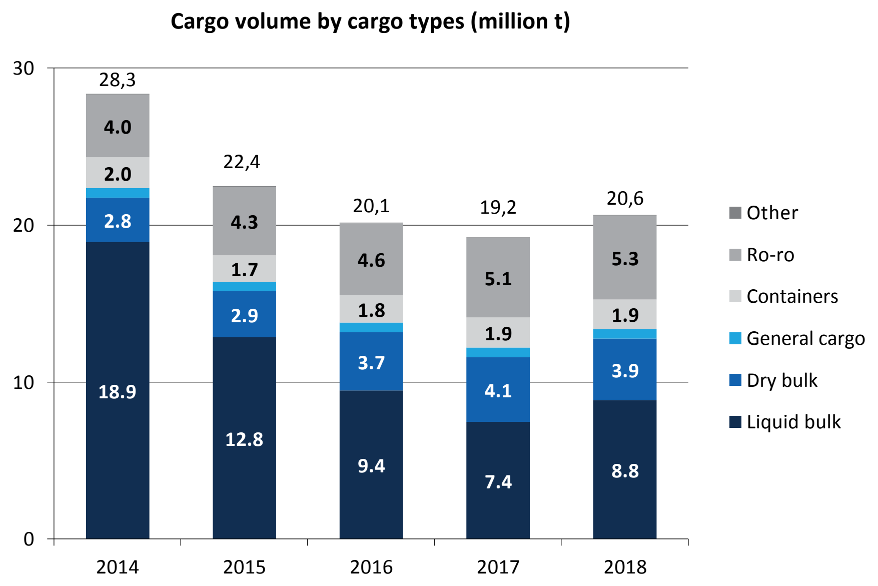
This time the growth in the number of passengers resulted from traditional cruise passengers whose number grew by 72 thousand, i.e. 13%, to a record-high 638 thousand passengers. The number of traditional cruise ship calls grew by 10%, setting a new record of 348. The number of international line passengers did not change significantly. On the largest and busiest Tallinn-Helsinki route, the number of passengers remained stable at 8.8 million (-2 thousand passengers, i.e. 0.0%). This was the first time in the past ten years that the number of passengers on this route did not increase. The number of passengers also remained stable (at 1.0 million passengers) on the Stockholm (-4 thousand passengers, i.e. -0.4%) and the St Petersburg (+2 thousand, i.e. 2.4%) routes. The Baltic Sea area continues to be known as a rapidly developing and the world's fastest-growing cruise tourism region. The levelling off of the number of passengers on the Helsinki route may be attributed to the continuing rise in prices of goods and services in Estonia, which influences passengers' choices, in terms of both the destination and the purpose of the trip.

In international ferry line traffic, one of the main changes of 2018 was that Viking Line discontinued the operation of a fast summer catamaran added to the Tallinn-Helsinki route in 2017 while several other operators increased the number of ferry calls. Altogether, the number of international ferry line calls decreased slightly (-3%).

The high season of cruise ship calls lasts from May to September. The seasonality in the number of passengers is regular by nature and, therefore, has no particular impact on the financial performance of Tallinna Sadam.

2.2.2 Cargo volume

In 2018, cargo volumes handled by our harbours grew by 1.4 million tonnes (7.4%) to 20.6 million tonnes following a slowdown in the downtrend in previous years. In terms of cargo types, growth resulted mainly from a rise in liquid bulk cargo (1.4 million tonnes, i.e. 19%) and was supported by a steadier growth in ro-ro cargo (0.3 million tonnes, i.e. 5.5%).



Growth in the volume of liquid bulk cargo is partly attributable to a low basis of comparison as well as the oil price, which trended upward during the year, increasing demand for terminal services. The volume of ro-ro cargo hit a record of 5.3 million tonnes. The volume of dry bulk cargo decreased by 0.2 million tonnes, i.e. around 6%. The change is mainly attributable to short-term project goods handled in the prior year and a decrease in grain exports caused by a smaller grain yield in 2017. Minor changes occurred in the volume of container cargo (-27 thousand tonnes, i.e. -1.4%) and general cargo (+28 thousand tonnes, i.e. 4.5%). In terms of TEUs, however, the volume of container cargo grew by 7.2 thousand, i.e. 3%, to 223 thousand TEUs. Most of the ro-ro cargo moved in the north-south direction on the Tallinn-Helsinki route, reflecting close trading relations between the neighbouring countries and a favourable economic cycle. Growth in container cargo in terms of TEUs may be attributed to both strong economic indicators of the region, which have fuelled consumption, as well as Estonia's continuously high level of exports and imports. In terms of transport directions, the biggest change was that the volume of transit cargo grew by 1.4 million tonnes, i.e. 14%, while Estonia's export and import cargo volumes remained stable. Since most of the ro-ro cargo moves on the Tallinn-Helsinki route by ferry, passing through the Old City Harbour, relevant revenue is recognised in the Passenger harbours segment.

In terms of the main cargo types, liquid bulk accounted for 43%, ro-ro for 26%, dry bulk for 19% and container cargo for 9% of the total cargo volume (2017: 39%, 26%, 22%, and 10% respectively). In terms of transport directions, transit accounted for 56%, exports for 24% and imports for 20% of the total cargo volume (2017: 52%, 27%, and 21% respectively).

Cargo throughput at our harbours is not seasonal by nature. It may be influenced by prolonged cold weather in winter which causes shipping routes on the Gulf of Finland to freeze over and subsequent icebreaking operations that may slow down vessel and cargo traffic. The last time when ice conditions were exceptionally harsh was at the beginning of 2003. However, difficult ice conditions in the Gulf of Finland may give our harbours a competitive edge over ports to the north and east of us where ice conditions are even more difficult and make cargo transport even more costly and time-consuming. Typically, fluctuations in cargo volumes result from changes in market conditions (including changes in the world market prices of cargo).

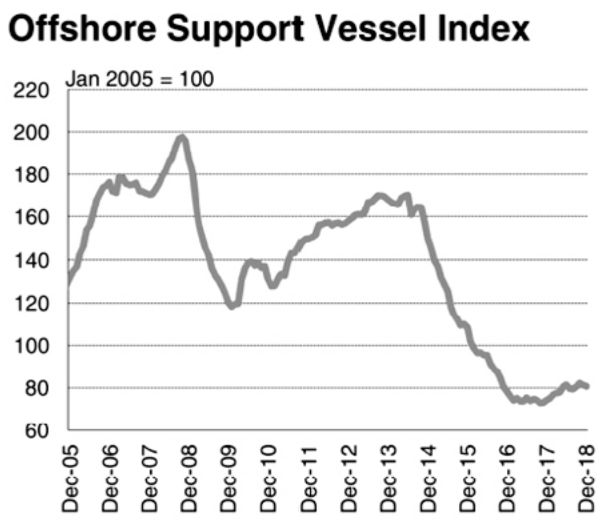
2.2.3 Ferry service

In October 2016, our subsidiary OÜ TS Laevad entered a new business: providing domestic ferry service between Estonia's mainland and biggest islands (Saaremaa and Hiiumaa) under a public transport service contract with the state (effective from 1 October 2016 to 30 September 2026). The service must be provided according to the schedule approved by the state. Most of contract revenue is fixed but some fixed revenue components are adjusted for price indices reflecting changes in the cost of living. A minor part of contract revenue is variable, depending on the number of trips made. Variable revenue is also adjusted for movements in indices. Contract revenue comprises ticket sale revenue and public transport support received from the state to cover the difference between ticket sale revenue and the service revenue agreed in the contract.

In 2018, the ferries made 20,876 trips, which is 4.2% more than in the year before, and served 2.3 million passengers (+2.9%) and 1.0 million vehicles (+4.5%). Out of the trips, 548 were made with an additional ferry put in service during the summer (June-August) to increase service capacity at the request of the state that is the customer of the ferry service.

2.2.4 Multifunctional icebreaker Botnica

Since the beginning of 2013, we have been providing Estonian ports on the Gulf of Finland with icebreaking service during the icebreaking period that lasts from December to April. The service is provided under a ten-year contract with the state that pays a fixed fee for a season of 120 days, which is adjusted for changes in the consumer price index. Outside the icebreaking season, we charter the multi-functional icebreaker Botnica out for different maritime support operations. The availability and profitability of summer work depends on the situation in the charter market for offshore support vessels. The price and demand levels are strongly influenced by oil producers which have been historically the main buyers of relevant services. After the crash of the oil price in 2015, demand for the services of offshore support vessels plummeted and relevant charter fees dropped to the past ten years' lowest level. In 2018, the Offshore Support Vessel Index rose somewhat.

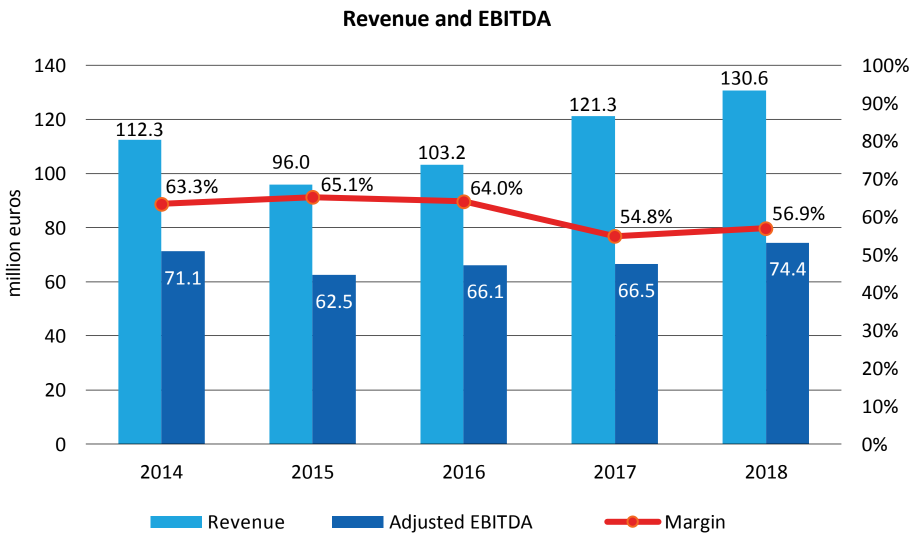


Source: Clarksons Research (London)

To secure work for Botnica outside the icebreaking season, in June 2018 OÜ TS Shipping signed a five-year frame agreement with the Canadian company Baffinland Iron Mines. The customer confirms its need at the beginning of each year and, where necessary, commissions additional days during the season.

2.3 REVENUE AND EXPENSES

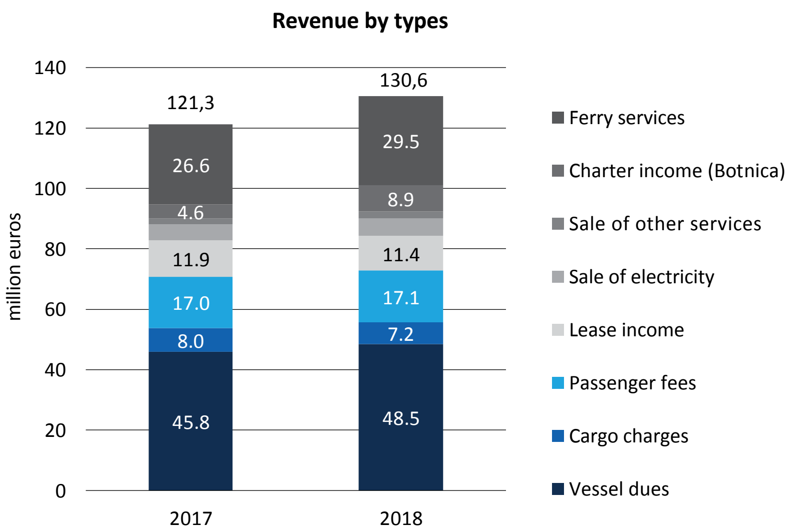
Tallinna Sadam ended 2018 with consolidated revenue of EUR 130.6 million, an increase of EUR 9.3 million, i.e. 8%, on 2017. In October 2016, the Group's business lines were supplemented with ferry service, which increased both revenues and expenses.



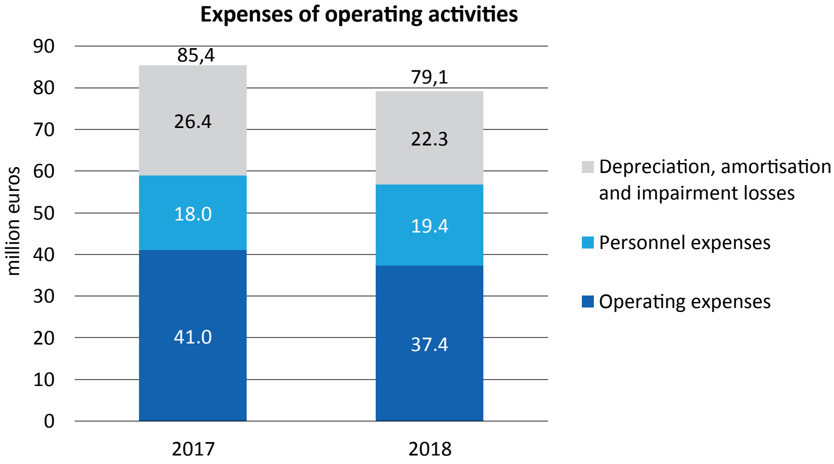
In terms of revenue streams, the biggest change occurred in charter fees that grew by EUR 4.3 million through summer work secured for Botnica in 2018. Revenue from domestic ferry service grew by EUR 2.9 million, mainly because at the request of the state (the customer of the ferry service) an additional vessel was put in service during the summer season (June to August) but the impacts of the indexation of contractual fees and charges and growth in the number of trips made also played a role.

Revenue from vessel dues grew by EUR 2.7 million, i.e. 6%, primarily through a rise in the number of tanker and cruise ship calls, which resulted from growth in the volume of liquid bulk cargo and the number of cruise passengers. Revenue from the sale of electricity grew by EUR 0.5 million, i.e. 9%, mainly through growth in cargo volumes at cargo harbours and a rise in the price of electricity sold by the Group as an intermediary. Revenue from cargo charges and operating leases decreased somewhat (by EUR 0.8 million and EUR 0.5 million respectively). Cargo charge revenue declined due to the combined effect of a decrease in penalty income and lower cargo charge revenue from vessel-terminal-vessel cargo. The decline in lease revenue may be attributed to both the Cargo harbours and Passenger harbours segment. In the Cargo harbours segment, revenue from operating leases decreased because some areas (the coal terminal) were not in use due to the change of operators. In the Passenger harbours segment, lease revenue decreased due to the expansion of traffic areas, which reduced areas that can be leased out. Passenger fee revenue grew by EUR 0.1 million, i.e. 0.6%, which is comparable to growth in the number of passengers.

Other income for 2017 included penalty income of EUR 3.8 million received from shipyards for delays in the delivery of new passenger ferries, which in 2018 did not arise.



Expenses related to operating activities (operating expenses, personnel expenses, and depreciation, amortisation and impairment losses) totalled EUR 79.1 million, EUR 6.3 million, i.e. 7%, down from 2017. Excluding the impact of one-off impairment losses of EUR 5.9 million recognised in 2017 (for multifunctional icebreaker Botnica), expenses related to operating activities decreased by EUR 0.4 million, i.e. 0.5%.



In terms of the expense structure, the largest decrease occurred in depreciation, amortisation and impairment losses (EUR 4.1 million). This is attributable to the combined effect of a one-off impairment loss of EUR 5.9 million recognised in 2017 (for Botnica) and growth in depreciation and amortisation expense in the harbour and ferry business in 2018. In the harbour business, the volume of non-current assets increased through the implementation of the Smart Port project and the completion of investments made in improving traffic areas at the Old City Harbour. In the ferry business, the last two of the four new ferries were completed at the end of the first quarter of 2017 so that their depreciation began from the second quarter of 2017.

Operating expenses decreased by EUR 3.7 million, i.e. 9%, mainly because in 2017 we incurred expenses of EUR 6.6 million from renting substitute ferries for ferry service between Estonia's mainland and biggest islands which in 2018 were not incurred. Charter costs of EUR 0.6 million in 2018 are related to an additional ferry put in service for the summer season. Expenses from the write-down of receivables, which in 2017 were related to the operator of the coal terminal, and research and development costs, which in the previous year were increased by the costs of preparing Masterplan 2030 for the Old City Harbour, decreased. The largest growth in operating expenses occurred in non-current asset repair costs (EUR 1.4 million), mainly due to major repairs carried out in the harbour business. Energy costs grew by EUR 1.2 million, mostly in connection with growth in electricity sales and the impact of an additional ferry put in service for the summer.

Personnel expenses grew by EUR 1.5 million, i.e. 8%, in connection with the provision of ferry service, chartering the icebreaker Botnica out for the summer, and harbour operations. The main contributing factors were the use of an additional ferry during the summer high season, slight growth in salaries and the recognition of a provision for compensation payable to members of the parent company's management board under the non-compete clauses of their service contracts (a one-off expense).

Other expenses decreased by EUR 0.1 million, mostly because in 2017 we incurred penalties (EUR 0.1 million) for breaching the conditions of the domestic ferry service contract (use of smaller substitute ferries until the implementation of the new ferries). In 2018, such expenses did not arise.

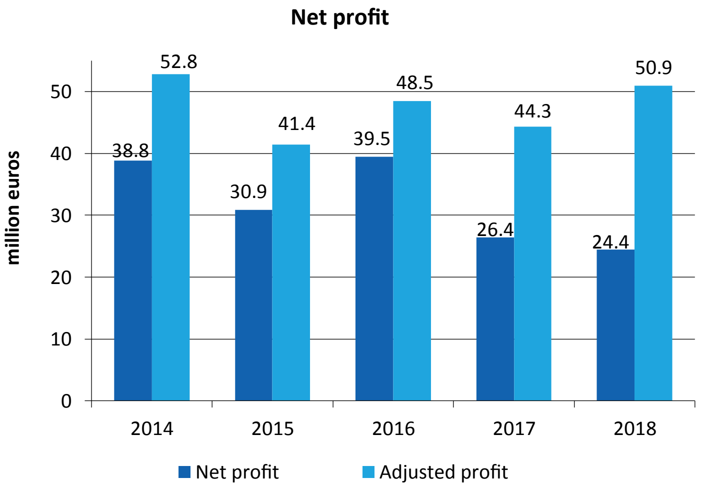
Operating profit for 2018 amounted to EUR 52.1 million. Compared to 2017, operating profit grew by EUR 11.8 million, i.e. 29%, through the combined effect of an increase in revenue and a decrease in expenses. Excluding the impact of a one-off impairment loss of EUR 5.9 million recognised in 2017, operating profit grew by EUR 5.9 million, i.e. 13%. As a result of the changes, operating margin (operating profit divided by revenue) which reflects the operating efficiency of Tallinna Sadam improved from 33.2% to 39.9% (adjusted operating margin rose from 38.1% to 39.9%). Operating profit grew through growth in the operating profit of the multifunctional icebreaker Botnica and the ferry business. The operating profit of the traditional harbour business decreased.

Adjusted EBITDA (profit before depreciation, amortisation and impairment losses, finance income and costs, and income tax expense, adjusted for amortisation of government grants) for 2018 amounted to EUR 74.4 million (2017: EUR 66.5 million). Compared to 2017, adjusted EBITDA grew by EUR 7.9 million, i.e. 12%. The improvement was smaller than that of operating profit because the decline in depreciation, amortisation and impairment losses supported growth in operating profit. Adjusted EBITDA margin for 2018 rose from 54.8% to 56.9%, through the combined effect of an increase in revenue and a decrease in expenses.

2.4 NET PROFIT

The development of net profit is also influenced by finance income and costs, and income tax on dividends. Finance income did not change but finance costs decreased by EUR 0.32 million, i.e. 14%, mostly due to a decrease in interest-bearing liabilities and expenses on derivative financial instruments. Profit before income tax amounted to EUR 50.6 million, an increase of EUR 12.2 million, i.e. 32% compared to 2017.

The Group's net profit for 2018 amounted to EUR 24.4 million, which is EUR 2.0 million, i.e. 8%, less than in 2017. Net profit decreased because growth in income tax expense on dividends exceeded growth in operating profit. The dividend distribution increased from EUR 48 million to a record-high EUR 105 million. As a result, income tax expense grew by EUR 14.2 million to EUR 26.2 million.



In the comparison of the Group's net profit for different years, net profit has been adjusted for significant one-off income and expenses and income tax expense on dividends.

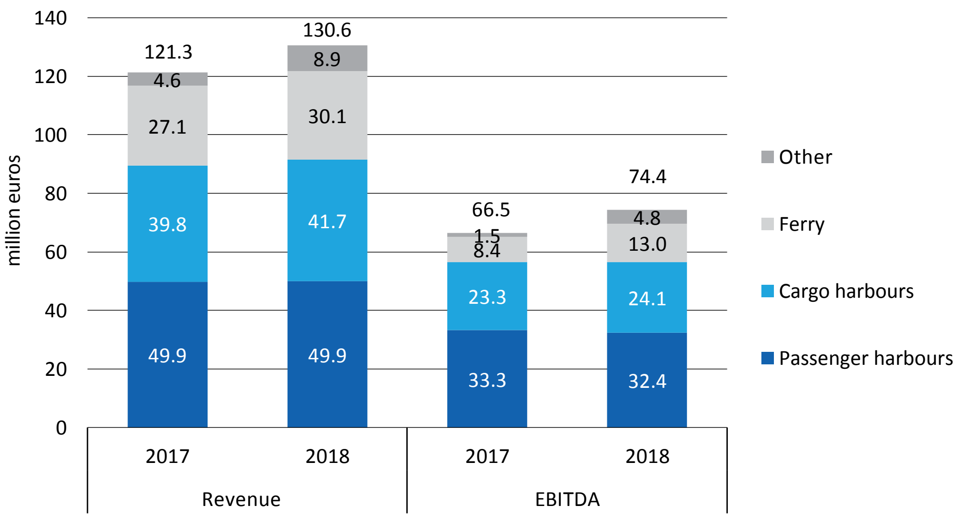
After adjustments for income tax on dividends of EUR 26.2 million and one-off impairment losses of EUR 0.3 million, adjusted profit for 2018 amounts to EUR 50.9 million. Net profits for 2017 and 2016 have been adjusted for income tax expense on dividends of EUR 12.0 million and EUR 8.75 million respectively and one-off impairment losses of EUR 5.95 million and EUR 0.27 million respectively. The growth in adjusted profit (by EUR 6.6 million) resulted mainly from growth in operating profit in different business lines (as described above) and a decrease in interest expense.

2.5 SEGMENT REPORTING

The Group's segments are Passenger harbours, Cargo harbours, Ferry and Other. Further information on segments is provided in note 3 to the financial statements.

In terms of segments, the largest revenue growth in 2018 was delivered by the segment Other (EUR 4.3 million, i.e. 95%), followed by the Ferry segment (EUR 3.0 million, i.e. 11%) and the Cargo harbours segment (EUR 2.0 million, i.e. 5%).

Revenue and EBITDA by segments



In the **Passenger harbours segment**, revenue remained stable due to items with divergent impacts. Firstly, revenue was reduced by a higher average rate of vessel dues in 2017. In connection with the fact that in February 2017 M/V Megastar replaced M/V Superstar, the total discount granted to them in 2017 based on the number of their harbour calls was smaller and the average rate of dues charged from them was higher than the corresponding figure for M/V Megastar alone in 2018. Secondly, in October 2017 M/V Sea Wind was transferred from the Old City Harbour to the Muuga Harbour. As a result, in 2018 vessel dues and cargo charges revenue increased in the Cargo harbours segment and decreased in the Passenger harbours segment. However, revenue was increased by growth in cruise ship calls during the cruise season, which mainly falls in the second and third quarters.

In the **Cargo harbours segment**, the main sources of revenue growth were a rise in vessel dues revenue, which is mainly attributable to growth in the volume of liquid bulk cargo, and additional revenue from the transfer of M/V Sea Wind (from October 2017 it was transferred to the Muuga-Vuosaari route in the Cargo harbours segment, previously was on the Old City Harbour-Vuosaari route in the Passenger harbours segment). Cargo charge revenue decreased, mainly due to lower cargo charge revenue per tonne of liquid bulk cargo. The impact of a decline in lease revenue (primarily revenue from the lease of the premises of the former Muuga coal terminal) was softened by growth in electricity sales revenue.

In the **Ferry segment**, revenue grew mainly because under an agreement with the state (the customer of the ferry service) an additional ferry was put in service for the summer (June-August), which increased contractual revenue. Revenue growth was also supported by other factors: the fee and charge rates were higher than in 2017 due to a rise in Estonia's consumer and fuel price indexes and wage inflation, and the number of trips made increased.

In the **segment Other** revenue grew through additional revenue generated by the icebreaker Botnica, which was chartered out for the summer season from the end of June. In the previous year, the Group did not have corresponding revenue.

2018

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	49,897	41,718	30,095	8,925	130,635
Adjusted EBITDA	32,397	24,096	13,041	4,846	74,380
Operating profit	26,403	15,970	7,438	2,263	52,075
Adjusted EBITDA margin	64.9%	57.8%	43.3%	54.3%	56.9%

2017

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	49 854	39 757	27 100	4 584	121 295
Adjusted EBITDA	33 299	23 331	8 398	1 493	66 521
Operating profit	28 765	15 144	3 482	–7 074	40 317
Adjusted EBITDA margin	66.8%	58.7%	31.0%	32.6%	54.8%

Muutus 2018/2017

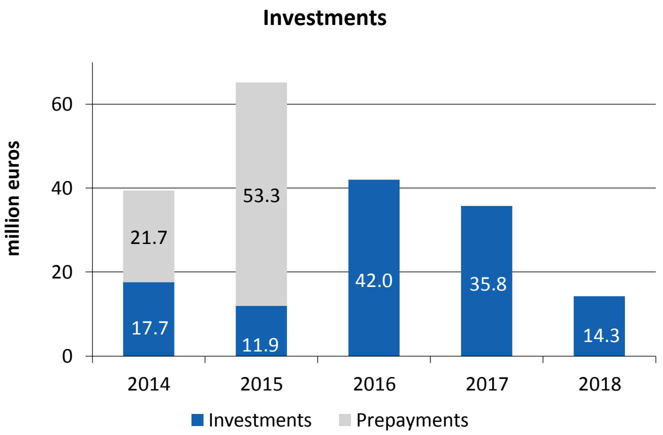
In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	43	1,961	2,995	4,341	9,340
Adjusted EBITDA	–902	765	4,643	3,353	7,859
Operating profit	–2,362	826	3,956	9,337	11,758

In terms of segments, in 2018 **adjusted EBITDA** grew the most in the Ferry segment and the segment Other and less in the Cargo harbours segment. In the Passenger harbours segment, adjusted EBITDA decreased. In the Ferry segment, adjusted EBITDA was increased both by an increase in revenue and a decrease in expenses. In the prior year, expenses were increased by higher than usual expenses due to the use of substitute ferries (which exceeded penalty income received from shipyards in 2017). In the segment Other, adjusted EBITDA grew through revenue growth, which did not cause a substantial increase in expenses. In the Cargo harbours segment, adjusted EBITDA grew through revenue growth that outpaced growth in expenses. The adjusted EBITDA of the Passenger harbours segment decreased through the combined effect of growth in expenses and revenue remaining stable. Expenses grew due to a rise in repair costs and larger than usual one-off expenses related to the implementation of the Smart Port project and reconstructed traffic areas.

The **adjusted EBITDA margin** rose from 54.8% to 56.9%, primarily through an improvement in the margins of the segment Other and the Ferry segment whose margins are lower. The margins of the Cargo harbours and Passenger harbours segments dropped slightly.

2.6 INVESTMENTS AND DEVELOPMENT PROSPECTS

In 2018, the Group's capital investments totalled EUR 14.3 million, of which EUR 13.1 million was spent on harbour infrastructure assets, acquisition of property, plant and equipment and improvements to existing infrastructure assets. Investments in the icebreaker Botnica totalled EUR 0.8 million, including mostly the costs of dry docking that is carried out every five years. Investments in the information and access systems necessary for providing the ferry service totalled EUR 0.3 million.



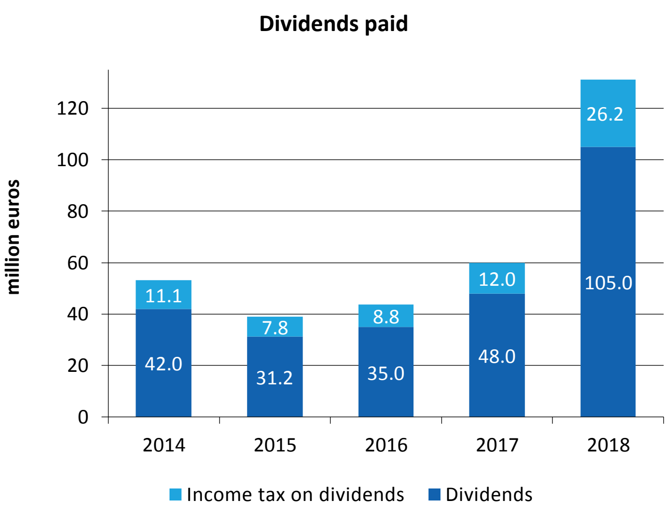
In 2018, we again made the largest infrastructure investments in the Old City Harbour. We completed the construction of a new traffic solution, installation of equipment for the Smart Port project and started the reconstruction of terminal D, which totalled around EUR 6.1 million. The new traffic solution has created a new system of traffic areas along with automated traffic management and access points for vehicles getting on and off vessels (Smart Port). Investments made in other harbours were less significant and were made mainly in the reconstruction of berths, vessel reception equipment and utility networks.

The investments planned for 2019 are primarily designed to improve services provided to passengers and ferries in the Old City Harbour. The largest projects include continuing the reconstruction of terminal D, beginning the construction of automooring equipment for ferries, building onshore electricity supply systems for ferries, beginning the construction of a footbridge for connecting passenger terminals across the Admiralty canal, and beginning the construction of a cruise terminal. The purpose is to create a modern and comfortable environment for growing ferry traffic and develop the harbour area into an attractive urban space.

In addition to making capital investments, every year we incur substantial research and development expenditures which in 2018 amounted to EUR 0.7 million (2017: EUR 1.0 million). Research and development expenditures were mainly related to surveying the technical condition of berths and hydro-technical assets. Other research projects were related to preparing the necessary preliminary and detailed plans for both new and existing but unused harbour areas, carrying out environmental studies, monitoring the use of mineral resources, and assessing and monitoring other impacts of harbour operations. In 2018, we continued the planning activities required for executing the different phases of Masterplan 2030 at the Old City Harbour, working closely with the City of Tallinn in initiating and conducting the proceedings required for the adoption of detailed plans for the areas that are going to be developed. We are planning to implement the areas gradually (within 10-15 years), in a manner that will improve busy passenger traffic and integrate the harbour area more closely with the city.

2.7 DIVIDENDS

The **dividend policy** of Tallinna Sadam sets the target to pay the shareholders regular post-tax dividends, during the period 2019-2020 at least EUR 30 million annually and from 2021 onward to at least 70% of the preceding year's net profit, subject to market conditions, the company's growth and development plans, taking into account the need to maintain a reasonable level of liquidity and excluding the impact of non-recurring transactions.



In 2018, we paid the former sole shareholder, the Republic of Estonia, a record dividend of EUR 105 million plus income tax on dividends of EUR 26.2 million, i.e. EUR 131.2 million in total (2017: EUR 60 million in total). For further information, see note 19 to the financial statements.

Until the listing of the shares on 13 June 2018, dividend distributions by Tallinna Sadam were decided by the government at the proposal of the minister of finance, generally based on the company's financial results, the financial criteria set out in the owner's expectations of the company, and the opportunities offered by the financial forecast in compliance with the Group's development plan. Group entities' dividend distributions to the parent are decided on an individual basis after the approval of their financial results, taking into account their development needs and capitalisation. According to the terms and conditions of the initial public offering of the shares in Tallinna Sadam, the dividend for 2017 was paid to the former sole shareholder (the Republic of Estonia) only and the shareholders who acquired shares during the initial public offering are entitled to dividends paid for 2018 and subsequent periods.

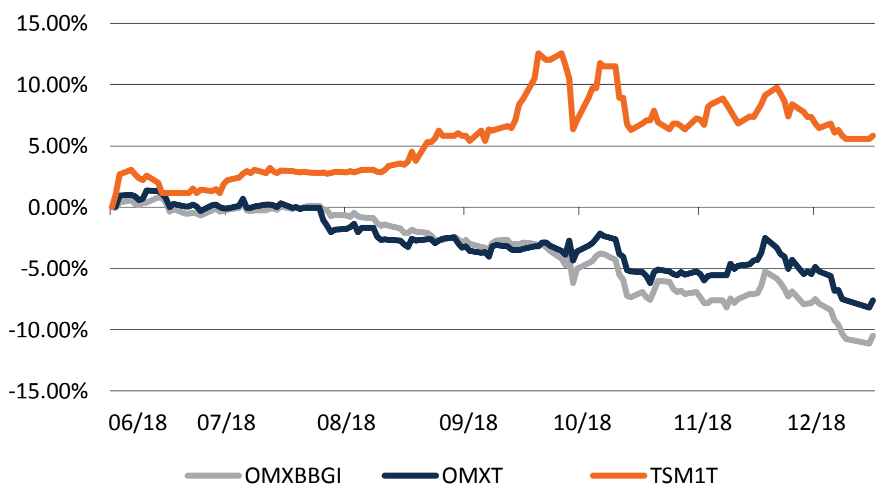
2.8 SHARE AND SHAREHOLDERS

Tallinna Sadam was listed in the Baltic Main List of the Nasdaq Tallinn Stock Exchange on 13 June 2018. The ticker symbol of the share is TSM1T and the ISIN code is EE3100021635. The company has 263,000,000 ordinary shares of which 176,295,032, i.e. 67.03%, are held by the Republic of Estonia. The par value of a share is EUR 1. Each share carries one vote at the general meeting of the shareholders.

The dynamics of the closing price of the Tallinna Sadam share and the volume of shares traded since listing on the Nasdaq Tallinn Stock Exchange, i.e. from 13 June 2018 to 31 December 2018, is presented in the graph below:

Source: nasdaqbaltic.com

At 31 December 2018, the closing price of the share was EUR 2.04, having risen by 5.81% since listing. Compared to the offering price in the initial public offering (EUR 1.7 per share), the year-end share price had increased by 20.0%. In the same period, i.e. from 13 June 2018 to 31 December 2018, the OMX Tallinn index decreased by -7.5% and the OMX Baltic index dropped by -10.42%.



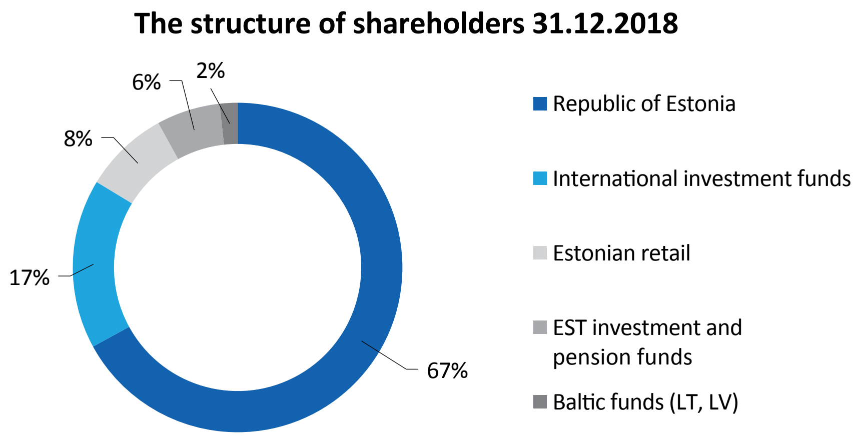
At 31 December 2018, the market capitalisation of Tallinna Sadam was EUR 536.5 million.

From 13 June 2018 to 31 December 2018, there were 8,985 transactions with the Tallinna Sadam share in which 23.13 million shares changed hands. The total turnover of the transactions was EUR 46.3 million. Trading activity was the highest in the first month after listing: 51% of the period's volume of shares and 50% of the period's turnover. This may be attributed to keen investor interest following the listing and the redistribution of allocations received in the initial public offering.

At 31 December 2018, the company had 12,373 shareholders (after the allocations made in the initial public offering: 13,963 shareholders) of which only the Republic of Estonia had an ownership interest exceeding 5% (through the Ministry of Economic Affairs and Communications).

The top five largest shareholders as at 31 December 2018:

Name of shareholder	Number of shares	Interest, %
Ministry of Economic Affairs and Communications	176,295,032	67%
JPMorgan Chase Bank	9,522,398	4%
European Bank for Reconstruction and Development (EBRD)	9,350,000	4%
SEB Progressiivne Pensionifond	6,484,365	2%
LHV Pensionifond L	5,174,314	2%



The shareholder structure has remained relatively stable since listing. Compared to the beginning of trading, the share of Estonian private investors has increased by 1 percentage point at the expense of foreign investors.

Corporate Governance

3 Corporate Governance

The supervisory board and management board of Tallinna Sadam are guided in their activities by the company's strategy, values, applicable legislation and the principles of the Corporate Governance Code (CGC) promulgated by the Nasdaq Tallinn Stock Exchange. Instances of non-compliance with CGC mainly occurred before listing in matters related to the general meeting due to the somewhat different governance and work arrangement principles of the state, which at the time was the sole shareholder. Instances of non-compliance are disclosed and explained in section 3.9 of this report.

On 19 April 2018, the minister of economic affairs and infrastructure approved the main goals of the state as the sole shareholder and, following the listing of the company, as the controlling shareholder in holding an interest in Tallinna Sadam, which are observed by the state in exercising its shareholder rights. The goals are as follows:

- Earning optimal and stable shareholder return through the company's profitable and efficient operation in each of its chosen business lines
- Involving the company in achieving national strategic objectives, taking into account the company's field of activity and business interests as well as applicable laws and regulations
- Applying and promoting good corporate governance, corporate social responsibility and excellent business culture

The updated articles of association of Tallinna Sadam were approved on 25 April 2018. The main changes in governance principles resulted from the listing of the shares.

3.1 GENERAL MEETING

The general meeting is the highest governing body of Tallinna Sadam. Until the listing of the company's shares on the Tallinn Stock Exchange, the company's sole shareholder was the Republic of Estonia (the state) that was represented at the general meeting by the minister of economic affairs and infrastructure.

The general meeting has the power to change the articles of association, increase and decrease share capital, elect and extend the term of office of the members of the supervisory board (based on the proposal of the nomination committee), recall members of the supervisory board before the expiry of their term of office, approve the annual report and allocation of the company's profit, approve a share option programme, appoint and recall the auditor(s), set rules for the work of the supervisory board, decide the acquisition or disposal of a significant interest in another company, establish the management and reporting principles of subsidiaries, and adopt other decisions within its power under the law and the company's articles of association.

A general meeting is called by the company's management board. The annual general meeting is held once a year, where possible within four months but not later than within six months after the end of the financial year. The agenda, the proposals of the management and supervisory boards, any draft resolutions and other relevant materials are made available to shareholders before the general meeting. Shareholders entitled to participate in a general meeting are determined based on the share register seven days before the meeting. Each share carries one vote at a general meeting. No shares with special controlling or voting rights have been issued.

In 2018, six general meetings were held. All resolutions of the general meetings held in 2018 were adopted before the listing of the company's shares and they concerned the following matters: increasing of share capital with a non-monetary contribution, changing the composition of the supervisory board, approving the annual report, allocating the company's profit, appointing the auditor, approving the new wording of the articles of association, approving the dividend policy, changing the remuneration of the members of the supervisory board, carrying out a contingent increase of share capital, approving terms and conditions for the initial public offering of the company's shares, and approving the final offering price, number and allocation of the shares to be issued in the initial public offering. The resolutions adopted by the general meeting since July 2017 are available on the website of Tallinna Sadam at www.ts.ee.

After the listing of the company on 13 June 2018, the state (through the ministry of economic affairs and communications) holds a 67.03% interest. 32.97% of the shares are held by Estonian and international investment funds, banks, pension funds and Estonian retail investors. The shareholder structure and the largest shareholders as at 31 December 2018 are presented in section 2.8 of this report.

3.2 SUPERVISORY BOARD

The supervisory board is responsible for planning the company's activities, organising the company's management and supervising the activities of the management board. The supervisory board is accountable to the general meeting. The supervisory board of Tallinna Sadam has five to eight members that are appointed for a term of up to five years. At least half of the members of the supervisory board (31 December 2018: 4 out of 6) are independent as required by the CGC. The work of the supervisory board is managed by the chairman of the supervisory board.

Members of the supervisory board are appointed by the general meeting based on the proposal of the nomination committee: a committee formed by the government in 2017 for nominating members of the supervisory boards of companies in which the state has an ownership interest, which also makes proposals regarding the number of the members of the supervisory board and their remuneration. The nomination committee comprises four entrepreneurship and management experts from the private sector, the chancellor of the ministry of finance and, as a rotating member, the chancellor of the ministry that administers the state's ownership interest.

The supervisory board has the power to approve the Group's annual budget and annual report as well as the Group's strategy, goals and development directions. In addition, the supervisory board discusses in its meetings risks related to the Group's operating activities, legal and regulatory matters, investments, large-scale financing projects, and other significant matters related to the Group's business.

MEMBERS OF THE SUPERVISORY BOARD AT 31.12.2018

- **Aare Tark** has served as chairman of the supervisory board since October 2015. Tark is a lead partner for the law offices of TARK and member of the board of the Estonian Family Business Association. In addition, Tark has been a member of the supervisory board at the telecommunication firm AS Eesti Telekom (currently known as Telia Eesti AS) and the company AS Saku Metall. Tark has a master's degree in law from the University of Tartu.

- **Ahti Kuningas** has served as member of the supervisory board since September 2017. Kuningas is the deputy secretary general of the Ministry of Economic Affairs and Communications. In the last five years, Kuningas has been a member of the supervisory boards of Enterprise Estonia, AS EVR Cargo and AS Estonian Air. Ahti Kuningas has an MBA from the University of Tartu.

- **Maarika Liivamägi** has been a member of the supervisory board since 17 April 2018. The main activities of Liivamägi include acting as the CEO of Eesti Hotellide ja Restoranide Liit, the Estonian Hotel and Restaurant Association, as a management board member of New Seven OÜ and as an active mentor in Eesti Mentorite Koda. In the last five years, she has also been engaged as the management board member of ERGO Insurance SE and a supervisory board member of Kindlustusseltside Liit and Ergo Funds AS. Liivamägi has a master's degree in business administration from Tallinn Technical University.

- **Raigo Uukkivi** has served as member of the supervisory board since September 2017. Uukkivi is the deputy secretary general of the Ministry of Finance. During the last five years, Uukkivi has been a member of the supervisory council of the BEREC (the European telecommunications regulator) and the European Union Agency for Railways and European Railway Agency, the head of the Technical Regulatory Authority and member of the supervisory board of AS Eesti Raudtee. Uukkivi has a master's degree in public administration from the University of Tartu and is currently pursuing a doctorate in the field of transport and logistics at the Tallinn University of Technology.

- **Urmas Kaarlep** has served as member of the supervisory board since October 2015. Kaarlep is a partner at PricewaterhouseCoopers Eastern Europe professional services company and a member of the supervisory board of Versobank AS. In addition, Kaarlep is a supervisory board member at Prike AS and Westeller AS. Kaarlep has a master's degree in international business administration from Estonian Business School (EBS) and a degree in mechanical engineering management from the Tallinn University of Technology.

- **Üllar Jaaksoo** has served as member of the supervisory board since October 2015. Jaaksoo is board member in the company NOW! Innovations, which offers a payment platform for parking services. Previously, Jaaksoo was a management board member in many Estonian companies such as AS Eesti Hoiupank, AS Ajakirjade Kirjastus, AS Tele2 Eesti and AS Sportland. Jaaksoo has a master's degree in economics from the University of Tartu and has also studied at London Business School.

The term of office of all of the above members of the supervisory board lasts until 8 September 2020. Members that meet the definition of independence provided in the annex to the CGC are Aare Tark, Urmas Kaarlep, Üllar Jaaksoo and Maarika Liivamägi.

Based on a resolution of the sole shareholder of 17 April 2018, Kati Kusmin was recalled from the supervisory board of Tallinna Sadam and Maarika Liivamägi was appointed as a new member of the supervisory board.

The members of the supervisory board do not include former members of the management board of Tallinna Sadam or its subsidiaries.

The work of the supervisory board is organised in accordance with the rules for the work of the supervisory board approved by the general meeting. Meetings of the supervisory board are generally held every two months. In 2018, the number of meetings was higher than usual: there were 13 meetings (2017: 8 meetings), mostly due to the initial public offering of the company's shares.

The appointment and remuneration of a member of the supervisory board is regulated by section 85 of the State Assets Act. The amount of remuneration of a member of the supervisory board is established by the general meeting based on the proposal by the nomination committee. Until 22 May 2018, the remuneration of a member of the supervisory board of Tallinna Sadam was EUR 750 per month and the remuneration of the chairman of the supervisory board was EUR 1,500 per month. From 23 May 2018, the remuneration of a member of the supervisory board is EUR 1,000 per month and the remuneration of the chairman of the supervisory board is EUR 2,000 per month. Remuneration is paid out once a month. A member of the supervisory board is not remunerated for the month in which a meeting of the supervisory board was held but the member did not participate in adopting resolutions. In 2018, the compensation provided to members of the supervisory board totalled EUR 75.7 thousand (2017: EUR 40.5 thousand), including the remuneration of members of the supervisory board of EUR 73.9 thousand (2017: EUR 38.4 thousand). Members of the supervisory board of Tallinna Sadam are not entitled to termination benefits or any additional remuneration (besides remuneration for participating in the activities of the supervisory board).

Name	Term of office of the member of the supervisory board	Participation in meetings		Remuneration in euros	
		Supervisory board	Audit committee	Supervisory board	Audit committee
Aare Tark	03 Oct 2015–08 Sept 2020	13/13	–	21 659	
Urmas Kaarlep	03 Oct 2015–08 Sept 2020	13/13	7/7	10 830	798
Üllar Jaaksoo	03 Oct 2015–08 Sept 2020	11/13	–	9 415	
Ahti Kuningas	03 Oct 2015–08 Sept 2020	12/13	–	10 330	
Raigo Uukkivi	03 Oct 2015–08 Sept 2020	13/13	7/7	10 830	532
Maarika Liivamägi	17 April 2018–08 Sept2020	8/8	3/3	8 187	266
Kati Kusmin	08 Sept 2017–16 April 2018	5/5	4/4	2 643	266
				73 892	**1 862**

Tallinna Sadam has conducted a limited number of minor transactions with the members of its supervisory board, which are disclosed in note 24 to the financial statements. All transactions have been ordinary business transactions conducted on an arm's length basis. At the date of release of this annual report, members of the supervisory board have not notified Tallinna Sadam of any conflicts of interest during the financial year. Where there has been a risk of a conflict of interest, the exposed member of the supervisory board has refrained from discussing, and adopting resolutions on, the relevant agenda item. Members of the supervisory board are subject to the Group's procedure for preventing conflicts of interest (including the obligation to declare their business interests) and the prohibition on competition set forth in the Commercial Code.

An overview of the shares in Tallinna Sadam held by the members of the supervisory board and persons close to them (connected persons) at 31 December 2018 is provided in the table below.

Name	Number of shares in Tallinna Sadam held at 31 December 2018	
	Personally	Through connected persons
Aare Tark	2 603	2 140
Urmas Kaarlep	21 514	2 525
Raigo Uukkivi	6 626	1 486
Maarika Liivamägi	0	1 000

Members of the supervisory board Ahti Kuningas and Üllar Jaaksoo did not hold any shares in Tallinna Sadam at 31 December 2018.

3.3 AUDIT COMMITTEE AND INTERNAL AUDIT UNIT

Consistent with the requirements of the Auditors Activities Act, the company has set up an audit committee, which a body that advises the supervisory board and is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal control, the process of the audit of the consolidated financial statements, and the independence of the audit firm and the auditor representing the audit firm by law. The audit committee makes proposals and recommendations to the supervisory board. The committee has three members that are appointed by the supervisory board. From October 2017 to 14 May 2018, the audit committee comprised: Urmas Kaarlep, Raigo Uukkivi and Kati Kusmin. From 15 May 2018, new members of the audit committee were appointed: Urmas Kaarlep (chairman), Raigo Uukkivi and Maarika Liivamägi. The term of office of all members of the audit committee is three years.

The audit committee conducts its activities in accordance with the requirements of the Auditors Activities Act and the work procedure approved by the supervisory board. The audit committee carries out its work in meetings and in 2018 seven meetings were held. All members of the audit committee attended all meetings.

The rates of remuneration provided to members of the audit committee are based on a resolution adopted by the shareholder on 24 November 2011. When a member of the audit committee does not participate in a meeting, the member is not remunerated for the month in which the meeting was held. In 2018, the members of the audit committee were paid EUR 89 per month and the chairman of the audit committee was paid EUR 133 per month for participating in the work of the committee. Further information on the remuneration of the members of the audit committee for 2018 is provided in the table presented in section 3.2 of this report.

The company has also formed a Group-wide internal audit unit. Functionally, the internal audit unit reports to the company's supervisory board. The composition of the unit is approved and the head of the unit is appointed and recalled by the supervisory board. In conducting its activities, the internal audit unit observes the requirements of the Auditors Activities Act, International Standards for the Professional Practice of Internal Auditing and the work procedure of the internal audit unit approved by the supervisory board. The activities of the unit are based on a risk-based work plan approved by the supervisory board. Reports on internal audits or advisory and consultative work are submitted to the audit committee and more significant outcomes are communicated on an ad hoc basis at meetings of the supervisory board. Once a year, the head of the internal audit unit provides the supervisory board with a summarised overview of the activities of the unit. The head of the internal audit unit is invited to all meetings of the supervisory board and the audit committee of Tallinna Sadam. In addition, the head of the unit participates in regular meetings of the management team and, where possible and necessary, at other important meetings of Group entities. In the reporting period, the internal audit unit consisted of two employees. Where necessary, the unit engages external experts. The unit also takes into account the results of other external audits and control procedures.

3.4 MANAGEMENT BOARD

The management board is a governing body that represents, and manages the day-to-day operations of, Tallinna Sadam in line with the law and the articles of association of Tallinna Sadam. The management board must act in a manner that is most reasonable from the economic point of view and make sure that risk management and internal control are effective. In conducting its activities, the management board observes the long-term strategy and annual operational targets approved by the supervisory board. In accordance with the articles of association, the management board has two to five members that are appointed by the supervisory board for up to five years.

Composition of the management board at 31 December 2018:

- **Valdo Kalm**, chairman of the management board, appointed to the board until 28 February 2021. Valdo Kalm has been the chairman of the management board of Tallinna Sadam since March 2016. Prior to this, he was the chief executive of EMT (now Telia Eesti) for over 20 years. In May 2007, Valdo Kalm was appointed the chairman of the management board of AS Eesti Telekom. He has a master's degree in automation and telemechanics from Tallinn University of Technology..

- **Marko Raid**, member of the management board, chief financial officer, appointed to the board until 17 April 2021. Marko Raid has been working for Tallinna Sadam since 1997 in the capacity of chief financial officer. He was appointed to the management board in 2015. Marko Raid has a master's degree in business administration (MBA) from Concordia International University Estonia.

- **Margus Vihman**, member of the management board, chief commercial officer, appointed to the board until 31 October 2021. Margus Vihman has been on the management board of Tallinna Sadam since 2016. He is responsible for the company's commercial activities, i.e. customer relations and sales. Previously, Margus Vihman was head of sales at Krimelte OÜ, regional sales manager at the construction company Ruukki and regional manager at the construction company Hilti. He has a degree in international business administration (MBA) from the Estonian Business School.

The company may be represented by the chairman of the management board and a member of the management board acting together. All members of the management board have signed service contracts with the company.

No member of the management board is a member of the management board or the chairman of the supervisory board of another listed company. Valdo Kalm is a member of the supervisory board of AS Baltika. Information about the appointment of members of the management board to the supervisory boards of the subsidiaries and associates of Tallinna Sadam is provided in section 3.5 of this report.

Remuneration provided to the management board (in thousands of euros):

Name	Remuneration for 2018	Remuneration for 2017	Bonus for 2017
Valdo Kalm	112.2	120	27.7
Marko Raid	96	96	22.1
Margus Vihman	90	89	20.7
TOTAL	298.2	305	70.5

In addition to remuneration paid for 2018, the members of the management board may be eligible to a bonus for the results for 2018, which is decided by the supervisory board after the approval of the annual report. The limits to additional remuneration and termination benefits payable to members of the management board are provided in section 86 (subsections 2 and 3) of the State Assets Act. Accordingly, the total additional remuneration paid to a member of the management board of Tallinna Sadam may not exceed fourfold average monthly remuneration paid to the member of the management board in the previous financial year and termination benefits paid to a member of the management board may not exceed three months' remuneration effective at the time the contract is terminated.

Based on the service contracts in force, at 31 December 2018 Tallinna Sadam had the obligation to pay the members of its management board termination benefits in an amount equal to their three months' remuneration (service fees). A member of the management board is eligible to termination benefits only when Tallinna Sadam terminates the service contract without due cause, i.e. if the member of the management board breaches the contract, no termination benefits will be paid. For complying with the non-compete clause, the company has to pay a member of the management board monthly compensation equal to 50% of the board member's service fee for a period of 12 months.

The company's short-term bonus system is based on a performance management system adopted in 2017 for monitoring the achievement of strategic goals. In 2017 the system applied to the Group's key personnel only but in 2018 it was extended to all managers and specialists of Tallinna Sadam and its subsidiaries. According to the performance management system, every year three main goals and some subsidiary goals are set whose achievement determines eligibility to a performance bonus. The performance management system is also a tool for providing feedback about the effectiveness of work done, obtaining information about the employee's development potential and analysing the employee's development wishes and needs. The achievement of goals is assessed by the management board and the supervisory board once a year on the approval of the annual report. The company has currently no long-term bonus programmes and the short-term bonus system is not linked to the company's shares.

Tallinna Sadam has conducted a limited number of minor transactions with the members of its management board, which are disclosed in note 24 to the financial statements. All transactions have been ordinary business transactions conducted on an arm's length basis. At the date of release of this annual report, members of the management board have not notified Tallinna Sadam of any conflicts of interest during the financial year.

From among the members of the management board, Valdo Kalm and Marko Raid hold shares in Tallinna Sadam (2,828 shares and 5,000 shares respectively). Margus Vihman and persons close to members of the management board (connected persons) do not hold any shares in Tallinna Sadam.

3.5 SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES AND ASSOCIATES

As a rule, the supervisory boards of Tallinna Sadam's 100%-held subsidiaries have three members: two are members of the management board of Tallinna Sadam and one is a civil servant from the ministry that represents, and administers the shareholding of, the controlling shareholder.

The members of the supervisory board of OÜ TS Shipping are Valdo Kalm, Marko Raid and Ahti Kuningas (ministry of economic affairs and communications).The management board of OÜ TS Shipping has one member: Ülo Eero.

The members of the supervisory board of OÜ TS Laevad are Valdo Kalm, Marko Raid and Tiit Rebane (ministry of economic affairs and communications). The management board of OÜ TS Laevad has three members: Jaak Kaabel chairman of the management board), Guldar Kivro and Pille Kauber. In December 2018, the composition of the management board of OÜ TS Laevad changed: the service contract of Mart Loik expired on 8 December 2018 and Guldar Kivro was appointed as a new member of the management board from 9 December 2018.

The members of the supervisory board of AS Green Marine, an associate of Tallinna Sadam, are Ahti Kuningas, Andres Lukin, Innar Susi, Valdo Kalm and Marko Raid. The management board of the associate has two members: Carl-Jüri Piht (chairman of the management board) and Aivar Sülla.

3.6 COOPERATION OF MANAGEMENT AND SUPERVISORY BOARDS

The management and supervisory boards collaborate closely in developing and executing the goals and strategy of Tallinna Sadam. The two bodies mainly exchange information at meetings of the supervisory board and the audit committee. The management board observes the strategic instructions of the supervisory board and notifies the supervisory board of any significant risks and other matters arising in the course of business that may affect the financial performance and the achievement of the goals of Tallinna Sadam. At meetings, the supervisory board is provided with regular overviews of the Group's operating and financial results.

3.7 DISCLOSURE OF INFORMATION

Before listing on the Nasdaq Tallinn Stock Exchange, we were a state-owned company and due to public interest disclosed information in accordance with the principle of maximum openness and the requirements of the State Assets Act. From 13 June 2018, we observe the rules of the stock exchange and the requirements of the EU market abuse regulation and disclose information in accordance with the principle of fair and equal treatment of all investors and the rules for handling and disclosing inside information.

The main information channels of Tallinna Sadam are stock exchange announcements, press releases, newsletters, the corporate website www.ts.ee and the corporate investor website investor.ts.ee/en/. On the investor website, we have made available information about the company and the governing bodies, the articles of association and strategy, the dividend policy, IPO documents, the contacts of analysts and the auditor, the current year's financial calendar with the dates on which our operating results and financial statements are released, quarterly operational statistics, and interim and annual reports. The management board of Tallinna Sadam presents the company's results on a quarterly basis at interactive webinars (on the disclosure of interim reports). The recordings and presentations of the webinars are available on the investor website. We organise meetings and teleconferences with investors according to need and at the request of investors. In communicating with investors and analysts, we use only such information which has already been disclosed.

Resolutions of the general meeting and the reports of the supervisory board are available on the website of Tallinna Sadam.

3.8 FINANCIAL REPORTING

The preparation of financial statements is the responsibility of the company's management board. The consolidated financial statements are prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The auditor of Tallinna Sadam is KPMG Baltics OÜ and the signatory of the independent auditors' report is Andris Jegers. The contract with the auditor has been made for three years (for the audit of the financial statements for 2018-2020). The audit firm has not provided the company with any services that could jeopardise the auditor's independence. In 2018, the fees paid or payable for services provided by audit firms totalled EUR 447 thousand (2017: EUR 122 thousand). The fees comprise fees for financial audit, IPO-related and other advisory services.

3.9 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Until the company's listing on the Nasdaq Tallinn Stock Exchange, Tallinna Sadam did not observe the following sections of the Corporate Governance Code (CGC), which relate to the calling of general meetings:

Section 1.2.1 – Notice of calling a general meeting shall be sent to shareholders and/or published in a daily national newspaper concurrently with making it available on the Issuer's website.

Section 1.2.3 – The Management Board shall publish on the Issuer's website essential information connected with the agenda, which has been provided to it or is otherwise available to it, concurrently with meeting the requirements for calling a general meeting provided by law.

Section 1.2.4 – Within a reasonable period of time prior to a general meeting the supervisory board shall publish its proposals regarding the agenda items on the Issuer's website.

Section 1.3.1 – The chairman of the supervisory board and members of the management board shall not be elected as the chairman of the general meeting.

Section 1.3.2 – Members of the management board, the chairman of the supervisory board and, if possible, the members of the supervisory board and at least one of the auditors shall participate in the general meeting.

Section 1.3.3 – The Issuer shall make participation in the general meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so does not cause undue costs for the Issuer.

Non-compliance with the above provisions of the CGC resulted from the fact that until 13 June 2018 the sole shareholder of Tallinna Sadam was the state (the Republic of Estonia) and the shareholder rights were exercised by the ministry of economic affairs and communications that is represented at general meetings by the minister of economic affairs and infrastructure. The exercise of shareholder rights and the representative's powers are set out in the State Assets Act and the calling of general meetings and the participants were determined according to need and in agreement with the sole shareholder. Accordingly, it was not considered practicable to elect an independent chairman for the general meeting and make viewing of, and participation in, general meetings available by means of communication.

We do not comply with section 6.2.2 of the CGC which states that before signing a contract with the auditor the management board has to submit a draft of the contract for approval by the supervisory board. The management board of Tallinna Sadam does not consider it necessary to have the draft contract for audit services to be approved by the supervisory board because the auditor is chosen through public procurement proceedings. In the procurement arranged in 2018, four big international audit firms participated. The contract is signed based on the procurement results and all significant terms and conditions of the contract (including the time schedule and the auditor's duties) are agreed with the supervisory board before a procurement is announced. In accordance with the regulation of the Estonian Financial Supervision Authority regarding the rotation of auditors of certain entities subject to public financial supervision, dated 24 September 2003, we organise the rotation of auditors and thus ensure the independence of the auditor.

3.10 QUALITY AND RISK MANAGEMENT

Tallinna Sadam (the parent company) has applied an integrated management system that is in conformity with the international quality and environmental management standards ISO 9001 and ISO 14001 since 2003. In March 2018, we successfully passed a recertification audit by the certification firm Bureau Veritas Eesti OÜ that verified our conformity with the requirements of ISO 9001:2015 and ISO 14001:2015. The subsidiary OÜ TS Shipping also applies an integrated quality management system, which is in conformity with international standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 45001. The main objectives in developing the quality and environmental management system included the implementation of a customer satisfaction model and indicators and surveys for measuring the company's reputation and employee engagement. In 2018, we continued to develop our performance management system, employee motivation system and paperless accounting, replaced our digital document management system and internal web and implemented a new digital group work tool.

We have identified, described and updated (in 2018) all significant risks that Tallinna Sadam is exposed to. In 2018 we also updated our comprehensive risk management framework. The main purpose of risk management is not to prevent the realisation of risks but rather to prevent the arising loss or damage to the company, i.e. to help ensure the company's profitability and the achievement of its goals. The risks of Tallinna Sadam have been classified to three main categories: risks resulting from the external environment, risks associated with specific business lines and operational risks. Every risk has been assigned a risk owner and, where necessary, a risk manager.

Detailed information on the financial risks of Tallinna Sadam and its risk mitigation and hedging objectives and principles is provided in note 4 to the financial statements.

In keeping with our values and ethics, we have put in place a Group-wide procedure for preventing conflicts of interest under which, among other things, members of Group companies' management and supervisory boards and key personnel are required to declare their business interests.

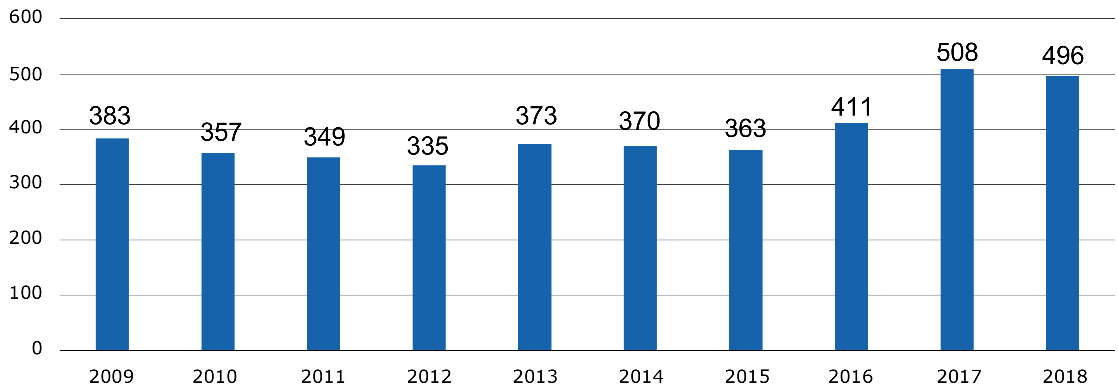
Corporate Social Repsonsibility

4 Corporate Social Repsonsibility

Tallinna Sadam has been a member of the Responsible Business Forum in Estonia since February 2015 in order to address corporate social responsibility (CSR) topics more systematically and contribute to promoting responsible business practice in Estonia. We have assessed our responsibility and sustainability activities by completing the Corporate Social Responsibility Index questionnaire (offered by the Estonian Responsible Business Forum) since 2014. In 2017 and 2018, Tallinna Sadam achieved the silver level for its socially responsible activities. In the category of Good Employer we have collected the largest number of points and have been cited as a positive example for other companies.

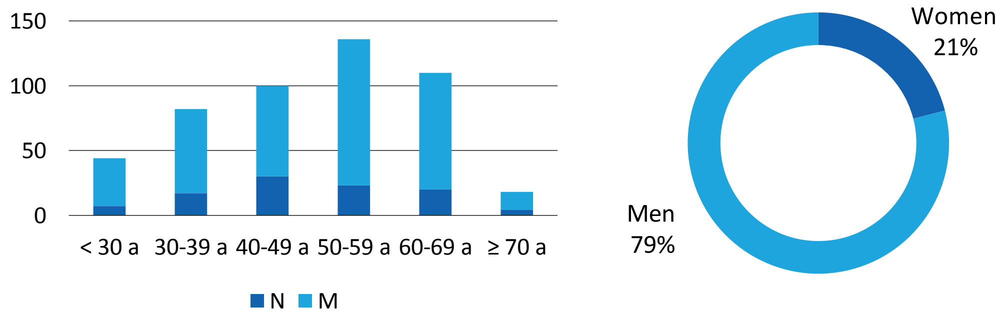
4.1 PEOPLE

Tallinna Sadam employs approximately 500 people. In 2018, the Group' average number of employees was 496 (2017: 508).



In the past ten years, the Group's headcount has been influenced by two main factors: more effective work arrangement, which has reduced workforce in the harbour business, and the addition of new business lines. In 2013, we began to operate the multifunctional icebreaker Botnica. In 2016, we started providing ferry service between Estonia's mainland and two biggest islands. In the latter, all positions were filled in 2017.

Workforce by gender and age at 31 December 2018:



Employees involved in the harbour business have been with us for 16 years on average. The gender balance (ratio of men to women) is related to the nature of our main business lines: harbour operations and shipping. Men are more interested in becoming crew members, dockers, repairmen, etc. Out of the 33 members of our management team 15 are women.

Tallinna Sadam is an innovative and modern company. To collect new ideas and share best practices, we support our employees' participation in training events and conferences related to management, environment, foreign languages, computer skills, professional and work safety. In 2018, our employees received 7,666 hours of training (2017: 7,630 hours). On average, in 2018 each employee participated in 15.5 hours of training (2017: 15.1 hours). Training expenses per employee amounted to EUR 320 (2017: EUR 331).

Participation in other professional training and maritime and port operations training has been the highest. Due to digital developments and IT upgrades (including implementation of new document management software) the volume of IT training has also increased rapidly.

Number of training hours	2018	2017
Other professional training (specialised work, use of special equipment, engineering, etc.)	3 231	3 373
IT skills, document management and language training	1 541	838
Management and leadership training	57	7
Maritime and port operations training	2 059	2 419
Health and safety at work and first aid training	778	993
TOTAL	**7 666**	**7 630**

To inform and educate our employees, we organise seminars on different topics, internal training events and staff meetings. We use different channels in our daily internal communication: internal web, the Microsoft Teams application, an internal newsletter and social networks.

Tallinna Sadam and its subsidiaries work closely with their social partners (trade unions). 40 employees of Tallinna Sadam belong to the Federation of Estonian Water Transport Workers' Trade Unions with whom we have signed a collective agreement. 32 employees are members of the Estonian Seamen's Independent Union.

In 2018, employee turnover was 7.5% (2017: 3.4%). Employee turnover increased the most at OÜ TS Laevad where typically for a service company employee turnover for 2018 was 15.5%.

In 2018, the average number of sick leave days per employee was 6.3 calendar days (2017: 7.4 calendar days). Work environment issues are important for the Group. Therefore, we consistently invest in raising our employees' awareness of work environment and occupational safety matters.

Tallinna Sadam is a highly appreciated employer and a family-friendly company. To help our employees combine work and family, we offer our people flexible working hours, support their children's participation in camps and organise a children's Christmas party. We invest in our employees' health, because taking care of employees' mental and physical health ensures that they are happy and dedicated to their work.

We support our employees' participation in sports clubs and activities through the SportID environment and promote an active lifestyle throughout the year. Traditionally, the sports teams of Tallinna Sadam take part in the bowling tournament of Estonian companies and the basketball tournament of the Baltic Sea ports. In 2018, they also participated in the Winter Swimming World Championships. We have set up a health trail in our office, built a room for stand-up meetings and bought scooters and bicycles for moving around the harbour premises.

Every year we hold a health week where we draw attention to various topics related to employee health such as physical activity, a healthy diet, mental health and different therapies. We organise health-related lectures, workshops, and other activities. The health week includes a blood donor day for our staff and business partners.

We increase employee engagement by creating team spirit with the support of various joint events: a summer teambuilding event, the year-end party, concerts by the port's choir Laulude Lemmik, different theme weeks and holiday celebrations (Valentine's Day, Shrove Tuesday, International Women's Day).

We request regular feedback from our employees to assess their satisfaction and engagement. We encourage them to think along and suggest innovative solutions both in their own area and for the development of the company. We value employees who are goal-oriented in their work and activities. To monitor progress, we have introduced an annual motivated goal system. In addition, every year we recognise our long-serving employees, select Employees of the Year and recognise employees' good ideas and successes.

The remuneration system and human resource policy of Tallinna Sadam are governed by the principles of non- discrimination, diversity and equality. We recruit people based on the experience, skills and education required for the job. Where possible, we also hire people with reduced working capacity. In 2018, Tallinna Sadam employed six people with reduced working capacity.

4.2 SAFETY AND SECURITY

We invest daily in ensuring and promoting safety and security in all our business lines. Our main challenge is to implement innovative security systems to make sure that employees, passengers, cargo and companies in the harbours and on the ferries of Tallinna Sadam are safe and secure.

The harbours of Tallinna Sadam have implemented a safety assurance system which is described in the handbook for preventing and handling hazardous situations. We assess risks regularly and update safety measures where necessary. The prevention of hazardous situations and the rules for conduct in hazardous situations are described in the procedure for preventing and solving hazardous situations. Each harbour has a plan for hazardous situations. To cope with hazardous situations, we carry out regular drills and exercises and work with supervision authorities, local communities and all operators, including handlers of hazardous substances on the premises of our harbours. In more general terms, port safety is also regulated by port rules.

Harbours make sure that fire safety requirements are observed on their premises and that employees have working conditions that comply with work environment and occupational health requirements. All risks of possible hazardous situations have been assessed, appropriate preventive measures have been adopted, and clear action plans and adequate follow-up activities have been implemented.

All harbours of Tallinna Sadam have a security plan, which is based on a risk analysis carried out by the Estonian Maritime Administration. According to the plan, each harbour consists of different facilities for which the plan outlines appropriate security measures. The effectiveness of the security plan is tested during drills and exercises carried out every three months. Compliance with security requirements is supervised by the Estonian Maritime Administration.

Thanks to thorough preventive work in ensuring safety and security, Tallinna Sadam has had only a few serious incidents in the past decade. There have been no accidents or hazardous situations with a large number of casualties.

Impact of incident	2014	2015	2016	2017	2018
Threat to a person's life and health	0	0	1	1	0
Threat to the operation of security systems	1	1	0	1	3
Accident at work resulting in death	0	1	0	0	0
Accident at work resulting in a serious injury	0	0	0	1	0

Employees' occupational safety is a priority for Tallinna Sadam. 57% of our employees are office staff whose work environment risk factors include lack of exercise (forced position) and work with a computer. 43% of employees have jobs with increased risk because they have to work at night or at height. Job-related risk is also higher for those who perform hot work, use dangerous equipment (landing bridges, ramps), or work on ferries or quays or in passenger terminals. We continuously improve the work environment by carrying out appropriate risk analyses and enhancing workstations based on employee proposals. We send employees to regular health checks, purchase protective and special equipment and promote a healthy lifestyle among our employees.

4.3 ENVIRONMENT

The environmental goals of Tallinna Sadam have been set in accordance with the internationally agreed Sustainable Development Goals. Our environmental policy is based on the principle that our activities have to be environmentally friendly. In planning our development activities, we carry out thorough analyses and take into account the proposals of both the public and our customers. To implement our environmental policy and achieve our goals, we raise our employees' environmental awareness, work with Estonian and international organisations, scientific and research institutions, and consulting companies. We have implemented an environmental management system that is in conformity with ISO 14001.

Our environmental management system is based on identifying significant environmental aspects and their impacts, and setting environmental goals and tasks to improve the results. Significant aspects are activities which after coming into contact with the surrounding environment have the greatest impact on nature, the cooperation of stakeholders, the quality of life of people, and the results of business activities. In 2018, one of the main goals of our environmental management system was to improve the monitoring of air quality in the western part of the Muuga Harbour to reduce neighbours' complaints about odour nuisances. We also contribute to improving the purity of the Baltic Sea by helping prevent the discharge of ship-generated sewage into the sea. To help solve the problem, we built a system for receiving sewage from international ferries and cruise ships in the Old City Harbour. At the Environmentally Friendly Company Competition 2018, the solution received a special award in the category of business and biodiversity (subcategory: environmentally friendly products and services).

Membership in environmental organisations

Tallinna Sadam is a founding member of the Estonian Association for Environmental Management and a member of the prestigious European inter-port environmental protection organisation Ecoports. Tallinna Sadam is also a member of the Sustainable Development Committee of the European Sea Ports Organisation and has been elected to head the Environmental Working Group of the Baltic Ports Organisation.

The best environmental practices of Tallinna Sadam have been included in the environmental guide of the ports of the European Sea Ports Organisation (*Green Guide; Towards excellence in port environmental management and sustainability*). Projects carried out by Tallinna Sadam that have been selected to the guide for presenting to other ports comprise:

- An environmental management system for monitoring air pollution and air quality at the Muuga Harbour
- Organising the reception of ship-generated waste: waste sorting and recycling
- Waste management: mobile technological handling station for waste containing liquid oil
- Mapping the noise of harbour activities and adopting mitigating measures (a noise barrier) at the Muuga Harbour

In our environmental activities we focused primarily on the following areas: air quality, noise, ship-generated waste, water quality and use of energy.

Air quality

In resolving possible air pollution resulting from the operations of Tallinna Sadam we have concentrated on the following three key areas: odour issues caused by the cargo of oil terminals, air pollution from ships and differentiation of port dues based on a ship's investment in reducing air pollution.

To reduce odour nuisances caused by the cargo of oil terminals, we have installed an e-Noses network on the premises of the Muuga Harbour. It is a preventative 24/7 warning system that consists of 21 odour sensors and complements a previously installed air quality monitoring system. In 2018, we added three mobile e-Noses and wind sensors that help identify the cause of odour nuisances more quickly and effectively.

We are planning to reduce ship-generated air pollution in the harbour by connecting ships to onshore electricity as well as promoting the use of the emissions cleaning systems (scrubber systems) and alternative clean fuels by ships. Air pollution, noise and vibration caused by ships disturb both individually and in combination existing and future neighbouring areas. Thus, one way to reduce environmental impacts is to connect passenger ferries docking at the harbour to the onshore electricity network of 11 kV and 50 Hz.

Similarly to other EU and Norwegian ports, in 2018 Tallinna Sadam started to differentiate environmental port dues to reduce air and marine pollution resulting from ships' waste management and emissions. Previously, we granted discounts on waste fees to cruise ships that sorted their waste and environmental discounts on port dues to all ships whose main fuel was LNG. In 2018, however, we developed a new system of environmental discounts on port dues based on the principles of the Environmental Ship Index (ESI). ESI was developed in the framework of the World Ports Climate Initiative (WPCI) and it is based on the emissions of nitrogen compounds (NOx), sulphur compounds (SOx), particulate matter (PM) and CO2. It also takes into account the connection of a ship to the onshore electricity network and use of electricity in the harbour. By granting discounts on port dues under the ESI principles, Tallinna Sadam supports the initiatives and investments of the shipping sector which are aimed at implementing environmentally friendly technologies and, thus, ensuring sustainable, environmentally friendly and competitive development of sea transport. Contributing to the well-being of local communities is equally important: this activity helps reduce air pollution and thus improves the quality of life.

Noise

Monitoring noise caused by ship traffic that travels through the air is important for the well-being of people living near ports. Tallinna Sadam has investigated noise at the Old City Harbour, the Muuga Harbour and the Saaremaa Harbour. Based on the investigations we identified more problematic areas and prepared an analysis of possible mitigation measures to minimise future complaints by neighbours.

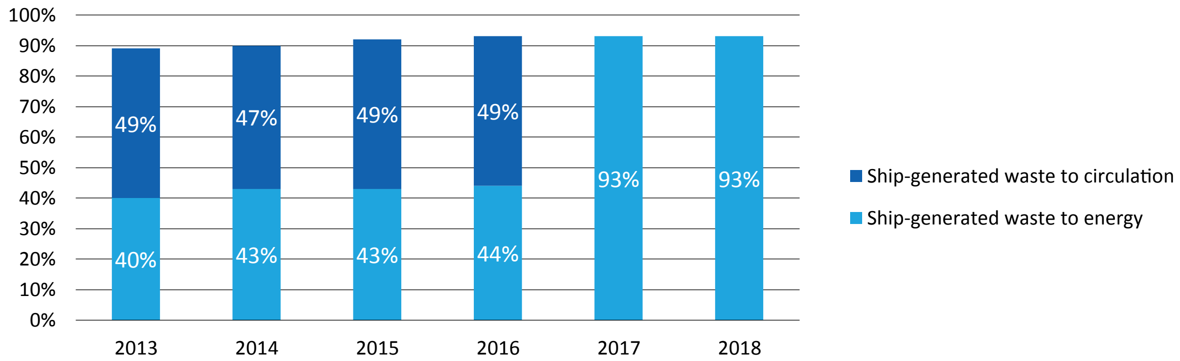
In 2018, we continued technical design work in the onshore electricity supply project for ferries in the Old City Harbour. The project is financed in the framework of TWIN-PORT 3, which is co-financed by the European Union.

Ship-generated waste

The purpose of disposing of ship-generated waste in harbours is to prevent marine pollution by reducing the discharge of waste into sea. We have adequate equipment for receiving bilge water, sewage, garbage, and waste containing oil products and oil from all ships calling at our harbours.

In contrast to many other European ports, we support ships that have invested in scrubber systems in order to reduce sulphur compounds (SOx) in their emissions and accept scrubber waste without any additional charge. We accept ship-generated waste based on the principle of circular economy which is mainly aimed at sustainable use of natural resources. In 2018, 93% of ship-generated waste was reused in the circular economy.

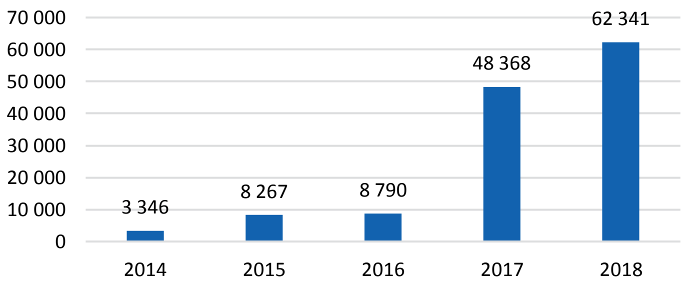
Circular economy of ship-generated waste in 2013 – 2018



Water quality

In 2016, the Marine Environment Protection Committee of IMO declared the Baltic Sea a special area for sewage. According to its resolution, from 1 June 2019 new passenger ships (ferries and cruise ships) and from 1 June 2021 all passenger ships will be banned from discharging sewage into the Baltic Sea. In previous years, we built a sewage pipeline on the berths for cruise ships and a micro-tunnel in order to increase our sewage reception capacity from 100 m3 to 1,200 m3 per hour. Thanks to the new sewer system for cruise ships, cruise ships calling at the Old City Harbour can discharge unlimited amounts of sewage without any additional charge. In 2018, we continued to expand the sewer system for ferries in order to realise our long-term environmental strategy according to which all ships calling at the Old City Harbour should be able to dispose of unlimited amounts of sewage.

Sewage received from cruise ships in 2014 – 2018 (m^3)



Use of energy

Tallinna Sadam considers it important to use natural resources responsibly and efficiently. In 2018, we continued to implement innovative solutions initiated in previous years and to produce energy from renewable sources. The solutions include using sea water for heating and cooling in the Paldiski South Harbour, using solar panels for heating and generating domestic water at the Muuga Harbour, using intelligent building management systems at all our passenger terminals and offices, increasing the use of LED lights in our indoor and outdoor lighting and reducing energy consumption at night time.

Consumption of electricity and heat in 2016 – 2018:

Type of energy	2016	2017	2018
Heat (GWh)	3.23	3.66	3.56
Electricity(GWh)	10.52	9.64	9.42

Providing environmental information to shareholder groups

In addition to carrying out activities aimed at improving the quality of the environment, we invest in communicating with stakeholder groups and informing them about our environmental activities. Similarly to previous years, we use different communication channels: films, radio and TV interviews, topical environmental articles in newspapers, roundtables with local governments, environmental meetings with local communities, harbour visits for different stakeholder groups, and lectures at universities and schools. At the Muuga Harbour, we organise harbour tours for local people during the local governments' annual safety and security days and other events.

4.4 ENGAGEMENT OF PARTNERS AND STAKEHOLDER GROUPS

In working towards our strategic objectives, we consider it a priority to take into account the wellbeing and interests of our main stakeholder groups (employees, customers, local communities, and investors), to engage them and thus create added value.

Employees

Above all, we will achieve the strategic objectives set for Tallinna Sadam with the help of our dedicated employees. Activities aimed at engaging and motivating employees are described in section 4.1 of this report.

Customers and business partners

Tallinna Sadam is a customer-centric company. In our customer relations we observe the principles of openness and inclusion. Our management and heads of business lines regularly meet our key customers. Once a year, we organise a daylong event for informing our customers about the company's significant projects and investments. In collaboration with customers and stakeholders from the logistics industry, we participate in logistics events and conferences (TransRussia, BreakBulk, TransKazakhstan, CLIF, Baltic Sea Ports and Shipping, etc.) and receive business delegations in order to present the capabilities of Estonian logistics companies and ports in handling cargo flows.

In 2018, we helped organise several industry conferences in Estonia such as the conferences of the Baltic Ports Organization and the Paldiski Association of Entrepreneurs. We participate actively in the roundtables of the transit committee to find opportunities for improving the competitiveness of transit corridors passing through Estonia.

The state as the controlling shareholder has set us the objective to be the engine of the transit sector and the modeller of business culture for the industry. In working towards those goals, we collaborate with different organisations and companies. Tallinna Sadam is a member of the Logistics and Transit Association whose mission is to ensure the stability and sustainable development of the international logistics and transit chain passing through Estonia. Through the association, Tallinna Sadam supports, among other things, the presence of an economic adviser in the Estonian embassy in Kazakhstan and thereby also the relations, and the development of a contact network, between the transit and logistics sectors of Estonia and Kazakhstan. Since 2017, Tallinna Sadam has also been a member of the Estonian Logistics and Freight Forwarders Association (ELEA). We continue to work with our partners in carrying out the Single Window project aimed at digitalising the logistics chain, which we initiated. In 2017, major logistics, freight forwarding and transit companies, professional associations, universities and the Ministry of Economic Affairs and Communications signed a cooperation agreement for the transition of the logistics and transit sector to paperless information and document exchange in the next few years. Concurrently with Single Window, we are participating in SmartLog, an international pilot project researching how the blockchain technology could benefit the logistics chain.

We work with research institutions in Estonia and abroad both in developing digital solutions and analysing innovative engineering opportunities, we introduce our company to students and accept interns, and our employees share their expertise as visiting lecturers.

In the passenger business, we regularly meet the representatives of the Port of Helsinki and ferry operators in the framework of the TWIN-PORT 2 and 3 projects, to provide ferry passengers with convenient, quick and modern ferry connections. Twice a year, we attend meetings of the cruise network where the season is discussed and representatives of the sector map their challenges and seek solutions. Tallinna Sadam is also a member of international cruise organisations Cruise Baltic and Cruise Europe.

It is important for us to offer our customers the best service quality. To deliver it, we monitor the satisfaction of six major customer groups: terminal operators, ferry operators, shipping agents, tenants, passengers and customers of the marina. In 2018, the customer satisfaction index improved year on year from 4.76 to 4.93 (on a 6-point scale). The subsidiary OÜ TS Laevad that provides ferry service measures its customers' satisfaction with services provided using the net promoter score (NPS) methodology. In 2018, NPS was 58% (2017: 47%).

Local communities

We organise different events for the local community such as Tallinn Maritime Days. We wish to bring the sea and the activities of the harbour closer to the local community. We work closely with the City of Tallinn in executing Masterplan 2030 created for developing the Old City Harbour into a modern and vibrant city centre with attractive public areas. It has become a tradition for us to participate in the Viimsi Security Day and Maardu Fair where we can communicate, and hold a dialogue, with people living near the Muuga Harbour.

Tallinna Sadam is a member of the Estonian Chamber of Commerce and Industry, the British-Estonian Chamber of Commerce (BECC), the American Chamber of Commerce in Estonia (AmCham) and the German-Baltic Chamber of Commerce. In 2018, we were the main organiser of BECC's season opening event in the cruise harbour and on board a cruise vessel in the Old City Harbour. We have a representative on the AmCham Travel and Tourism Committee and on the board of the Digital Construction Cluster.

Tallinna Sadam is a member of the Paldiski Association of Entrepreneurs. The purpose of the association that brings together entrepreneurs and the local government is to develop local entrepreneurship and make it internationally more attractive, create jobs and help build a positive image for the city of Paldiski.

Investors

We are a listed company. Therefore, in investor relations and information disclosure we observe, above all, the principles of transparency and fair and equal treatment of investors as required by the rules of the stock exchange. Before listing, we held meetings with institutional investors and organised open days and tours in the Old City Harbour and the Muuga Harbour for retail investors. We created a separate website for investors: investor.ts.ee/en/, the management board of Tallinna Sadam presented the company's financial results at quarterly interactive webinars and after listing we organised meetings with investors in Tallinn, Helsinki, London, Oslo, Stockholm and at an investor conference in Austria. We participate actively in conferences and seminars where we introduce Tallinna Sadam and share our experience of going public. The IPO of Tallinna Sadam has won several awards: Baltic M&A Forum recognised us with the Baltic Public Offering of the Year 2018 Award, East Capital granted us the Best IPO Award and Nasdaq Baltic Awards named the IPO of Tallinna Sadam the Stock Exchange Event of the Year 2018.

Consolidated Financial Statements

Management's confirmation and signatures

By authorising the consolidated annual financial statements as at and for the period ended 31 December 2018 for issue, the management board confirms that the information about AS Tallinna Sadam and its subsidiaries, as set out on pages 48 to 125, is correct and complete and that:

1. the consolidated financial statements have been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU);

2. the consolidated annual financial statements give a true and fair view of the financial position, cash flows and financial performance of the Group;

3. all significant events that occurred until the date on which the financial statements were authorised for issue (15 March 2019) have been properly recognised and disclosed in the consolidated financial statements; and

4. AS Tallinna Sadam and its subsidiaries are going concerns.

15 March 2019

Valdo Kalm	Marko Raid	Margus Vihman
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros	Note	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	**7**	42,563	6,954
Trade and other receivables	**8**	8,017	9,271
Inventories		305	301
Total current assets		**50,885**	**16,526**
Non-current assets			
Investment in an associate	**9**	1,569	1,256
Other long-term receivables	**8**	196	272
Property, plant and equipment	**10**	568,965	577,125
Intangible assets	**11**	2,024	1,958
Total non-current assets		**572,754**	**580,611**
Total assets		**623,639**	**597,137**
LIABILITIES			
Current liabilities			
Loans and borrowings	**16**	15,766	21,989
Derivative financial instruments	**17**	425	609
Provisions	**13**	1,957	1,503
Government grants	**18**	174	303
Taxes payable	**15**	5,844	698
Trade and other payables	**14**	9,517	7,810
Total current liabilities		**33,683**	**32,912**
Non-current liabilities			
Loans and borrowings	**16**	197,846	213,611
Government grants	**18**	23,418	23,826
Other payables	**14**	1,018	996
Total non-current liabilities		**222,282**	**238,433**
Total liabilities		**255,965**	**271,345**
EQUITY			
Share capital		263,000	185,203
Share premium		44,478	0
Statutory capital reserve		18,520	18,520
Hedge reserve		-425	-609
Retained earnings (prior periods)		17,678	96,253
Profit for the period		24,423	26,425
Total equity	**19**	**367,674**	**325,792**
Total liabilities and equity		**623,639**	**597,137**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Consolidated statement of profit or loss

In thousands of euros	Note	2018	2017
Revenue	**20**	130,635	121,295
Other income	**22**	816	4,808
Operating expenses	**21**	-37,360	-41,041
Personnel expenses	**21**	-19,420	-17,957
Depreciation, amortisation and impairment	**10, 11**	-22,345	-26,430
Other expenses		-251	-358
Operating profit		**52,075**	**40,317**
Finance income and costs			
Finance income		33	33
Finance costs	**23**	-2,003	-2,318
Finance costs – net		**-1,970**	**-2,285**
Share of profit of an associate accounted for under the equity method	**9**	517	348
Profit before income tax		**50,622**	**38,380**
Income tax expense	**19**	-26,199	-11,955
Profit for the period		**24,423**	**26,425**
Attributable to: Owners of the Parent		24 423	26 425
Basic earnings and diluted earnings per share (in euros)	**19**	0.11	0.14
Basic earnings and diluted earnings per share – continuing operations (in euros)		0.11	0.14

Consolidated statement of other comprehensive income

In thousands of euros	Note	2018	2017
Profit for the period		**24,423**	**26,425**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss: Net fair value gain on hedging instruments in cash flow hedges	**17**	184	399
Total other comprehensive income		**184**	**399**
Total comprehensive income for the period		**24,607**	**26,824**
Attributable to: Owners of the Parent		24,607	26,824

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros	Note	2018	2017
Cash receipts from sale of goods and services		138,746	127,814
Cash receipts related to other income		104	450
Other receipts	**10**	2,600	0
Payments to suppliers		-46,200	-48,658
Payments to and on behalf of employees		-16,461	-14,824
Payments for other expenses		-366	-744
Income tax paid on dividends	**19**	-21,250	-20,612
Cash from operating activities		**57,113**	**43,426**
Purchases of property, plant and equipment	**26**	-11,941	-25,171
Purchases of intangible assets	**26**	-618	-1,346
Proceeds from sale of property, plant and equipment		12	524
Government grants received		0	349
Dividends received	**9**	204	178
Interest received		18	19
Cash used in investing activities		**-12,325**	**-25,447**
Contributions to share capital		119,883	0
Issue of debt securities	**16**	0	105,000
Redemption of debt securities	**16**	-12,650	-111,250
Repayments of loans received	**16**	-6,766	-6,766
Change in overdraft (liability)	**16**	-2,565	2,565
Repayments of finance lease principal	**16**	-7	-3
Dividends paid	**19**	-105,000	-48,000
Interest paid	**16**	-2,023	-2,459
Other payments related to financing activities		-51	-30
Cash used in financing activities		**-9,179**	**-60,943**
NET CASH FLOW		35,609	-42,964
Cash and cash equivalents at beginning of the period		6,954	49,918
Change in cash and cash equivalents		35,609	-42,964
Cash and cash equivalents at end of the period		42,563	6,954

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Note	Share capitall	Share pre-mium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity attributable to owners of the Parent
Equity at 31 December 2016		185,203	0	18,520	-1,008	144,253	346,968
Profit for the period		0	0	0	0	26,425	**26,425**
Other comprehensive income for the period	**17, 19**	0	0	0	399	0	**399**
Total comprehensive income for the period		*0*	*0*	*0*	*399*	*26,425*	***26,824***
Dividends declared	**19**	0	0	0	0	-48,000	**-48,000**
Total transactions with owners		*0*	*0*	*0*	*0*	*-48,000*	***-48,000***
Equity at 31 December 2017		185,203	0	18,520	-609	122,678	325,792
Profit for the period		0	0	0	0	24,423	**24,423**
Other comprehensive income for the period	**17, 19**	0	0	0	184	0	**184**
Total comprehensive income for the period		*0*	*0*	*0*	*184*	*24,423*	***24,607***
Contributions to share capital		77,797	44,478	0	0	0	**122,275**
Dividends declared	**19**	0	0	0	0	-105,000	**-105,000**
Total transactions with owners		*77,797*	*44,478*	*0*	*0*	*-105,000*	***17,275***
Equity at 31 December 2018		263,000	44,478	18,520	-425	42,101	367,674

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as the “Parent” or the “Company”) is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statements of AS Tallinna Sadam as at and for the years ended 31 December 2018 and 2017 comprise the Parent and its subsidiaries (together referred to as the “Group”). The Group’s core business lines are rendering of port services in the capacity of a landlord port, organising passenger ferry service between Estonia’s mainland and biggest islands and operating the multifunctional icebreaker Botnica.

The Group owns five harbours: Old City, Saaremaa, Muuga, Paljassaare, and Paldiski South. The Old City Harbour in the centre of Tallinn together with the Old City Marina for small vessels (opened in 2010) and the Saaremaa Harbour designed for receiving cruise ships provide mainly passenger harbour services. The Muuga Harbour, which is Estonia’s largest cargo harbour, the Paldiski South Harbour and the Paljassaare Harbour that serves mostly ship repair companies provide mainly cargo harbour services. The Group has ceased active operations in Paljassaare Harbour and is preparing for an exit.

In October 2017, the sole shareholder of the Parent decided to merge the Group’s wholly-held subsidiary TS Energia OÜ with the Parent, AS Tallinna Sadam. The closing accounts of TS Energia OÜ were prepared as at 30 July 2017. All transactions conducted by TS Energia OÜ from 31 July 2017 to the date the merger was registered in the Commercial Registry (31 December 2017) were recognised in the statement of financial position of AS Tallinna Sadam. The merger had no impact on the Group’s consolidated figures.

The Group’s subsidiaries as at 31 December 2018 and 31 December 2017:

Subsidiary	Domicile	Ownership interest (%) 2018	Ownership interest (%) 2017	Core business line
OÜ TS Shipping	Republic of Estonia	100	100	Rendering icebreaking and other offshore support services with the multi-functional icebreaker Botnica
OÜ TS Laevad	Republic of Estonia	100	100	Rendering domestic ferry service between the mainland and the biggest islands

In addition, the Group has a 51% interest in the associate AS Green Marine but it does not have control over the entity’s decision-making. In the Group’s financial statements, the interest in the associate is accounted for using the equity method.

The address of the Parent’s registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.

The ultimate controlling party of AS Tallinna Sadam is the Republic of Estonia (ownership interest of 67.03% through the Ministry of Economic Affairs and Communications).

The management board authorised these consolidated financial statements for issue on 15 March 2019. Under the Commercial Code effective in the Republic of Estonia the annual report must also be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand the preparation of a new annual report.

2. ACCOUNTING POLICIES

Basis of measurement

The Group's consolidated financial statements as at and for the year ended 31 December 2018 has been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities (including derivatives), which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other relevant factors the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The management board reviews the estimates regularly and any change in an estimate is recognised prospectively or in the period the change in an estimate relates to. Most significant estimates made by management are disclosed in note 5 to these consolidated financial statements.

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

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2018 and have therefore not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

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 the statement of financial position 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).

The Group does not expect that IFRS 16 will have a material impact on its financial statements because the Group's operating leases are immaterial by nature and according to management's assessment the Group's commitments under the contracts are not material.

IFRIC 23 *Uncertainty over Income Tax Treatments*

(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted)

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 are 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.

The Group does not expect that the interpretation, when initially applied, will have a material impact on its financial statements as the Group does not operate in a complex multinational tax environment and does not have material uncertain tax positions.

New standards and amendments that have been published by the IASB but not yet adopted by the EU

Annual Improvements to IFRS 2015-2017 Cycle

(Effective for annual periods beginning on or after 1 January 2019)

Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 *Business Combinations*;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 *Joint Arrangements*;
- clarify that the entity should always account for the income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognised past transactions or events that generated distributable profits; and
- clarify that in computing the capitalisation rate for funds borrowed generally, an entity should exclude borrowing costs applicable to borrowings made specifically for obtaining a qualifying asset, only until the asset is ready for its intended use or sale. Borrowing costs related to specific borrowings that remain outstanding after the related qualifying asset is ready for intended use or for sale would subsequently be considered as part of the general borrowing costs of the entity.

None of these changes are expected to have a material impact on the financial statements of the Group.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

(Effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.)

An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI').

The amendment involves the dual application of IAS 28 and IFRS 9 *Financial Instruments.* The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain how the standards are to be applied.

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

(Effective for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Early adoption is permitted.)

The amendments clarify that:

- on the amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

There are other standards that have been issued/endorsed as of the date of these consolidated financial statements, however, they are not relevant for the Group and are not expected to have a material impact.

Basis of consolidation

The consolidated financial statements comprise the financial statements of AS Tallinna Sadam and its subsidiaries, consolidated line by line.

a) Subsidiaries

A subsidiary is any entity controlled by the Group. The Group controls an entity when it:

- has power over the entity;
- has exposure, or rights, to variable returns from its involvement with the entity; and
- has the ability to use its power over the entity to affect the amount of the returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Parent gains control of the subsidiary and ceases when the Parent loses control of the subsidiary. The income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Parent gains control until the date the Parent loses control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent and to non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Parent and non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group owns 100% of each of its subsidiaries, therefore no non-controlling interest has been recognised for the period ended 31 December 2018.

Where necessary, the financial information of subsidiaries is adjusted to ensure conformity with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expenses, and cash flows relating to transactions between Group entities are eliminated in full in consolidation.

b) Associates

An associate is an entity over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. In the consolidated financial statements, investments in associates are accounted for using the equity method. Under the equity method, the initial investment is subsequently adjusted for the profits/losses and dividend distributions received from the investee. 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. When the Group's share of losses equals or exceeds its interest in an equity-accounted associate, the carrying amount of the investment is reduced to zero and further losses are accounted for off the statement of financial position. When the Group has incurred legal or constructive obligations or made payments on behalf of the associate, both the liability and loss under the equity method are recognised in the statement of financial position. Where necessary, associates' accounting policies are adjusted so that they comply with the Group's accounting policies.

Any reversal of an impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Foreign currency

a) Functional and presentation currency

Items included in the financial statements of Group entities are measured in the currency of the primary economic environment in which the entities operate – the euro (the functional currency of all Group entities).

The consolidated financial statements are also presented in euros (the presentation currency). All amounts in these consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Foreign currency transactions and financial assets and financial liabilities denominated in foreign currencies

In preparing the financial statements of the Group, transactions in currencies other than the functional currency (foreign currencies) are recognised at exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value in a foreign currency are translated at the exchange rate prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated at the end of the reporting period.

Exchange differences on monetary items are recognised in profit and loss in the period which they arise. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and finance costs; other foreign exchange gains and losses are presented as other income and other expenses. Non-monetary items measured in terms of historical cost in a foreign currency are not re-translated at the end of the reporting period.

Revenue

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group recognises the following major types of revenue from contracts with customers:

- Vessel dues
- Cargo charges
- Passenger fees
- Sale of electricity
- Sale of ferry services
- Sale of other services

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Vessel dues

Vessel dues are calculated and collected either after each port call or twice a month and consist of the following:

- Tonnage charge (on the basis of the gross tonnage of the vessel for each port call of the vessel);
- Waste fee (on the basis of the gross tonnage of the vessel for each port call of the vessel; in the case of ferries for one port call per day);
- Mooring charge (for each mooring operation based on the gross tonnage of the vessel);

An entrance of a vessel into any of the Group's harbours is considered a port call. Vessel dues are charged for each port call.

Tonnage charges are fees charged from customers, i.e. shipping companies, in exchange for a vessel's entry into any of the Group's harbours and the use of a quay (tonnage service). Waste reception and mooring services are rendered in exchange for waste fees and mooring charges.

A contract with a customer can either include a vessel schedule in which a number of port calls is determined in advance or it may be a contract for a non-recurring tramp vessel call.

Tonnage service, and waste reception and mooring services, when elected, form separate performance obligations. Additionally, the Group grants volume discounts on tonnage service to certain types of vessels based on the accumulated number of port calls by the vessel during the calendar year. Such volume discounts represent options to purchase additional tonnage service in the future (but only up to the end of the calendar year) at a discount, thus granting a material right to the customer. Therefore, each port call that contributes to the cumulative number of port calls, and hence to probable future discounts on tonnage service, consists of between two and four performance obligations – (1) tonnage service, (2) grant of an option to the customer to acquire discounted tonnage service in the future, (3) waste reception (if elected), and (4) mooring service (if elected).

For tramp vessels and vessels visiting the port based on a pre-agreed schedule but without the right to receive prospective volume discounts, the transaction price is based on public or agreed prices and conditions and is allocated entirely to the tonnage service based on its standalone selling price. For vessels visiting the port based on a pre-agreed schedule and having the right to receive a prospective volume discount, the transaction price is allocated between the tonnage service and the option to purchase discounted tonnage service based on the estimated total number of port calls by that vessel during the calendar year. The estimates for the number of port calls for each vessel are reassessed at each reporting date.

Revenue from tonnage service is recognised over time, as the vessels use the quay during each port call, using a time-based measure of progress because the customer receives the benefit of the tonnage service equally throughout the port call. Similarly, revenue from waste reception and mooring services is recognised over time, as those services are performed. Revenue from options to acquire future discounted tonnage service is recognised over the time, as the options are exercised and the discounted tonnage service is used by the customers.

Cargo charges

Cargo charges are levied for using the general harbour infrastructure. Contracts with customers, i.e. cargo operators, are normally signed for 20 to 50 years but sometimes for a longer period. Cargo charges are normally calculated and collected monthly based on the cargo volumes handled by the cargo operator during the period.

The Group's performance obligation is to provide the cargo operator with access to the harbour infrastructure throughout the duration of the contract. The performance obligation is made up of a series of distinct services that are considered a single performance obligation over the duration of the contract. Revenue from cargo charges charged from a customer is based on the cargo handling tariff(s) stipulated in the contract, which generally decrease based on the cargo volume handled by the cargo operator within a calendar year. Some contracts also set out a minimum annual cargo volume. If the cargo operator handles less than the minimum, the Group is entitled to charge the customer at the end of the calendar year based on the minimum volume.

To estimate the amount of variable consideration for cargo charges, the Group uses the most likely amount method. The most likely amount is measured by reference to minimum contractual cargo volumes as well as actual and expected cargo volumes, which requires estimates and judgments by management. These estimates are complex because cargo volumes are volatile. The estimates of variable consideration are revised at each reporting date.

As cargo operators simultaneously receive and consume access to infrastructure, revenue from cargo charges is recognised over time using a time-based measure of progress because customers derive the benefits of their access equally throughout the duration of the contract.

Passenger fees

Passenger fees are charged in exchange for services provided to passengers embarking and disembarking at the harbour, such as the use of passenger terminals, connecting walkways, traffic areas, etc. The fees are paid by the customer, i.e. the ferry operator, based on the actual number of passengers (no fee is charged for passengers under 12 years). Passenger fees are based on a public price list, which sets out the rates, and fees are collected after each port call or twice a month. Revenue from passenger fees is recognised over time, as the service is delivered to the customer (as the passengers arrive to or depart from the harbour), which typically happens in a single day.

Sale of electricity

The Group derives revenue from the sale of electricity and network services. Fees from the sale of electricity and network services are collected monthly, in the month following the month of consumption. Prices are fixed per unit of electricity consumed. As the customers simultaneously receive and consume the benefits provided, the delivery of these services takes place over a period of time. The Group is responsible for maintaining the electricity network required to deliver electricity to customers and has full discretion to establish network prices. Thus, it acts as a principal in providing this service.

When connecting to the electricity network, customers pay a connection fee based on the expenses incurred in connecting to the network. The connection service does not represent a separate performance obligation as the customer does not benefit from this service separately from the consumption of electricity. Therefore, connection fees form part of the consideration for electricity and are recognised as revenue over the estimated period during which customers consume electricity. Amounts received for connection fees not yet included in revenue are recognised in the statement of financial position as contract liabilities.

Sale of ferry services – revenue from ticket sales

The Group earns revenue from the sale of tickets to domestic ferry routes operated by it. Consideration is received when a ticket is sold (for customers that do not have a credit contract) or monthly (based on the ticket, in the month following the month in which the ferry service was used). Ticket prices are fixed and set by the state. No volume or other discounts are granted. Revenue from ticket sales is recognised over time, as the ferry transfers the passengers and/or vehicles, which happens in a single day, or at the time when the ticket expires.

Consideration for tickets sold to trips not yet performed is deferred and recognised as a contract liability within current liabilities. Income from additional services (ticket information sent by SMS, return of tickets, priority boarding for vehicles) is recognised when the service has been rendered.

REVENUE FROM OTHER SOURCES:

• Rental income

Rental income is earned from operating leases and recognised on a straight-line basis over the term of the lease.

• Charter fees

Charter revenue is derived under time charter agreements which specify the charter period (the period for which the vessel is rented out) and the consideration receivable (normally a fixed rate per day). Charter income is recognised on a straight-line basis over the term of the charter period.

• Sale of ferry services – government support

Government grants received by the Group include public transport support received for operating ferries at the fee rates stated in the passenger transport public service contract (PTPSC) minus revenue from ticket sales (the item Sale of ferry services – revenue from ticket sales). Government support for PTPSC comprises fixed fee components and a trip (voyage) component, which make up the total PTPSC fee. The fixed components are recognised on a straight-line basis over the term of the PTPSC and the voyage component is recognised based on the number of trips made during the period. Revenue recognised from the sale of passenger and/or vehicle tickets during the accounting period is deducted from the total PTPSC total fee and the difference is recognised and paid out as government support for public transport (a government grant).

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial asset.

Classification

The classification and subsequent measurement depend on the business model for managing the financial assets and the contractual cash flow characteristics. Management determines the classification of its financial assets at initial recognition.

a) Financial assets measured at amortised cost

Debt instruments are subsequently measured at amortised cost using the effective interest rate method only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies cash and cash equivalents, and trade and other receivables as financial assets measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised in profit or loss in *Finance income.*

b) Financial assets measured at fair value through other comprehensive income (FVTOCI)

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group does not have any financial assets at fair value through other comprehensive income.

c) Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- debt instruments that do not meet the amortised cost or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

The Group measures derivative financial assets at fair value through profit or loss unless they are designated as effective hedging instruments (see below).

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in Finance income and Finance costs respectively in the period in which they arise.

The allocation of financial assets and liabilities to categories is presented in note 6.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and lease receivables. The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since the initial recognition of the financial instrument.

The Group applies the simplified approach provided in IFRS 9 for recognising lifetime ECL for trade receivables and lease receivables (see note 4). The Group always recognises lifetime ECL for trade receivables and lease receivables. Expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast conditions and trends at the reporting date, including the time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

For all other financial instruments whose credit risk has increased significantly since initial recognition the Group recognises lifetime ECL. If, on the other hand, the credit risk of the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months' ECL.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c)the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d)it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

Irrespective of the above, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been put into liquidation or declared to be bankrupt and the Group's management estimates that collection is improbable.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, with the assistance of legal advice where appropriate. Any recoveries of amounts previously written off are recognised in profit or loss.

Financial liabilities

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (trade and other payables and loans and borrowings) or at FVTPL (negative value of interest rate swaps).

Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date or if the Group does not have an unconditional right to defer settlement for more than 12 months after the reporting date. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contract terms are also classified as current.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative instruments and hedge accounting

Derivatives are measured at fair value both at the date the derivative contract is entered into and subsequently. The Group has designated several long-term interest rate swap contracts as cash flow hedges in order to fix interest expense on floating rate borrowings.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis as at the end of each financial year, of whether the derivatives that are used in hedging transactions are highly effective in mitigating the changes in the fair values or cash flows of the hedged items.

The fair values of derivatives used for hedging purposes and movements in the hedge reserve in equity are disclosed in the statement of other comprehensive income and notes 17 and 19 to these consolidated financial statements.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss attributable to the ineffective portion is recognised immediately in the statement of profit or loss within Finance costs or Finance income. Amounts accumulated in equity are reclassified to the statement of profit or loss in the same periods in which the hedged item affects profit or loss. The gain or loss attributable to the effective portion of the instrument hedging variable rate borrowings is recognised in the statement of profit or loss within Finance costs. If a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity and is recognised when the future transaction is ultimately recognised in the statement of profit or loss. If the future transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately recognised in the statement of profit or loss in *Finance costs.*

Fair value measurement

In estimating the fair value of an asset or liability, the Group uses observable market data to the extent it is available. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value or an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Cash and cash equivalents

Cash and cash equivalents recognised in the statements of financial position and cash flows comprise cash on hand, current account balances, funds that have not yet been transferred to the current account by collecting agencies or other payment intermediaries, and term deposits with original maturities of up to three months from the date of acquisition.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of inventories does not include borrowing costs as inventories of the Group do not represent qualifying assets. The cost of raw and other materials comprises the purchase price, transport costs and other costs directly attributable to the acquisition of inventories.

The Group recognises fuel, lubricants and food products purchased for its ferries and icebreaker as inventories.

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the Group's operations and are expected to be used for more than one year. Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

a) Cost

An item of property, plant and equipment is initially recognised at cost, which comprises the purchase price and any costs directly attributable to acquisition which are necessary for bringing the asset to its operating condition and location. Expenditures on subsequent improvements are added to the carrying amount of the asset if they meet the definition of property, plant and equipment and recognition criteria. If a part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item and the replaced part is written off the statement of financial position. Current repair and maintenance expenditures are expensed as incurred.

The Group's items of property, plant and equipment also include several vessels (an icebreaker and ferries) which are subject to periodic major overhauls (dry-dockings) during their useful lives (normally at intervals of 2.5-5 years). Using the component approach, the Group at initial recognition and subsequently (a) identifies the non-physical component that represents a major overhaul, (b) estimates the cost of the non-physical component (if possible, with reference to current market prices), (c) depreciates the non-physical component separately over its useful life (i.e. the dry-docking component separately from the vessel), and (d) derecognises the remaining carrying amount of a non-physical item when the next overhaul is performed and recognised as a new non-physical component.

b) Borrowing costs

Borrowing costs are expensed as incurred, except for the costs that are directly attributable to the acquisition, construction or production of assets whose preparation for intended use or disposal lasts for an extended period (e.g. vessels under construction). Borrowing costs attributable to the acquisition, construction or production of such assets are capitalised as part of the cost of the asset until the date when the assets are ready for their intended use.

c) Depreciation

Depreciation of property, plant and equipment is calculated on the difference between cost and residual value using the straight-line method over the estimated useful life of the asset. The value of vessels at the end of their period of use (residual value) is equal to the value of scrap metal.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items and assigned depreciation rates that correspond to their useful lives.

Based on management's estimates and standard practice in the shipping sector, a vessel's two significant parts – the vessel itself and dry docking expenses – that have different useful lives are depreciated separately.

The estimated useful lives and residual values of items of property, plant and equipment are reviewed at each reporting date, on recognising subsequent improvements, and when significant changes are made to the Group's development plans. If the estimated useful life of an asset differs significantly from the previous estimate, the remaining useful life of the asset is adjusted prospectively, resulting in a change in the asset's depreciation charge for subsequent periods.

The estimated useful lives of items of property, plant and equipment are as follows:

• Quays and berths	10–50 years
• Dredging areas in port basins	20 years
• Buildings and other structures	5–50 years
• Plant and equipment	3.3–10 years
• Vessels	10–25 years
• Capitalised dry docking costs	2.5–5 years
• Other items of property, plant and equipment	2–10 years

- Land is not depreciated.

Depreciation of an asset commences when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when its carrying amount equals its residual value, the asset is fully depreciated or reclassified to *Non-current assets held for sale.* The appropriateness of the useful life and residual value of the asset is assessed at each reporting date.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which do not exceed 5 years. Estimated useful lives and amortisation methods are reviewed at the end of each reporting period and any changes in estimates are recognised prospectively.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally generated intangible assets such as assets arising from software development expenditures are recognised when the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete development and use or sell the asset;
- its ability to measure reliably the expenditure incurred during development.

Other research and development expenditures that do not meet the criteria for classification as intangible assets are recognised as an expense as incurred.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that its non-financial assets may be impaired. The Group assesses impairment indicators from both external and internal sources including significant changes in the global market specifically as they relate to the political environments of neighbouring countries such as Russia and Finland, significant changes in global trade in oil and other liquid bulk cargo as well as dry bulk cargo, significant changes in the travel industry, and significant changes in weather patterns that could impact the use of the Group's multifunctional icebreaker. Non-financial assets include property, plant and equipment and intangible assets. Impairment losses can be estimated for an individual asset or a group of assets (a cash-generating unit). A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If there is indication of impairment, the recoverable amount of the asset is assessed and compared to its carrying amount recognised in the statement of financial position. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is determined by using discounted cash flow projections that are based on financial estimates reviewed by the management board and made for a period corresponding to the expected lifespan of the asset but normally not more than 50 years. The amount of the impairment loss of a cash generating unit is allocated to more significant non-current items of the unit on a pro rata basis so that their value does not fall below their fair value less cost of disposal.

Impairment losses are recognised as an expense in the period in which they are incurred.

Assets that have been previously written down to their recoverable amount are reviewed at each reporting date to assess whether there is any indication that an impairment loss recognised in a prior period may no longer exist or may have decreased. A reversal of an impairment losses is recognised in the statement of profit or loss as a reduction of impairment losses on non-current assets.

Corporate income tax

According to the Income Tax Act in force in Estonia, corporate profit earned in the reporting period is not subject to income tax unless it is distributed. Income tax (dividend tax) is levied on profits and/or retained earnings when they are distributed to shareholders. This has the same effect as if the corporate income tax rate were nil for retained taxable profits, but higher for part or all of profit and/or retained earnings distributed as dividends. Therefore, in accordance with IAS 12, the Company's deferred tax assets and liabilities are measured at the tax rate applicable to retained earnings in Estonia, which is 0%.

Dividends distributed from retained earnings are generally subject to income tax calculated as 20/80 of the net dividend distribution (equals a 20% tax rate on the gross profit distribution). From 2019, regular dividend distributions are subject to income tax calculated as 14/86 of the net dividend distribution (14% of the gross profit distribution). Dividend distributions are considered regular if the amount of the distribution does not exceed the entity's last three years' average profit distribution on which income tax has been paid in Estonia. The 14/86 tax rate can be applied prior to 2021 as follows: (i) in 2019 to one-third of profit distributed in 2018 on which income tax has been paid; and (ii) in 2020 to one-third of profit distributed in 2018 and 2019 on which income tax has been paid.

Dividend distributions to shareholders are recognised as a liability in the period in which the dividends are declared by the shareholders. Income tax on dividends (dividend tax) is to be paid when profits and/or retained earnings are distributed. The tax effect is recognised as income tax expense in the period in which the dividends are declared because the consequences of dividend tax are more directly related to past events and transactions that gave rise to the liability, than to the distribution to owners. The dividend tax liability is recognised in the period in which the dividends are declared, irrespective of the period in which the dividends are actually distributed. The taxable period in Estonia is a calendar month and income tax payments are calculated and remitted on that basis.

Employee benefits

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. Short-term employee benefits include wages, salaries, bonuses and social security contributions; short-term compensated absences (such as paid annual leave) where the absence is expected to occur within 12 months after an employee has rendered the related service; and incentive payments that are due to be settled within 12 months after the end of the period in which an employee renders the related services.

When an employee has rendered services during the accounting period in exchange for which a benefit may be expected to be paid (within next 12 months), the Group recognises a liability in the undiscounted amount of the benefit expected to be paid (accrued expense), less any amount already paid.

b) Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognises termination benefits as a liability and an expense when, and only when, the Group is clearly committed to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Provisions and contingent liabilities

A provision is recognised only if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognised for future operating losses. A provision is recognised based on management's estimates of the timing and amount of the expenditure required to settle the obligation. A provision is recognised in the amount which management estimates as required to settle the obligation at the reporting date or to transfer it to a third party at that time. If an obligation has to be settled later than 12 months after the reporting date, the provision is recognised at the present value of the expected future cash flows. A provision is used to cover only those the expenditures for which it was originally recognised.

A contingent liability is a possible obligation that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that has arisen from a past event but is not recognised because it is either not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Statutory capital reserve

The statutory capital reserve is recognised to meet the requirements of the Commercial Code. Each financial year, 1/20 (5%) of net profit is transferred to the statutory capital reserve until it amounts to 1/10 (10%) of share capital. The statutory capital reserve may be used for covering accumulated losses or for increasing share capital. No distributions may be made from the statutory capital reserve.

Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to the equity holders of the Parent by the average number of ordinary shares issued during the period. Diluted earnings per share are calculated by adjusting profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Leases

A lease that transfers substantially all the risks and rewards related to ownership of an item of property, plant and equipment to the lessee is recognised as a finance lease. Assets leased under finance leases are initially recognised at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned between finance income/finance costs and lease payables/receivables so that the amount payable in each period remains the same. Other leases are accounted for as operating leases.

a) The Group as the lessee

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payment. The corresponding liability to the lessor is recognised in the consolidated statement of financial position as a finance lease liability in loans and borrowings.

Lease payments are apportioned between finance expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the statement of profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy for borrowings.

Operating lease payments are recognised in the statement of profit or loss on a straight-line basis over the lease term. Contingent rentals are recognised as expenses in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

b) The Group as the lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised over the term of the lease on a straight-line basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with the grant and the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. A government grant that becomes repayable is accounted for as a change in accounting estimate.

Government grants related to assets

Government grants related to income are recognised in the statement of profit or loss over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. In the statement of profit or loss, the costs to be compensated and income from the grant are recognised separately.

Amounts received for which additional conditions are required to be met prior to recognition as other income are presented in the statement of financial position as deferred income (a liability).

Repayment of a grant related to income is applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is recognised immediately in the statement of profit or loss.

Government grants related to income

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Amounts received for which additional conditions are required to be met prior to recognition as other income are presented in the statement of financial position as deferred income (a liability).

Repayment of a grant related to income is applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is recognised immediately in the statement of profit or loss.

Government grants related to domestic ferry service

Government grants received in support of providing domestic ferry service are presented in the statement of profit or loss in Revenue. According to the passenger transport public service contract, the Group is paid the difference between the revenue calculated on the basis of the contract and revenue from ticket sales. As there are no other conditions besides the provision of ferry service, the grants are recognised as revenue as received.

Statement of cash flows

The statement of cash flows has been prepared under the direct method.

Related party transactions

For the purposes of these consolidated financial statements, related parties include the members of the supervisory and management boards of Group companies and their close family members, companies under the control or significant influence of the above persons, associates, government agencies, and companies under the control or significant influence of the Republic of Estonia.

3. OPERATING SEGMENTS

Services whose revenues make up segment revenues

The Group's business activities are organised and managed based on its core business lines. The information used by the chief operating decision maker to make decisions about resources to be allocated and assess segment performance focuses on its core business lines. The Group's chief operating decision maker is the management board. No operating segments have been aggregated in presenting reportable segments. The Group's reportable segments under IFRS 8 are as follows:

- Passenger harbours
- Cargo harbours
- Ferry
- Other

Passenger harbours segment comprises the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on providing services to passengers – the Old City Harbour and the Saaremaa Harbour.

The segment's revenue includes all revenues of these harbours, consisting primarily of vessel dues collected from ferries and cruise ships, and passenger fees charged for using the buildings and structures designed for providing services to passengers and their vehicles. It also includes other revenue generated by harbours mainly involved in providing services to passengers and ferries such as rental income for leasing out premises (office and commercial premises), cargo charges, sale of electricity and various other services.

Expenses related to this segment are primarily the costs incurred in these harbours in connection with the revenue generating activities outlined above. Expenses also include allocated corporate expenses, based on the ratio of revenue from this segment to total revenue from harbour operations (the Passenger harbours and Cargo harbours segments combined). All corporate operating expenses are fully allocated between the Passenger harbours and Cargo harbours segments as the provision of landlord port operations is the main activity of the corporate head office (the port authority).

Cargo harbours segment comprises the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on cargo handling – the Muuga Harbour, the Paldiski South Harbour and the Paljassaare Harbour. The segment's revenues include all revenues of these harbours, consisting primarily of revenue from vessel dues for cargo vessels, revenue from cargo charges paid by cargo operators for using the harbour infrastructure, and rental income from the use of premises by cargo operators and other customers under contracts on the right of superficies and lease contracts. It also includes passenger fees and revenue from the sale of electricity and other services.

Expenses related to this segment are primarily the costs incurred in these harbours in connection with the revenue generating activities outlined above. Expenses also include allocated corporate expenses based on the ratio of revenue from this segment to total revenue from harbour operations (the Passenger harbours and Cargo harbours segments combined). All corporate operating expenses are fully allocated between the Passenger harbours and Cargo harbours segments as the provision of landlord port operations is the main activity of the corporate head office (the port authority).

Ferry segment comprises the rendering of ferry service by the subsidiary OÜ TS Laevad between Estonia´s mainland and two largest islands, Saaremaa and Hiiumaa, under a passenger transport public service contract signed with the state (in total two routes are operated). Revenues include revenues from ticket sales to the end-users of ferry service and government support to the extent that revenue from ticket sales does not cover the contract revenue agreed for rendering the ferry service. It also includes rental income and revenue from the provision of other services collected from tenants providing commercial services to passengers on board the ferries. The segment's expenses include all costs related to owning and operating the ferries required for the two routes. The segment's revenues and results comprise the revenues and results of the subsidiary OÜ TS Laevad that provides the service. No corporate expenses are allocated to the Ferry segment.

The segment Other comprises the business of the subsidiary OÜ TS Shipping that owns and operates the multifunctional icebreaker Botnica and the profit/loss on an investment in an associate accounted for under the equity method. The segment's revenues and expenses comprise the revenues and expenses of OÜ TS Shipping. No corporate expenses are allocated to the segment Other.

Segment revenues and results

Reportable segments apply the same accounting policies as the Group. Segment revenue comprises only revenue (does not contain Other income). Segment performance indicators reported to the chief operating decision maker comprise segment operating profit and segment adjusted EBITDA. Segment operating profit represents profit before finance income and costs (net), profit from an investment in an associate accounted for under equity method, and income tax expense. Segment adjusted EBITDA represents segment operating profit before depreciation and amortisation, impairment losses, and amortisation of government grants received, and profit from an investment in an associate accounted for under equity method. Compared to profit for the period, segment adjusted EBITDA represents profit for the period before depreciation and amortisation, impairment losses, amortisation of government grants received, finance income and cost (net), and income tax expense.

Segment results are reported to the chief operating decision maker for making decisions about allocating resources to the segment and assessing its performance on a monthly basis.

Geographical information

In 2018, the Group generated 3% of its revenue (EUR 4,248 thousand) outside Estonia (in Canada) and 97% of its revenue in Estonia. Revenue generated outside Estonia consisted of services provided with the icebreaker Botnica (the segment Other) in Canada during the period June to November. All non-current assets of the Group were located in Estonia, with the exception described above. In 2017, all of the Group's revenues were generated and non-current assets were located in Estonia.

Information about major customers

The Group's total revenue of EUR 130,635 thousand (2017: 121,295 thousand) includes revenue of EUR 25,542 thousand (2017: EUR 25,644 thousand) attributable to its largest customer, which is reported in the Passenger harbours and Cargo harbours segments. In 2018, the Group's second largest customer also contributed 10% or more to the Group's total revenue. Revenue attributable to this customer of EUR 23,008 thousand (2017: EUR 20,394 thousand) is reported in the Ferry segment and the segment Other. No other customer contributed 10% or more to the Group's total revenue for 2018 or 2017.

Segment revenues and results

2018

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	27,615	20,884	0	0	**48,499**
Cargo charges	1,551	5,687	0	0	**7,238**
Passenger fees	17,005	99	0	0	**17,104**
Sale of electricity	799	5,010	0	0	**5,809**
Sale of ferry services - revenue from ticket sales	0	0	11,150	0	**11,150**
Sale of other services	1,197	975	31	45	**2,248**
Rental income	1,730	9,063	583	0	**11,376**
Charter fees	0	0	0	8,880	**8,880**
Sale of ferry services - government support	0	0	18,331	0	**18,331**
Total segment revenue* (note 20)	**49,897**	**41,718**	**30,095**	**8,925**	**130,635**
Adjusted segment EBITDA	**32,397**	**24,096**	**13,041**	**4,846**	**74,380**
Depreciation and amortisation	-5,809	-8,585	-5,603	-2,066	**-22,063**
Impairment loss	-282	0	0	0	**-282**
Amortisation of government grants received	98	459	0	0	**557**
Share of profit of an associate accounted for under the equity method	0	0	0	-517	**-517**
Segment operating profit	**26,403**	**15,970**	**7,438**	**2,263**	**52,075**
Finance income and costs, net					-1,970
Share of profit of an associate accounted for under the equity method					517
Income tax expense					-26,199
Profit for the period					**24,423**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 51 thousand and EUR 120 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which was eliminated during consolidation.

2017

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	27,475	18,371	0	0	**45,846**
Cargo charges	1,593	6,398	0	0	**7,991**
Passenger fees	16,956	48	0	0	**17,004**
Sale of electricity	703	4,610	0	0	**5,313**
Sale of ferry services - revenue from ticket sales	0	0	10,789	0	**10,789**
Sale of other services	1,136	909	18	0	**2,063**
Rental income	1,991	9,421	483	0	**11,895**
Charter fees	0	0	0	4,584	**4,584**
Sale of ferry services - government support	0	0	15,810	0	**15,810**
Total segment revenue* (note 20)	**49,854**	**39,757**	**27,100**	**4,584**	**121,295**
Adjusted segment EBITDA	**33,299**	**23,331**	**8,398**	**1,493**	**66,521**
Depreciation and amortisation	-4,622	-8,623	-4,916	-2,319	**-20,480**
Impairment loss (see note 10)	-20	-30	0	-5,900	**-5,950**
Amortisation of government grants received (see note 18)	108	466	0	0	**574**
Share of profit of an associate accounted for under the equity method	0	0	0	-348	**-348**
Segment operating profit/loss	**28,765**	**15,144**	**3,482**	**-7,074**	**40,317**
Finance income and costs, net					-2,285
Share of profit of an associate accounted for under the equity method					348
Income tax expense					-11,955
Profit for the period					**26,425**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 43 thousand and EUR 213 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which was eliminated during consolidation.

4. FINANCIAL RISK MANAGEMENT

The Group's operations are exposed to several financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to hedge interest rate risk.

Risk management is performed by the Group's risk management professionals in accordance with the policies approved by the management board. The management board establishes risk management policies and regulations governing specific risk areas in writing.

Market risk

a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the Group's financial instruments or cash flows arising from movements in foreign exchange rates. The Group has no material liabilities or receivables denominated in any currency other than its functional currency (the euro). All outstanding long-term loans and borrowings are also denominated in euros. In 2018 98.5% of receipts (2017: 100%) and 99.7% of payments (operating expenses, investments, finance costs, etc.) (2017: 99.9%) were denominated in euros. Since nearly all receipts and payments as well as loans and borrowings are denominated in euros, it may be concluded that the Group is not exposed to any significant currency risk.

b) Price risk

At 31 December 2018 and in the comparative period, the Group's statement of financial position did not include any investments in equity instruments exposing the Group to price risks resulting from financial instruments.

c) Interest rate risk

The Group's interest rate risk results from long-term loans and borrowings. Term deposit contracts are concluded at fixed interest rates and do not expose the Group to any cash flow interest rate risk.

Floating rate loans and borrowings expose the Group to interest rate risk. The Group's policy is to maintain some of its debt portfolio in fixed rate instruments by using *floating-to-fixed* interest rate swaps when appropriate.

At 31 December 2018, the share of loans and borrowings with rates fixed through derivative transactions was 16% (31 December 2017: 20%) of the portfolio. Thus, 84% of loans and borrowings that are not hedged are exposed to interest rate risk. Further information on interest rate swaps acquired for the purpose of hedging interest rate risk is provided in note 17.

The exposure of the Group's loans and borrowings to the risk of changes in interest rates and the contractual repricing dates of loans and borrowings at the end of the reporting period are as follows:

In thousands of euros At 31 December	2018	% of total	2017	% of total
Variable rate borrowings	180,212	84%	188,593	80%
Fixed rate borrowings – remaining terms to repricing dates	33,400	16%	47,007	20%
< 6 months	*2,600*	*1%*	*0*	*0%*
6-12 months	*2,600*	*1%*	*8,407*	*4%*
1-5 years	*28,200*	*14%*	*38,600*	*16%*
Total loans and borrowings (note 16)	213,612		235,600	

The percentage of total shows the proportion of loans and borrowings that at the date presented had variable or fixed rates in relation to the total amount of loans and borrowings.

To assess the Group's exposure to interest rate risk, a sensitivity analysis is used which describes the impact of interest rate risk exposure on the Group's profit through an estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2018 had been higher/lower by 100 basis points, i.e. 1 percentage point, the Group's profit for the financial year would have increased/decreased by EUR 1,802 thousand (31 December 2017: EUR 1,886 thousand), assuming all other variables remained constant.

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At 31 December 2018, the Group's maximum exposure to credit risk was EUR 49,394 thousand (31 December 2017: EUR 14,932 thousand).

In thousands of euros At 31 December	2018	2017
Current accounts and term deposits at banks with original maturities of less than 3 months (note 7)	42,531	6,898
Receivables from customers* (note 8)	6,616	6,909
Other receivables (note 8)	247	1,125
Total	49,394	14,932

* Impairment allowances have been deducted from receivables from customers

Cash and cash equivalents were considered as low credit risk financial assets at the reporting date, as they were held at reputable international banks.

To reduce customer-related credit risk exposure, advance payments or bank guarantees are required from customers whose solvency is doubtful. To mitigate credit risk, due diligence on the customer is performed prior to entering into any major contracts. Other methods for managing customer-related credit risk exposures include day-to-day monitoring of customers' settlement behaviour and prompt application of appropriate measures. Based on the Group's analysis, a loss allowance for credit-impaired receivables has been recognised. Further information on the credit quality of financial assets is disclosed in note 6.2.

Credit risk exposure from financial transactions is mitigated by using financial institutions with high credit ratings in performing investment or derivative transactions.

Receivables not past due as at the reporting date accounted for 74.6% (2017: 75.5%) of total trade receivables. Further information on trade receivables is disclosed in note 8.

For all trade receivables, the Group recognises expected credit losses (ECL) using the simplified approach provided in IFRS 9, which permits recognising an allowance for lifetime expected credit losses. The measurement principles are described in the *Impairment of financial assets* section of accounting policies (note 2).

Trade receivables – expected credit loss matrix

In thousands of euros	Not past due	DAYS PAST DUE 0-30	31-60	61-90	>90	Total
At 31 December 2018						
Expected credit loss rate	0.8%	1.5%	3.0%	80.0%	100.0%	
Total trade and other receivables	6,442	191	30	42	1,931	8,636
Lifetime expected credit loss (ECL)	-52	-3	0	-34	-1,931	-2,020
						6,616
At 31 December 2017						
Expected credit loss rate	5.1%	1.5%	3.0%	40.0%	100.0%	
Total trade and other receivables	7,015	180	47	49	2,002	9,293
Lifetime expected credit loss (ECL)	-358	-3	-1	-20	-2,002	-2,384
						6,909

In 2017, the Group recognised a partial loss allowance of EUR 302 thousand for a receivable not past due because the customer contested the receivable.

The following table shows movements in lifetime ECL recognised for trade receivables.

Trade receivables lifetime expected credit loss (ECL)*

In thousands of euros	Collectively assessed, not credit-impaired	Credit-impaired	Total
At 31 December 2016	**0**	**1,579**	**1,579**
Transfer to credit impaired	0	809	809
Amounts written off as uncollectible	0	-2	-2
Amounts recovered (previously written down/off)	0	-63	-63
Change in loss allowance due to new trade receivables	61	0	61
At 31 December 2017	**61**	**2,323**	**2,384**
Transfer to credit impaired	0	560	560
Amounts written off as uncollectible	0	-53	-53
Amounts recovered (previously written down/off)	0	-899	-899
Change in loss allowance due to new trade receivables	28	0	28
At 31 December 2018	**89**	**1,931**	**2,020**

* In 2018 and 2017, there were no individually assessed not-credit impaired trade receivables for which a lifetime ECL was recognised.

Other receivables are assessed using the 12 months' ECL method. At 31 December 2018, the credit risk of those financial assets had not increased significantly and therefore no additional provision was needed. At 31 December 2018, a major share of other receivables was made up of instalment plan receivables.

Liquidity risk

The Group manages its liquidity risk using a combination of the following solutions: available funds in current accounts, term deposits, overdrafts and other investment and working capital management solutions offered by banks, regular monitoring of cash flows and matching the maturities of financial assets and liabilities.

The liquidity buffer maintained and available upon short notice to be able to settle quickly liabilities arising in ordinary course of the Group's business amounts to EUR 5,000 thousand on average. The liquidity reserve comprises of cash and cash equivalents, term deposits with original maturities of less than 3 months and overdrafts where necessary. Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the Group's liquidity reserve and if the reserve falls below the required level, short-term external financing in the form of various debt instruments is used. The minimum level of the liquidity reserve must be at least EUR 2,000 thousand at any time.

At 31 December 2018, current assets exceeded current liabilities by EUR 17.2 million (31 December 2017: current liabilities exceeded current assets by EUR 16.4 million). The Group continues to generate positive net cash flow. Thus, it does not need additional financing for its daily operations.

In the following liquidity analysis, the Group's financial liabilities are grouped by contractual maturity. The balances shown in the table are contractual undiscounted cash flows, which comprise the principal and accrued interest of interest-bearing loans and borrowings. On calculating interest accrued on interest-bearing loans and borrowings (bank loans and issued debt securities), the forward-looking yield curves of interest rate swap transactions from market information providers have been used as the basis for the Euribor forecast as follows: as at 6 February 2019 for year-end 2018; as at 26 January 2018 for year-end 2017.

Liquidity analysis

In thousands of euros	Loans outstanding*	Debt securities issued**	Trade and other payables	Derivatives	Total
At 31 December 2018					
< 6 months	3,475	367	11,150	44	**15,036**
6–12 months	3,543	9,599	0	127	**13,270**
1–5 years	28,186	41,090	0	343	**69,619**
> 5 years	13,047	127,871	0	0	**140,918**
Total	**48,251**	**178,928**	**11,150**	**514**	**238,842**
At 31 December 2017					
< 6 months	5,987	1,636	7,561	57	**15,241**
6–12 months	3,573	12,061	0	174	**15,807**
1–5 years	28,846	44,244	0	190	**73,280**
> 5 years	20,338	143,722	0	0	**164,060**
Total	**58,744**	**201,663**	**7,561**	**420**	**268,388**

* Including principal outstanding of EUR 46,362 thousand (2017: EUR 55,693 thousand) and estimated total future interest payments of EUR 1,889 thousand (2017: EUR 3,051 thousand).

** Including principal outstanding of EUR 167,250 thousand (2017: EUR 179,900 thousand) and estimated total future interest payments of EUR 11,678 thousand (2017: EUR 21,763 thousand)

For intra-Group management of subsidiaries' liquidity, internal credit limits are applied, if necessary.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, seldom equal actual results. Management also needs to exercise judgement in applying accounting policies.

This note provides an overview of areas that involve a higher degree of judgement or complexity, and items which are more likely to be materially adjusted due to estimates and assumptions proving inaccurate.

Classification of assets leased out

The Group owns land and buildings in its harbours which it leases out to third parties under operating leases. Management has assessed whether the leased-out land and buildings should be classified as property, plant and equipment or investment property. The Group has classified all such assets as property, plant and equipment since the assets are held to earn revenue from its core harbour operations or activities supporting core operations by increasing cargo or passenger flows. Therefore, according to the Group's management, the main objective of holding such assets is not to earn rentals; they are primarily held to help increase revenue from core operating activities. Accordingly, the main revenue related to those assets does not result from rentals.

Property that cannot be directly attributable to the Group's core operations in increasing cargo or passenger flows or activities supporting core operations and that cannot be sold or leased out under a finance lease, is recognised as investment property only if an insignificant part (less than 10%) of the asset is used for providing services or for administrative purposes. At 31 December 2018 the Group did not have such assets.

Useful life of property, plant and equipment

The Group owns a large amount of high-value infrastructure assets classified as items of property, plant and equipment that have very long estimated useful lives (up to 50 years). The useful lives of such items of property, plant and equipment are based on management's best estimate of the period over which an asset is expected to be available for use. These estimates are based on historical experience with similar assets because even though construction technologies evolve the impact of new solutions on the physical and useful lives of such items of property, plant and equipment may not yet have been proved in practice.

At 31 December 2018, the carrying amount of the Group's property, plant and equipment was EUR 568,965 thousand; depreciation for the year amounted to EUR 21,510 thousand. At 31 December 2017, the respective figures were EUR 577,125 thousand and EUR 20,037 thousand (note 10). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 2,151 thousand (2017: EUR 2,004 thousand).

The useful lives of property, plant and equipment are reviewed at each reporting date. If new estimates differ significantly from the previous ones, the changes are accounted for as changes in accounting estimates.

Impairment of property, plant and equipment

The Group assesses whether there is any indication that an item of property, plant and equipment may be impaired. If such indications exist, the recoverable amount of the asset is estimated and compared to its carrying amount in the statement of financial position. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Fair value can be derived from recent transactions conducted by the Group with similar assets or measured with the assistance of professional valuators using the market information available to them.

If the fair value of an asset cannot be determined reliably or is likely to be lower, a future cash flow model is developed to calculate its value in use. Value in use calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of services sold used as inputs to estimate future cash flows expected to arise from the asset or cash-generating unit and a suitable discount rate and growth rate to calculate present value. If circumstances change in future, either an additional impairment loss is recognised or the previously recognised impairment loss is reversed either in part or in full.

Assets are tested for impairment at the end of each reporting period when circumstances indicate that assets might be impaired or events that led to a previous write-down may have ceased to exist. Information about impairment losses is disclosed in note 10.

Revenue recognition

For recognising monthly and/or quarterly revenue, the Group needs to make significant estimates about the expected annual vessel calls and/or cargo volumes. Such estimates are made based on the latest information available from customers and the latest market information available to the Group. See note 2, the *Revenue* section for further details.

Classification of passenger transport public service contract

The Group owns four new ferries which it uses to provide domestic ferry service to the state (Republic of Estonia) under a passenger transport public service contract signed after winning a public tender. According to the contract, the state has control over the volume and price of the ferry service provided by the Group with its ferries. Under the contract, the state also has the right to exercise an option to purchase one to four of the ferries used to provide the ferry service. However, as the majority interest in the Parent belongs to the state, in management's judgement the criteria for public-to-private service are not satisfied and the Group has not applied the accounting treatment for service concessions provided in IFRIC 12 and has instead recognised the ferries belonging to it has items of property, plant and equipment and classified the revenue received from the state as revenue from government grants.

6. FINANCIAL INSTRUMENTS

6.1 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros	2018	2017
At 31 December		
Financial assets carried at amortised cost	*49,711*	*15,188*
Cash and cash equivalents (note 7)	42,563	6,954
Trade and other receivables - financial assets (note 8)	7,148	8,234
Total financial assets	**49,711**	**15,188**

Financial liabilities

In thousands of euros	2018	2017
At 31 December		
Financial liabilities carried at amortised cost	*221,175*	*241,537*
Trade and other payables – financial liabilities (note 14)	7,563	5,937
Loans and borrowings (note 16)	213,612	235,600
Liabilities at fair value	*425*	*609*
Derivatives (note 17)	425	609
Total financial liabilities	**221,600**	**242,146**

Fair value

According to the Group's estimates, the fair values of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts stated in the Group's consolidated statement of financial position as at 31 December 2018, except for loans and borrowings. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting future contractual cash flows at current market interest rates that would be available to the Group for similar financial instruments. The fair value of loans and borrowings was found by discounting future contractual cash flows at current market interest rates for similar financial instruments as at 31 December 2018 and 2017 available to companies with an S&P BBB rating (the rating indicated by the banks as the internal shadow rating for the Group).

A more detailed comparison of the carrying amounts and fair values of loans and borrowings is disclosed in note 16. The carrying amounts of trade receivables and trade payables, less any write-downs, is estimated to be equal to their fair value.

All derivatives are measured at fair value in the statement of financial position. The fair value of derivatives is estimated on monthly basis using pricing provided by banks based on the forward-looking yield curves of interest rate swap transactions from market information providers. In the value hierarchy, this qualifies as a level 2 measurement.

6.2 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets which are neither past due nor impaired are assessed by reference to ratings provided to creditors by independent rating agencies (if available for the counterparty).

Cash in current accounts and deposits by rating*

In thousands of euros	2018	2017
At 31 December		
Aa2	18,679	0
Aa3	0	6,606
Baa1	23,852	0
Without rating	0	292
Total amount reported in cash and cash equivalents	**42,531**	**6,898**

* The remaining portion of the balance of *Cash and cash* equivalents (EUR 32 thousand at 31 December 2018 and EUR 56 thousand at 31 December 2017) not included in the table above consists of cash on hand and in transit, i.e. funds that collecting agencies and other payment intermediaries have not yet transferred to the Group's current accounts.

7. CASH AND CASH EQUIVALENTS

In thousands of euros	2018	2017
At 31 December		
Cash on hand	21	28
Cash at banks	22,531	6,898
Short-term deposits	20,000	0
Cash in transit	11	28
Total cash and cash equivalents (notes 4 and 6)	**42,563**	**6,954**

All balances included in cash and cash equivalents are denominated in euros (as at 31 December 2018 and 31 December 2017).

The interest accrued as at the reporting date is recognised in *Trade and other* receivables.

8. TRADE AND OTHER RECEIVABLES

In thousands of euros	2018	2017
At 31 December		
Financial assets		
Receivables from customers (note 4)	8,636	9,293
Incl. from contracts with customers	*7,190*	*7,789*
Allowance for credit losses (note 4)	-2,020	-2,384
Incl. from contracts with customers	*-1,113*	*-1,087*
Government grants receivable (note 18)	283	189
Receivables from an associate (note 24)	25	27
Other receivables*	223	1,109
Total financial assets (note 6)	**7,147**	**8,234**
Incl. receivables for non-current assets	*260*	*335*
Non-financial assets		
Prepaid taxes (note 15)	633	673
Other prepayments	409	620
Other receivables	24	16
Total non-financial assets	**1,066**	**1,309**
Total trade and other receivables	8,213	9,543
Of which short-term receivables	8,017	9,271
long-term receivables	196	272

* At 31 December 2017, included a receivable of EUR 812 thousand from an insurance company due to an insurance claim related to the ferry Tiiu. At 31 December 2018, the Group did not have any receivables from an insurance company.

All long-term receivables will fall due within 8 years after the reporting date.

9. INVESTMENT IN AN ASSOCIATE

AS Green Marine

The company is a waste management entity established at the end of 2003. Its principal place of business and country of incorporation is Estonia.

Although AS Tallinna Sadam holds 51% (both as at 31 December 2018 and 31 December 2017) of the ownership interest and voting rights in AS Green Marine and two other shareholders hold the remaining interest, to have control of AS Green Marine, the Group's voting or contractual rights should be substantive and provide the Group with the ability to direct AS Green Marine's activities. The articles of association of AS Green Marine specify that at least 75% of voting rights are required to make decisions about the entity's activities. Even though AS Tallinna Sadam can block any decision, it does not have control of AS Green Marine because it needs the consent of other shareholders for the adoption of a decision. Thus, the Group does not have control of the company.

In the reporting period, the Group analysed the shareholder structure of AS Green Marine and came to the conclusion that AS Green Marine had transformed from a joint venture into an associate. Accordingly, the investment was reclassified. The reclassification of the investment had no impact on the Group's financial statements.

The business lines of AS Green Marine include management of waste generated in harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of port basins and harbour premises.

The investment in the associate is accounted for using the equity method in these consolidated financial statements.

The financial statements of AS Green Marine have been prepared in accordance with the Estonian Accounting Act and the Estonian Financial Reporting Standard. According to management's estimates the financial results of AS Green Marine would not be significantly different if the financial statements had been prepared in accordance with IFRS (EU).

Changes in an investment in an associate

In thousands of euros At 31 December	2018	2017
Carrying amount at beginning of period	1,256	1,086
Share of profit under the equity method	517	348
Dividends paid	-204	-178
Carrying amount at end of period	**1,569**	**1,256**

Associate AS Green Marine

In thousands of euros At 31 December	2018	2017
Current assets	1,771	1,494
Non-current assets	2,429	2,006
Current liabilities	444	526
Non-current liabilities	681	512
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	844	1,131
Current loans and borrowings	140	230
Non-current loans and borrowings	681	512

In thousands of euros At 31 December	2018	2017
Revenue	4,826	4,101
Profit from continuing operations	1,018	683
Profit for the period	1,018	683
Total comprehensive income for the period	**1,018**	**683**
The above profit for the period includes the following:		
Depreciation and amortisation	309	266
Interest expense	14	17
Income tax expense	100	88

In thousands of euros At 31 December	2018	2017
Net assets of the associate	3,076	2,462
The Group's ownership interest in the associate, %	51%	51%
Carrying amount of the Group's investment in the associate	1,569	1,256

AS Tallinna Sadam has no obligation to provide further financial or other support to AS Green Marine.

10. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under con-struction*	Prepay-ments	Total
At 31 December 2016						
Cost	578,096	135,543	6,471	18,213	70,569	**808,892**
Accumulated depreciation and impairment losses	-189,762	-45,423	-5,174	0	0	**-240,359**
Carrying amount at 31 December 2016	**388,334**	**90,120**	**1,297**	**18,213**	**70,569**	**568,533**
Movements in 2017						
Acquisition and reconstruction (note 26)	613	91,324	423	12,795	-70,554	**34,601**
Disposal at carrying amount	0	0	0	-22	0	**-22**
Depreciation charge	-10,465	-9,190	-382	0	0	**-20,037**
Impairment losses	-18	-5,929	-3	0	0	**-5,950**
Other adjustments	653	42	0	-695	0	**0**
Reclassified at carrying amount	12,489	8,334	415	-21,238	0	**0**
At 31 December 2017						
Cost	591,570	234,605	6,887	9,053	15	**842,130**
Accumulated depreciation and impairment losses	-199,964	-59,904	-5,137	0	0	**-265,005**
Carrying amount at 31 December 2017	**391,606**	**174,701**	**1,750**	**9,053**	**15**	**577,125**
Movements in 2018						
Acquisition and reconstruction (note 26)	3,029	914	503	9,170	16	**13,632**
Depreciation charge	-11,028	-10,032	-450	0	0	**-21,510**
Impairment losses	-143	-38	0	-101	0	**-282**
Reclassified at carrying amount	10,002	2,378	94	-12,474	0	**0**
At 31 December 2018						
Cost	604,312	236,509	6,983	5,648	31	**853,483**
Accumulated depreciation and impairment losses	-210,846	-68,586	-5,086	0	0	**-284,518**
Carrying amount at 31 December 2018	**393,466**	**167,923**	**1,897**	**5,648**	**31**	**568,965**

* At 31 December 2018, assets under construction of EUR 5,648 thousand included the following significant items:

- Extension to terminal D of EUR 3,685 thousand
- Construction of a road, Reidi tee, of EUR 745 thousand
- Construction of a footbridge of EUR 414 thousand

At 31 December 2017, assets under construction of EUR 9,748 thousand included a new traffic solution in the southern part of the Old City Harbour of EUR 8,210 thousand. The new traffic solution created new traffic areas along with automated traffic management and access points for vehicles getting on and off vessels.

The Group's assets have not been pledged.

At 31 December 2018, the carrying amount of fully depreciated items still in use was EUR 31,843 thousand, at 31 December 2017 EUR 29,434 thousand.

At 31 December 2018 and 31 December 2017 the Group had ownership of assets erected on the land areas which were previously used by a former lessee (AS Coal Terminal (bankrupt)) under the right of superficies contracts. The assets consist of structures and machinery necessary for the operation of the coal terminal that is now bankrupt – roads, railways, storage areas, conveyor systems, cargo unloading/loading equipment, electricity and water networks, etc. which reverted to the Group following the termination of the right of superficies contracts due to lessee's bankruptcy. In 2018, the Group sold (through public auctions) several assets of the former coal terminal that had been transferred to it. Proceeds from the sale of assets of EUR 2.6 million have been recognised as a liability (note 14). Further information is provided in note 27.

Commitments related to property, plant and equipment are disclosed in note 25.

Under the passenger transport public services contract signed on 11 December 2014, the Republic of Estonia, represented by the Ministry of Economic Affairs and Communications, has the right to acquire any of the four passenger ferries (Leiger, Tiiu, Tõll and Piret) that are in the possession of the Group. The ministry has the right to exercise the option to purchase one to four of the ferries by giving four years' notice before expiry of the contract (i.e. on 30 September 2022 at the latest). The acquisition price of each ferry is EUR 26.6 million. The ministry has no obligation to exercise the option to purchase the ferries.

In 2018 write-downs of EUR 164 thousand and write-offs of EUR 118 thousand were recognised in impairment losses within depreciation, amortisation and impairment in the statement of profit or loss, including:

- Write-down of buildings of EUR 164 thousand
- Write-off of power lines and electrical equipment of EUR 63 thousand
- Write-off of a service building of EUR 39 thousand
- Write-off of other equipment of EUR 16 thousand

According to the segment information provided in note 3, assets written down or off of EUR 282 thousand belonged to the Passenger harbours segment.

In connection with a five-year agreement signed in 2018 for the provision of services in Northern Canada outside the icebreaking season and related revenue growth there was indication that Botnica's value could have changed compared to the previous year. Therefore, management decided to test Botnica's recoverable amount. One option for determining Botnica's recoverable amount is to have its fair value measured by relevant independent experts.

However, taking into account the limited liquidity of the market for the purchase and sales of such vessels at the time of the valuation and consequently the high degree of subjectivity of the valuation result, Botnica was also measured by applying the value in use method. To verify the carrying amount of the Group's multifunctional icebreaker Botnica (with all accessories and components) as at the reporting date, management measured the vessel's recoverable amount by reference to its value in use. The value in use identified was at the level of Botnica's carrying amount as at the reporting date. Thus, there was no need to write Botnica down or reverse its previously recognised impairment. Value in use was found using long-term discounted cash flow projections which were based on the following key assumptions:

- The length of the forecast period was set at 14 years, until the end of Botnica's estimated useful life.
- A long-term revenue forecast was prepared based on three scenarios with different weights. Thus, instead of using one most likely cash flow scenario, a long-term forecast was prepared based on three likely cash flow scenarios. The outcome of the measurement of Botnica's value in use is the most sensitive to revenue forecasts used in the scenarios, depending, above all, on how likely it is to find service contracts for Botnica in the period from May to December. Revenue forecasts are based on the assumption that the revenue similar to the contract signed with the Maritime Administration will be received until the end of Botnica's useful life. In addition, different scenarios were projected for additional revenue from the use of the icebreaker Botnica during the summer. According to the first scenario, no revenue will be generated in the summer. According to the second scenario, the same amount of revenue will be generated as under the contract in force in 2018 (may be extended by the customer). According to the third scenario, with the smallest weight, the same amount of revenue will be generated as in 2014 when revenue was the highest to date.
- For each revenue scenario, a corresponding expense forecast was prepared based on historical actual expenses for each revenue scenario.
- Revenue and expense levels were forecast by applying a growth rate of 1.5% per year.
- The present value of cash flows was found using as the discount rate a pre-tax weighted average cost of capital of 8.1%.
- The cash flows from the ultimate sale of Botnica (after the end of its useful life) were assumed to be equal to its scrap metal value less transport costs.

Possible impact of changes in estimates

Botnica's value in use is an estimate and changes in inputs may increase or reduce it. If there are events in the next financial year that significantly differ from the assumptions used in determining the recoverable amount, there may arise a need to change the assumptions applied and, as a result, to adjust Botnica's carrying amount.

In 2017 write-downs of EUR 5,900 thousand and write-offs of EUR 50 thousand were recognised in impairment losses within depreciation, amortisation and impairment in the statement of profit or loss, including a write-down:

- An impairment loss on the icebreaker Botnica of EUR 5,900 thousand. Due to continuing low demand for multipurpose vessels and depressed charter rates in the offshore market, mostly related to low oil prices in recent years, the carrying amount of Botnica was tested for impairment. Since Botnica's fair value less cost of disposal was higher than its value in use, the vessel's recoverable amount equalled its fair value less cost of disposal. To measure fair value, management obtained valuation reports from three independent valuation companies. These valuation reports were based on:
- information provided by the Group such as technical information about the vessel (build year, engine working hours, maintenance history, special equipment on board etc.) and class status report on the seaworthiness of the vessel;
- assumptions and valuation models used by the valuators – the assumptions are typically market related by collating brokers´ price quotes and using these, coupled with brokers´ market knowledge (based on their professional judgement and market observation), as a reference point. The approximate market value is provided as an indicative price range on the basis of prompt charter free delivery as between a willing seller and a willing buyer for cash payment under normal commercial terms.
- Information provided to the valuators and the assumptions and the valuation models used by the valuators are reviewed by the Group CFO. This includes the assessment of a single value of the vessel which is derived typically from the average of the price ranges provided by the valuators. Based on the valuations, an impairment loss of EUR 5,900 thousand was recognised in the consolidated statement of profit or loss for 2017. As a result of Botnica's write-down, in the next periods annual depreciation will decrease by EUR 398 thousand.

In the fair value hierarchy this qualifies as a level 3 measurement.

Write-offs:

- Write-off of a warehouse and electricity substations of EUR 18 thousand
- Write-off of electricity substation equipment of EUR 29 thousand
- Write-off of computer network equipment of EUR 3 thousand.

According to the segment information provided in note 3, assets written down or off belonged to the following segments: the segment Other: EUR 5,900 thousand, Passenger harbours segment: EUR 20 thousand, and Cargo harbours segment: EUR 30 thousand.

11. INTANGIBLE ASSETS

In thousands of euros	Computer software	Internally developed software under construction	Total
At 31 December 2016			
Cost	2,430	32	**2,462**
Accumulated amortisation and impairment losses	-1,307	0	**-1,307**
Carrying amount at 31 December 2016	**1 123**	**32**	**1 155**
Movements in 2017			
Acquisitions and upgrades (note 26)	483	763	**1,246**
Amortisation charge	-409	0	**-409**
Impairment losses	0	-34	**-34**
Reclassified from assets under construction	761	-761	**0**
At 31 December 2017			
Cost	3,674	0	**3,674**
Accumulated amortisation and impairment losses	-1,716	0	**-1,716**
Carrying amount at 31 December 2017	**1,958**	**0**	**1,958**
Movements in 2018			
Acquisitions and upgrades (note 26)	423	196	**619**
Amortisation charge	-553	0	**-553**
Reclassified from assets under construction	196	-196	**0**
At 31 December 2018			
Cost	4,293	0	**4,293**
Accumulated amortisation and impairment losses	-2,269	0	**-2,269**
Carrying amount at 31 December 2018	**2,024**	**0**	**2,024**

12. OPERATING LEASES

12.1 THE GROUP AS A LESSOR

Carrying amount of property, plant and equipment leased out under operating leases

In thousands of euros At 31 December	2018	2017
Land	41,569	31,057
Incl. with the right of superficies	*36,322*	*27,890*
Buildings	7,404	7,589
Plant and equipment	25	35
Other items of property, plant and equipment	765	613
Total carrying amount of property, plant and equipment leased out under operating leases	**49,763**	**39,294**

Depreciation charge on property, plant and equipment leased out under operating leases

In thousands of euros At 31 December	2018	2017
Buildings	531	487
Plant and equipment	4	4
Other items of property, plant and equipment	143	114
Total depreciation charge on property, plant and equipment leased out under operating leases	**678**	**605**

Rental income from property, plant and equipment leased out under operating leases

In thousands of euros At 31 December	2018	2017
Land	7,744	8,154
Buildings	2,812	3,000
Plant and equipment	675	579
Other items of property, plant and equipment	145	162
Total rental income from property, plant and equipment leased out under operating leases (note 20)	**11,376**	**11,895**

Rental income in subsequent periods under non-cancellable operating lease contracts

In thousands of euros At 31 December	2018	2017
< 1 year	10,014	9,267
1–5 years	37,361	35,060
> 5 years	338,462	255,083
Total rental income in subsequent periods under non-cancellable operating lease contracts	**385,837**	**299,410**

Operating leases are agreements whereby the lessor transfers to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period in accordance with a signed contract. Operating lease contracts are entered into for periods ranging from 2 years to 20 years. Operating lease rentals can generally be increased once a year based on changes in the consumer price index for the previous year (depending on the contract, either the relevant index in Estonia, the euro area, or Germany). Improvements to a leased asset made by a lessee are normally not compensated by the lessor at the end of the lease term.

Under the right of superficies contracts, many significant risks and rewards from the possession of the asset (land) are transferred to the lessees. However, as land has an unlimited economic life, there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. Therefore the right of superficies contracts are accounted for as operating leases.

The right of superficies contracts entered into by the Group and its customers set out payments for right of superficies and the duration of the contract (usually ranging from 36 years to 50 years). Payments for the right of superficies are generally subject to an increase after a certain period has passed based mostly either on changes in the assessed value of land (for older contracts) or changes in the consumer price index (for more recent contracts). Contractual payments for rights of superficies are generally not covered by guarantees. At expiry of a contract the lessee generally has the right to remove the construction erected on the land under the right of superficies; apply for an extension of the term of the right of superficies contract up until the end of the construction's remaining life; or the constructions are subject to compensation by the lessor for the usual value of the constructions (see also note 27).

12.2 THE GROUP AS A LESSEE

Rentals payable in subsequent periods under non-cancellable operating lease contracts

In thousands of euros At 31 December	2018	2017
< 1 year	569	447
1–5 years	1,211	628
> 5 years	132	12
Total rentals payable in subsequent periods under non-cancellable operating lease contracts	**1,912**	**1,087**

Assets held under operating leases comprise mostly vehicles, floating crafts, lifting, handling, and construction equipment and other fixtures and fittings. Contracts are held up to the end of the lease term and cannot generally be terminated early without additional charges. Operating lease contracts entered into by the Group do not impose any restrictions on dividend distributions, raising funds through debt financing or assuming other similar obligations.

13. PROVISIONS

Provision for bonuses

In thousands of euros	2018	2017
At beginning of year	**945**	**1,156**
Recognised	1,441	944
Reversed	-74	-26
Used	-872	-1,129
At end of year	**1,440**	**945**

Other provisions

In thousands of euros	2018	2017
At beginning of period	**558**	**0**
Recognised	334	558
Used	-375	0
At end of period	**517**	**558**
Total provisions	1,957	1,503

Provision for bonuses

The provision for bonuses is accrued for estimated bonuses payable to Group companies' management board members and employees for the results of the reporting period. The provision also includes social security charges and unemployment insurance contributions. The payment of bonuses is generally decided after the annual reports of relevant companies for the year ended 31 December 2018 have been approved.

Other provisions

Other provisions as at 31 December 2018 include expected costs of EUR 314 thousand (31 December 2017: EUR 183 thousand) related to various ongoing court cases which the Group has lost in the county and/or circuit courts. Due to unfavourable decisions by lower-level courts, the Group believes that it is probable that the final outcome may also be unfavourable and has recognised provisions of EUR 314 thousand to cover the expected costs.

In connection with the obligation to pay compensation to members of Tallinna Sadam's management board under the non-compete clauses of their service contracts, a provision of EUR 203 thousand was recognised in 2018 to cover relevant expenses.

Use of other provisions comprises the use of a provision for the expected repair costs of the ferry Tiiu of EUR 375 thousand. The provision was recognised in 2017 and was related to an accident with ferry Tiiu whereby probably due to system malfunction the ferry temporarily lost its course and made contact with the sea bottom. Most of the repairs were made already during 2017. The remaining works were completed during 2018.

14. TRADE AND OTHER PAYABLES

In thousands of euros At 31 December	2018	2017
Financial liabilities		
Trade payables	3,775	4,994
Interest payable (note 16)	446	534
Payables to an associate (note 24)	134	115
Other payables*	3,208	294
Total financial liabilities (note 6)	**7,563**	**5,937**
Incl. liabilities for property, plant and equipment (note 26)	*1,216*	*1,908*
liabilities for intangible assets (note 26)	*65*	*64*
Non-financial liabilities		
Payables to employees	1,054	966
Accrued taxes payable on remuneration	572	557
Payables related to contracts with customers	971	965
Advances for goods and services	375	381
Total non-financial liabilities	**2,972**	**2,869**
Total trade and other payables	10,535	8,806
Of which current liabilities	9,517	7,810
non-current liabilities	1,018	996

* Other payables include a liability from the sale of assets of EUR 2,600 thousand (note 10). In 2017, there was no such liability.

15. TAXES PAYABLE

In thousands of euros At 31 December	2018	2017
Value added tax	111	5
Personal income tax	233	196
Corporate income tax*	4,973	27
Pollution charge	5	3
Social security tax	446	396
Unemployment insurance contributions	26	23
Funded pension contributions	18	16
Excise duty	32	32
Total taxes payable	**5,844**	**698**
** Incl. income tax on dividends (note 19)*	*4,949*	*0*

At 31 December 2018, the Group's prepaid taxes amounted to EUR 633 thousand, in the comparative period at 31 December 2017 to EUR 673 thousand. Prepaid taxes are disclosed in note 8.

As at 31 December 2018 and 31 December 2017, the Group did not have any deferred income tax assets or liabilities. Further information is disclosed in note 2 in the section *Corporate income tax*.

16. LOANS AND BORROWINGS

In thousands of euros At 31 December	2018	2017
Current portion		
Loans and borrowings	6,766	9,332
Debt securities	9,000	12,650
Finance lease liability	0	7
Total current portion	**15,766**	**21,989**
Non-current portion		
Loans and borrowings	39,596	46,361
Debt securities	158,250	167,250
Total non-current portion	**197,846**	**213,611**
Total loans and borrowings (note 6)	213,612	235,600

Issue and redemption of debt securities

At 31 December 2018, AS Tallinna Sadam had two debt security issues with final maturities in 2026 and 2027. The debt securities have been issued in euros with a floating interest rate (with the base interest rate of 3 month or 6 month EURIBOR plus a fixed risk margin). None of the debt securities issues is listed on the stock exchange.

The redemption date of one debt securities issues arrived in 2018 and the debt securities were redeemed in line with the payment schedule. A new debt securities issue was not arranged.

In 2018, AS Tallinna Sadam redeemed at maturity debt securities in the total amount of EUR 12,650 thousand (2017: EUR 111,250 thousand, including re-financing of debt securities of EUR 105,000 thousand), all in line with the schedule. Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 December 2018 was 0.684% (31 December 2017: 0.676%).

Loans

All loan agreements are denominated in euros and have floating interest rates (the base rate is 6-month EURIBOR). At 31 December 2018, the weighted average interest rate on drawn loans was 0.703% (31 December 2017: 0.805%). Considering the effect of derivative transactions used to hedge interest rate risk, at 31 December 2018 the average interest rate of loans was 1.440% (31 December 2017: 1.710%).

Loan agreements are unsecured liabilities, i.e. no assets have been pledged to cover the loans. The Group has performed all its contractual obligations stipulated in the loan agreements which concern meeting special terms, the obligation of notice and minimum requirements set to the company’s financial ratios.

In 2018, loan principal repayments amounted to EUR 6,766 thousand (2017: EUR 6,766 thousand). The final maturities of outstanding loans fall in the period 2024 to 2028. In 2018, an overdraft of EUR 2,566 thousand was repaid.

Contractual maturities of loans and borrowings

In thousands of euros At 31 December	2018	2017
< 6 months	3,383	7,200
6 - 12 months	12,383	14,789
1 - 5 years	63,064	63,063
> 5 years	134,782	150,548
Total loans and borrowings (note 4)	**213,612**	**235,600**

Carrying amount of loans and borrowings and their fair values*

In thousands of euros At 31 December	2018	2017
Carrying amount		
Debt securities	167,250	179,900
Loans and borrowings	46,362	55,693
Total carrying amount	**213,612**	**235,593**
Fair value		
Debt securities	157,987	180,643
Loans and borrowings	44,816	53,225
Total fair value	**202,803**	**233,868**

* Due to inputs used, all measurements qualify as level 2 measurements in the fair value hierarchy.

The discounted cash flow method was used to calculate the fair value of loans and borrowings. Future cash flows were estimated based on forward interest rates (extrapolated from observable corporate yield curves and 3-month and 6-month EURIBOR swap rates at the end of the reporting period) and contractual interest rates, discounted at a rate that reflected the credit risk of the Group.

As at 31 December 2018, the fair value of financial liabilities calculated using the discounted cash flow method was 5.0% lower than their carrying amount (31 December 2017: 0.7% lower). The Group's loan agreements set out certain limits to the Group's consolidated financial indicators. As at 31 December 2018 and 31 December 2017 the Group was in compliance with all the financial covenants.

Reconciliation of liabilities arising from financing activities

In thousands of euros	1 January 2018	Non-cash changes			31 December 2018
		Cash used in financing activities	Interest expense (note 23)	Fair value adjustments (note 17)	
Loans and borrowings	55,693	-9,331	0	0	46,362
Debt securities	179,900	-12,650	0	0	167,250
Finance lease liability	7	-7	0	0	0
Derivatives (note 17)	609	0	0	-184	425
Interest payable (note 14)	534	-2,023	1,935	0	446
Total	**236,743**	**-24,011**	**1,935**	**-184**	**214,483**

In thousands of euros	1 January 2017	Non-cash changes			31 December 2018
		Cash used in financing activities	Interest expense (note 23)	Fair value adjustments (note 17)	
Loans and borrowings	59,893	-4,200	0	0	55,693
Debt securities	186,150	-6,250	0	0	179,900
Finance lease liability	10	-3	0	0	7
Derivatives (note 17)	1,008	0	0	-399	609
Interest payable (note 14)	589	-2,459	2,404	0	534
Total	**247,650**	**-12,912**	**2,404**	**-399**	**236,743**

17. DERIVATIVE INSTRUMENTS

In thousands of euros	2018	2017
Notional amount at 31 December	33,400	47,000
Fair value at beginning of period (liability) (note 16)	**-777**	**-1,180**
Incl. market value of derivative	*-609*	*-1,008*
interest payable	*-168*	*-172*
Change in derivative's market value (notes 16 and 19)	184	399
Change in interest payable (note 16)	69	4
Fair value at end of period (liability) (note 16)	**-524**	**-777**
Incl. market value of derivative (note 6)	*-425*	*-609*
interest payable	*-99*	*-168*

At 31 December 2018, AS Tallinna Sadam had two interest rate swaps to hedge the interest rate risk of two long-term loans with maturities from 5 to 7 years and with remaining maturities ranging from 1 to 2.5 years. The floating interest rate to be swapped by all derivative instruments is 6-month EURIBOR.

The fair value of derivative instruments is based on the quotes of the relevant transaction parties (banks). The payments related to derivative instruments are made in euros.

The effectiveness of derivative instruments is assessed using the qualitative Critical Terms Match Method. The Group assesses the existence of an economic relationship between the hedged item and the hedging instrument which is based on interest rates, maturities, currencies and payment schedules. At 31 December 2018 the underlying amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and the amortisation schedules of the instruments were in line; the hedged interest payments were calculated on the same basis (6-month EURIBOR); the payments were denominated in the same currency (in euros) and were made at the same dates. Therefore, it was assumed that hedging had been and would be effective.

Counterparty credit risk and the Group's credit risk are the sources of ineffective hedging. Due to the impact of credit risk the economic relationship between a hedged item and a hedging instrument may become imbalanced and there may arise a situation where the values of the hedged item and the hedging instrument no longer move in the opposite direction.

At 31 December 2018, the weighted average fixed interest rate of derivatives was 0.576% (31 December 2017: 0.672%); the floating interest rate is based on 6-month EURIBOR. Gains and losses on interest rate swap transactions included in the hedge reserve in equity are recognised in the statement of profit or loss on the expiry of derivative contracts or when hedging is deemed ineffective.

18. GOVERNMENT GRANTS

Non-current government grant liabilities

In thousands of euros At 31 December	2018	2017
Cohesion Fund	*21,555*	*22,002*
"Extension of the eastern part of the Muuga Harbour" (2006-2011)	16,853	17,079
"Connecting the eastern part and the Industrial Park of the Muuga Harbour" (2010-2014)	4,702	4,923
TEN-T	*1,759*	*1,706*
"The Baltic Sea hub and spokes project" (2010-2013)	11	16
TWIN-PORT (2012-2015)	1,157	1,174
TWIN-PORT 2 (2014-2018)	591	516
State budget of the Republic of Estonia	*104*	*118*
"Grant for small ports" (2010)	68	76
"Atmospheric air protection programme" (2011-2013)	36	42
Total non-current government grant liabilities	**23,418**	**23,826**
Incl. non-depreciable assets	*13,902*	*13,902*

Recognised as income

In thousands of euros At 31 December	2018	2017
Grants related to assets		
Cohesion Fund	447	454
TEN-T	95	105
State budget of the Republic of Estonia	15	15
Total grants related to assets	**557**	**574**
Grants related to income		
TEN-T	0	303
European Regional Development Fund	4	0
Other foreign aid	84	13
State budget of the Republic of Estonia (note 20)	18,331	15,810
Total grants related to income	**18,419**	**16,126**
Total recognised as income	**18,976**	**16,700**
Incl. Revenue from other sources (note 20)	*18,331*	*15,810*
Other income (note 22)	*645*	*890*

Short-term government grant advances

In thousands of euros At 31 December	2018	2017
TEN-T	0	54
State budget of the Republic of Estonia	174	249
Total short-term government grant advances	**174**	**303**

TEN-T PROGRAMME "MOTORWAYS OF THE SEA"

TWIN-PORT 2 (2014-2020)

TWIN-PORT 2 is a follow-up project to TWIN-PORT. Within the framework of the project the Port of Helsinki built a new Western Terminal, AS Tallink Grupp brought a new LNG vessel "Megastar" to the Tallinn–Helsinki route, and AS Tallinna Sadam invests in the development of various infrastructure assets in the Old City Harbour.

In 2018, investments amounted to EUR 3,904 thousand and expenses amounted to EUR 9 thousand (2017: investments amounted to EUR 449 thousand and expenses amounted to EUR 37 thousand).

Short-term project receivables amount to EUR 283 thousand (2017: EUR 189 thousand). The grant amount is related to investments of 2017-2018, which at 31 December 2018 had not yet been paid.

In 2018, a request was submitted to the European Commission for extending the project by two years until 31 December 2020.

The approval for extending the project has been received. The project needs to be extended because in the preparatory phase there arose unforeseeable circumstances that deferred several activities both in the Old City Harbour in Tallinn and the Helsinki West Harbour.

TWIN-PORT 3 (2018-2023)

TWIN-PORT 3 is a follow-up project to TWIN-PORT and TWIN-PORT 2. The project began in 2018 and is planned to be completed on 31 December 2023. The participants of the project are Tallinna Sadam, the Port of Helsinki, the City of Helsinki and three ferry operators (Tallink, Viking Line and Eckerö Line). Tallinna Sadam is the coordinating partner of the project. The purpose of the project is to build onshore power supply systems (OPS) in both harbours and for the ferries travelling between Tallinn and Helsinki to enable the ferries (while at the quay) to use electricity from the mainland electricity network and switch off their diesel engines. In addition, an auto-mooring system will be built in both harbours, which offers faster and safer mooring for ferries. In Tallinn, the security systems in the Old City Harbour will be upgraded and in Helsinki, in the harbour area, new street lanes will be added, the throughput capacity of intersections will be improved, a tramway leading to the harbour will be relocated and a new bridge will be built.

In 2018, investments made totalled EUR 114 thousand and expenses incurred in the project amounted to EUR 15 thousand.

STATE BUDGET OF THE REPUBLIC OF ESTONIA

Public transport support (2016-2026)

In December 2014 a passenger transport public service contract was signed with the Ministry of Economic Affairs and Communications (currently administered by Road Administration) for providing ferry service on the Kuivastu–Virtsu and Rohuküla–Heltermaa ferry routes in the period from 1 October 2016 to 30 September 2026. The final amount of the contractual support depends on the difference between the revenue base calculated annually on the basis of tariff rates fixed in the contract and ticket sales revenue recognised in the same period.

In 2018, support was calculated in the amount of EUR 18,331 thousand (2017: EUR 15,810 thousand) and received in the amount of EUR 18,256 thousand (2017: EUR 15,845 thousand).

The public transport support is treated as part of the Group's ordinary activity and recognised as revenue (sale of ferry services - government support) (note 20).

OTHER FOREIGN AID - INTERREG BALTIC SEA REGION PROGRAMME

Project "Green Cruise Port – Sustainable Development of Cruise Port Locations" (2016–2019)

The project is aimed at enhancing the cooperation of cruise ports in the Baltic Sea region in developing port facilities and services, with a focus on the aspects of environmentally friendly and economically beneficial solutions. Project partners are the ports of Hamburg, Klaipeda, Riga, Rostock, Helsinki, Bergen, Esbjerg and Kaliningrad, and the Maritime Institute Gdansk. In the framework of the project, a master project together with the technical solutions for the Old City Harbour cruise terminal is prepared and a survey for developing ecological solutions feasible in a cruise terminal in the northern climate is carried out.

In 2018, work on the project's content activities continued. Tallinna Sadam carried out a survey exploring opportunities for building a sustainable cruise terminal appropriate for the Nordic climate (with a focus on the construction, energy and economy aspects). The new terminal should be a nearly zero-energy building which consumes as little energy as possible and has very low operating expenses. In addition, the representatives of Tallinna Sadam visited partner harbours' seminars on different topics and best practice excursions showing how other harbours apply the green mind-set.

In 2018, expenses incurred in the project amounted to EUR 34 thousand (2017: EUR 81 thousand) and investments totalled EUR 98 thousand (2017: no investments were made). In 2018, support of EUR 84 thousand was received (2017: EUR 13 thousand).

EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF)

Project "Digital Construction Cluster"

The purpose of the project is to undertake joint activities in the Digital Construction Cluster to promote cooperation between the Estonian construction sector and research institutions and to increase the international competitiveness of companies belonging to the Digital Construction Cluster.

As a real estate owner, developer and manager, Tallinna Sadam's interest in participating in the project is mainly related to new digital opportunities that could be seized in the development and management of its buildings and real estate including the implementation of Building Information Modelling (BIM) throughout the life cycle of a building.

In 2018, expenses incurred in the project amounted to EUR 8 thousand and support of EUR 4 thousand was received.

19. EQUITY

SHARE CAPITAL

On 20 April 2018 AS Tallinna Sadam issued 2,392,000 new ordinary shares with a par value of EUR 1 each. The shares were paid for with non-monetary contributions – registered immovable properties belonging to the Republic of Estonia in Tallinn, Jõelähtme parish and Saaremaa parish.

The shares in AS Tallinna Sadam were listed in the Baltic Main List of the Nasdaq Tallinn Stock Exchange on 13 June 2018 after a successful initial public offering (IPO) of the shares. During the IPO, AS Tallinna Sadam issued 75,404,968 new shares with a par value of EUR 1 each and the Republic of Estonia (the sole shareholder until that time) sold 11,300,000 existing shares with a par value of EUR 1 each.

At 31 December 2018, the company had 263,000,000 ordinary shares of which 67.03% were held by the Republic of Estonia (through the Ministry of Economic Affairs and Communications) and 32.97% were held by Estonian and international investment funds, banks, pension funds and Estonian retail investors. At 31 December 2017, Tallinna Sadam had 185,203,032 shares. The par value of a share is EUR 1. At 31 December 2018, the market capitalisation of Tallinna Sadam was EUR 536.5 million.

Number of new shares issued	75,404,968
Share price at the end of subscription period, in euros	1.7
Proceeds from shares issued, in thousands of euros	**128,189**
Par value of new shares, in thousands of euros	-75,405
Costs related to IPO, in thousands of euros	-8,306
Share premium, in thousands of euros	**44,478**

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association is 664,000,000 (in the comparative year 2017: also 664,000,000). At 31 December 2018 and in the comparative period at 31 December 2017 all shares issued had been fully paid for.

Earnings per share

	2018	2017
Weighted average number of shares	228,611,677	185,203,032
Consolidated net profit for the period (in thousands of euros)	24,423	26,425
Basic and diluted earnings per share (in euros)*	0.11	0.14

	2018	2017
Number of ordinary shares as at 1 January	185,203,032	185,203,032
Effect of a non-monetary contribution (20 April 2018)	1,677,677	0
Effect of the issue of new shares (13 June 2018)	41,730,968	0
Weighted average number of ordinary shares as at 31 December	**228,611,677**	**185,203,032**

* For the years ended 31 December 2018 and 31 December 2017 there were no dilutive instruments outstanding.

Capital management

The purpose of the Group's capital management is to ensure that Group entities will be able to continue as going concerns and the Group can generate maximum long-term return through an optimal balance between debt and equity capital. The Group's capital management strategy has not changed significantly compared to 2017.

In thousands of euros At 31 December	2018	2017
Loans and borrowings	213,612	235,600
Cash and cash equivalents	-42,563	-6,954
Net debt	**171,049**	**228,646**

The Group's capital structure consists of net debt (loans and borrowings as detailed in note 16 less cash and cash equivalents) and equity (comprising share capital, reserves and retained earnings). The Group is not subject to any externally imposed capital requirements.

The Group's CFO reviews the capital structure of the Group at least twice a year. As part of this review, the CFO assesses the cost of capital and the risks associated with each class of capital. The Group's long-term target is to ensure that its equity to assets ratio (calculated as the ratio of total equity to total assets) is 60%.

Equity to assets ratio

In thousands of euros At 31 December	2018	2017
Total equity	367,674	325,792
Total assets	623,639	597,137
Equity to assets ratio	**59%**	**55%**

At 31 December 2018, the Group's equity to assets ratio, i.e. the ratio of total equity to total assets was 59% (31 December 2017: 55%). Compared to 2017, the ratio has increased by 4 percentage points (2017: compared to 2016 by 1 percentage point) with total equity increasing by 13% and total assets by 4% (2017: decreasing by 6% and 7% respectively).

UNRESTRICTED EQUITY

At 31 December 2018, the Group's unrestricted equity amounted to EUR 42,101 thousand (31 December 2017: EUR 122,678 thousand). According to the Estonian Commercial Code shareholders will not be paid dividends if the net assets of the company recognised in the annual report approved at the end of the previous financial year are or would be less than total share capital and reserves which under the law or the articles of association are not be paid out to shareholders. At 31 December 2018 and 31 December 2017 the Parent could have distributed all of its unrestricted equity without contravening the law.

STATUTORY CAPITAL RESERVE

At 31 December 2017, the statutory capital reserve met the requirements of the Estonian Commercial Code. As a result of the increase of share capital by EUR 77,796 thousand in 2018 the Parent's capital reserve does not comply with the amount required by the articles of association. According to the Estonian Commercial Code, each financial year 1/20 (5%) of net profit is to be transferred to the statutory capital reserve until the reserve reaches the amount required by the articles of association. After that net profit transfers to the capital reserve will be discontinued.

The statutory capital reserve was not increased in 2018 or 2017.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (note 17).

In thousands of euros At 31 December	2018	2017
Hedge reserve at beginning of period	-609	-1,008
Change in derivatives' market value (net) (note 17)	184	399
Hedge reserve at end of period	**-425**	**-609**

Dividends

In thousands of euros At 31 December	2018	2017
Dividends declared and distributed in the reporting period	105,000	48,000
Dividends per share (in euros)	0.46	0.26

Based on a decision made by the former sole shareholder (the Republic of Estonia) on 25 April 2018, AS Tallinna Sadam distributed a dividend of EUR 105 million for 2017. As agreed with the Republic of Estonia, the dividend was distributed in two parts: the first payment of EUR 85 million was made on 25 June 2018 and the second payment of EUR 20 million was made on 11 December 2018. Under the terms and conditions of the IPO, dividend payments for 2017 were made to the former sole shareholder (the Republic of Estonia) only and shareholders who acquired shares during the IPO are entitled to receive dividend payments for 2018 and subsequent periods.

Income tax on dividends

In thousands of euros At 31 December	2018	2017
Outstanding income tax on dividends at beginning of period	*0*	*8,750*
Income tax charged on dividends in the Republic of Estonia	26,199	11,955
Income tax paid on dividends in the Republic of Estonia	-21,250	-20,705
In cash	*-21,250*	*-20,612*
Set off against VAT	*0*	*-93*
Outstanding income tax on dividends at end of period (note 15)	4,949	0

The Group's unrestricted equity as at 31 December 2018 amounted to EUR 42,101 thousand (2017: EUR 122,678 thousand). Consequently, the maximum possible income tax liability which would arise if all of the unrestricted equity were distributed as dividends amounts to EUR 7,479 thousand (2017: EUR 30,670 thousand).

At 31 December 2018, the tax rates used to calculate the maximum possible tax liability for 2019 were 14/86 (applied to the possible dividend in an amount equal to one third of profit distributed and taxed in 2018) and 20/80 (applied to the remaining unrestricted equity).

At 31 December 2017, the maximum possible tax liability for 2018 was calculated using the tax rate of 20/80.

20. REVENUE

In thousands of euros	2018	2017
Revenue from contracts with customers		
Vessel dues	48,499	45,846
Cargo charges	7,238	7,991
Passenger fees	17,104	17,004
Sale of electricity	5,809	5,313
Sale of ferry services - ticket sales	11,150	10,789
Sale of other services	2,248	2,063
Total revenue from contracts with customers	**92,048**	**89,006**
Revenue from other sources		
Rental income from operating leases (note 12)	11,376	11,895
Charter fees	8,880	4,584
Sale of ferry services - government support	18,331	15,810
Total revenue from other sources	**38,587**	**32,289**
Total revenue (note 3)	**130,635**	**121,295**

In 2018, revenue from services provided in Estonia amounted to EUR 126,387 thousand and revenue from services provided in Canada amounted to EUR 4,248 thousand (including charter fees of EUR 4,248 thousand). In 2017, all services were provided in Estonia.

DISAGGREGATION OF REVENUE

Transaction price allocated to the remaining performance obligations

At the end of the reporting period, performance obligations related to cargo charges, sale of electricity and sale of other services were partially unsatisfied. The Group applies the practical expedient in paragraph 121(b) of IFRS 15 for those revenue streams (single performance obligation that is made up of a series of distinct services) and does not disclose the transaction price allocated to the remaining performance obligation as the Group has a right to consideration from customers in an amount that corresponds directly to the value that the Group's performance obligations completed to date have for the customer and the Group has recognised revenue in the amount in which it has a right to invoice the customers.

Partially unsatisfied performance obligation related to connection fees as at 31 December 2018 amounted to EUR 939 thousand (31 December 2017: EUR 932 thousand).

Revenue for 2018 includes connection fees of EUR 41 thousand (2017: EUR 40 thousand).

Management expects that the transaction price allocated to unsatisfied performance obligations will be recognised as revenue over the next 23 years (which is the average remaining useful life of the investments made to enable connection) on a straight-line basis.

21. OPERATING EXPENSES

In thousands of euros	2018	2017
Fuel, oil and energy costs	11,725	10,551
Technical maintenance and repair of non-current assets	7,332	5,963
Services purchased for infrastructure	2,879	2,722
Tax expenses	3,224	3,136
Incl. land tax	*2,822*	*2,726*
Consultation and development expenses	1,299	1,346
Incl. research and development expenses	*671*	*1,000*
Services purchased	5,364	5,184
Incl. mooring service	*1,046*	*1,096*
reception of ship-generated waste	*2,234*	*2,060*
port dues	*2,031*	*1,991*
Acquisition and maintenance of insignificant assets	1,321	1,270
Advertising expenses	398	338
Rental expenses	1,051	7,065
Incl. chartering of vessels	*572*	*6,606*
Insurance expenses	787	715
Other operating expenses	1,980	2,751
Incl. expenses from credit-impaired financial assets	*-303*	*791*
Total operating expenses	**37,360**	**41,041**

In thousands of euros	2018	2017
Wages and salaries	14,636	13,521
Social security charges	4,784	4,436
Total personnel expenses	**19,420**	**17,957**
Incl. short-term benefits of members of management and supervisory boards of Group companies	*780*	*688*
social security charges on members of management and supervisory boards of Group companies	*257*	*227*
Total expenses on members of management and supervisory boards of Group companies	**1,037**	**915**

Under contracts in force at 31 December 2018, AS Tallinna Sadam has an obligation to pay the members of its management board (key management personnel) compensation on their removal from the board in an amount equal to their three months' remuneration (EUR 76.5 thousand in both 2018 and 2017). Also, in return for observing the non-competition clause, AS Tallinna Sadam has an obligation to pay management board members monthly compensation in an amount equal to 50% of their remuneration (EUR 153 thousand in both 2018 and 2017) during 12 months after the expiry of the contract.

Under contracts in force at 31 December 2018, the subsidiaries of AS Tallinna Sadam had an obligation to pay compensation to their members of the management board on their removal from the board in an amount equal to their three months' remuneration (EUR 66.0 thousand in 2018 and EUR 49.8 thousand in 2017).

Number of employees

	2018	2017
People working under employment contracts (average number)	496	508
People working under contracts for services excluding self-employed people	5	7
Members of legal person's management or control bodies	5	6

22. OTHER INCOME

In thousands of euros	2018	2017
Gain on sale of non-current assets	11	2
Penalties, interest on arrears*	117	3 903
Income from government grants (note 18)	645	890
Other income	43	13
Total other income	**816**	**4 808**

* Penalties recognised in 2017 included penalties of EUR 3,750 thousand charged from shipyards for delays in the delivery of new ferries. In 2018, there was no penalty income.

23. FINANCE COSTS

In thousands of euros	2018	2017
Interest expense on loans and borrowings:		
Interest expense on loans (note 16)	348	463
Capitalised borrowing costs (note 26)	0	-140
Interest expense on debt securities (note 16)	1,221	1,482
Interest expense on derivatives (note 16)	366	459
Total interest expense on loans and borrowings	***1,935***	***2,264***
Foreign exchange loss	21	3
Other finance costs	47	51
Total finance costs	**2,003**	**2,318**

24. RELATED PARTY TRANSACTIONS

67.03% of the shares in AS Tallinna Sadam are held by the Republic of Estonia (through the Ministry of Economic Affairs and Communications).

In thousands of euros	2018	2017
Transactions with an associate		
Revenue	207	195
Operating expenses	2,293	2,108
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	1	9
Operating expenses	9	9
Other expenses	13	12
Transactions with government agencies and companies in which the state has control		
Revenue	23,760	21,149
Other income	13	38
Operating expenses	7,182	6,628
Other expenses	3	137
Acquisition of property, plant and equipment	748	72

In thousands of euros At 31 December	2018	2017
Trade receivables from and payables to an associate		
Receivables (note 8)	25	27
Payables (note 14)	134	115
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Payables	1	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	412	445
Payables	1,342	1,206

All purchases and sales of services were transactions conducted in the ordinary course of business on an arm's length basis.

Benefits payable to the members of the management and supervisory boards are disclosed in note 21.

Revenue and operating expenses from transactions with related parties comprise only revenue and expenses from sales and purchases of business-related services.

Information presented on companies in which members of the supervisory and management boards of group companies have significant influence is based on the information provided by the related parties.

25. COMMITMENTS

At 31 December 2018, the Group's contractual commitments related to acquisition of property, plant and equipment, repairs, and research and development expenditures totalled EUR 21,003 thousand (31 December 2017: EUR 2,962 thousand).

The commitments include the obligation to co-finance the construction of a road, Reidi tee, in the amount of up to EUR 2,555 thousand (2017: EUR 3,300 thousand). The purpose of the co-financing is to help create the best possible connections between Reidi tee and the Group's Old City Harbour and thus make passenger and vehicle flows smoother.

26. PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

Purchases of property, plant and equipment

In thousands of euros	2018	2017
Purchases of property, plant and equipment	**-11,941**	**-25,171**
Offsetting	0	-9,505
Incl. offsetting with fines receivable	*0*	*-9,505*
Capitalised borrowing costs (note 23)	0	-140
Non-monetary contributions (note 19)	-2,392	0
Paid for previous period	1,908	2,276
Trade payables outstanding at end of period (note 14)	-1,216	-1,908
Other adjustments	9	-153
Total adjustments	*-1,691*	*-9,430*
Acquisition and reconstruction (note 10)	**13,632**	**34,601**

Purchases of intangible assets

In thousands of euros	2018	2017
Purchases of intangible assets	**-618**	**-1,346**
Paid for previous period	64	164
Outstanding balance at end of period (note 14)	-65	-64
Total adjustments	*-1*	*100*
Acquisition and reconstruction (note 11)	**619**	**1,246**

27. CONTINGENT LIABILITIES

MThe tax authorities may inspect the Group's tax accounting records for up to 5 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate or conduct any tax inspections at Group companies or single-case inspections in the reporting or the comparative period. According to the assessment of the Group's management, there are no circumstances that could cause the tax authorities to determine a significant amount of additional tax to be paid by Group companies.

Under several lease and right of superficies contracts, upon expiry of the contracts, AS Tallinna Sadam has an obligation to compensate the cost of the constructions built by the lessee or improvements made to the assets of AS Tallinna Sadam at the usual value of the respective construction or improvement. Taking into account the extended duration of these contracts (especially right of superficies contracts) and the fact that the constructions are mostly special purpose facilities (port terminals), no valid experience in measuring the usual value of such constructions upon expiry of the contracts exists. Based on the above, the value of those obligations could not be estimated reliably as at the reporting date.

In the first half of 2017 AS Coal Terminal (bankrupt), a long-term customer of AS Tallinna Sadam and holder of several right of superficies contracts, declared bankruptcy. Because bankruptcy trustees refused to execute commitments under the right of superficies contracts, the contracts together with the assets erected on the plots covered by the right of superficies contracts were transferred back into the possession of the Group. Under the contracts, the Group has to compensate the value of buildings and equipment that form an essential part of the rights of superficies, the amount of which cannot be estimated reliably because the assets are special-purpose assets for which a regular market does not exist and there are contradictory views both among the experts and the parties of the dispute on the valuation methods that should be used. On 6 July 2018, bankruptcy trustees submitted a claim, demanding that AS Tallinna Sadam pay compensation of EUR 22.4 million for the value of the assets. AS Tallinna Sadam does not admit such a claim. At the end of 2018, the Group sold several assets that had been transferred back to it. Proceeds from the sale of the assets totalled EUR 2.6 million (note 14). In connection with the termination of contracts, AS Tallinna Sadam has submitted a counter-claim of EUR 11.7 million. Since AS Tallinna Sadam's monetary outcome from the bankruptcy proceedings of AS Coal Terminal (bankrupt) depends on the combined effect of the outcomes of several parallel disputes, the monetary impact of the bankruptcy of AS Coal Terminal (bankrupt) cannot be estimated reliably and there is also no certainty about the timing of the realization of the claim and liabilities. Thus, the management board has not recognised a provision for a possible claim.

A claim for damages of EUR 23.8 million was lodged against Group companies OÜ TS Laevad and OÜ TS Shipping in October 2017 in relation to alleged unjustified use of confidential information. The Group does not admit guilt and is defending itself in the action. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

Due to a significant decrease in cargo volumes handled, one of the Group's long-term customers has lodged a claim to void select conditions in a long-term cooperation contract concluded between the Group and the customer retrospectively as from 1 January 2015. The conditions set out the minimum cargo volume that the customer is required to handle each calendar year as well as the customer's minimum annual cargo charge obligation, which are related to the contractual penalty charged for failure to meet the minimum cargo charge obligation. The customer's contractual penalties for failure to meet the minimum cargo charge obligation in the years 2015-2017 amount to EUR 0.45 million. The customer's minimum annual cargo charge obligation is EUR 0.31 million. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

28. INVESTIGATIONS CONCERNING THE GROUP

On 26 August 2015, the Estonian Internal Security Service detained Ain Kaljurand and Allan Kiil, long-term members of the management board of the Group's Parent, AS Tallinna Sadam, on suspicion of large-scale bribery during several prior years. After long-term investigation, on 31 July 2017 the Group filed a civil action lawsuit against Ain Kaljurand, Allan Kiil and other private and legal persons involved in the episodes under investigation. At the date of release of this report, the trial has not yet started; it is expected to start in spring 2019. Based on information available at the reporting date, the management board believes that the above event will not have any material adverse impact on the Group's financial performance or financial position. However, it may continue to cause damage to the Group's reputation.

29. ADDITIONAL INFORMATION ON THE PARENT

The financial information on the Parent comprises the primary financial statements of the Parent which are required to be disclosed in accordance with the Estonian Accounting Act, but which are not separate statements as defined in IAS 27. On preparing the primary financial statements of the Parent, the same accounting policies have been applied as on preparing the consolidated financial statements, except that investments in subsidiaries are measured at cost.

Statement of financial position

In thousands of euros	31.12.2018	31.12.2017
ASSETS		
Current assets		
Cash and cash equivalents	31,849	1,750
Trade and other receivables	16,095	17,924
Inventories	12	31
Total current assets	**47,956**	**19,705**
Non-current assets		
Investments in subsidiaries	8,774	17,003
Investments in associates	132	132
Other long-term receivables	122,066	140,430
Property, plant and equipment	428,002	429,716
Intangible assets	1,175	990
Total non-current assets	**560,149**	**588,271**
Total assets	**608,105**	**607,976**
LIABILITIES		
Current liabilities		
Loans and borrowings	15,766	21,989
Derivative financial instruments	425	609
Provisions	1,814	991
Government grants	0	54
Taxes payable	5,404	451
Trade and other payables	7,293	5,801
Total current liabilities	**30,702**	**29,895**
Non-current liabilities		
Loans and borrowings	197,846	213,611
Government grants	23,418	23,826
Other payables	1,018	996
Total non-current liabilities	**222,282**	**238,433**
Total liabilities	**252,984**	**268,328**
EQUITY		
Share capital	263,000	185,203
Share premium	44,478	0
Statutory capital reserve	18,520	18,520
Hedge reserve	-425	-609
Retained earnings (prior periods)	31,534	105,114
Loss/profit for the period	-1,986	31,420
Total equity	**355,121**	**339,648**
Total liabilities and equity	**608,105**	**607,976**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Statement of profit or loss

In thousands of euros	2018	2017
Revenue	92,031	86,547
Other income	774	1,147
Operating expenses	-24,542	-22,308
Personnel expenses	-11,013	-9,371
Depreciation, amortisation and impairment	-14,677	-12,461
Other expenses	-205	-203
Operating profit	**42,368**	**43,351**
Finance income and costs		
Finance income	2,036	2,466
Finance costs *	-20,191	-2,442
Finance costs – net	**-18,155**	**24**
Profit before income tax	**24,213**	**43,375**
Income tax expense	-26,199	-11,955
Loss/profit for the period	**-1,986**	**31,420**

Statement of other comprehensive income

In thousands of euros	2018	2017
Loss/profit for the period	**-1,986**	**31,420**
Other comprehensive income *Items that may be reclassified subsequently to profit or loss:* Net fair value gain on hedging instruments in cash flow hedges	184	399
Total other comprehensive income	**184**	**399**
Total comprehensive expense/income for the period	**-1,802**	**31,819**

*Write-down of an investment in the subsidiary OÜ TS Shipping of EUR 18,229 thousand

Statement of cash flows

In thousands of euros	2018	2017
Cash receipts from sale of goods and services	97,601	87,724
Cash receipts related to other income	103	448
Other receipts	2,600	0
Payments to suppliers	-36,367	-25,370
Payments to and on behalf of employees	-8,406	-6,431
Payments for other expenses	-205	-153
Receipt of finance lease principal	0	33
Receipt of interest on finance leases	0	17
Income tax paid on dividends	-21,250	-20,612
Cash from operating activities	**39,076**	**35,656**
Purchases of property, plant and equipment	-10,952	-14,524
Purchases of intangible assets	-492	-844
Proceeds from sale of property, plant and equipment	11	524
Government grants received	0	349
Loans granted	0	-19,679
Repayment of loans granted	6,647	8,977
Change in overdraft (receivable)	0	2,317
Dividends received	204	178
Interest received	4,767	394
Cash from/used in investing activities	**185**	**-22,308**
Contributions to share capital	119,883	0
Issue of debt securities	0	105,000
Redemption of debt securities	-12,650	-111,250
Repayments of loans received	-6,766	-6,766
Change in overdraft (liability)	-2,565	2,565
Repayments of finance lease principal	-7	0
Dividends paid	-105,000	-48,000
Interest paid	-2,024	-2,458
Other payments related to financing activities	-33	-31
Cash used in financing activities	**-9,162**	**-60,940**
NET CASH FLOW	30,099	-47,592
Cash and cash equivalents at beginning of the period	1,750	49,343
Change in cash and cash equivalents	30,099	-47,592
Cash and cash equivalents at end of the period	31,849	1,750

Statement of changes in equity

In thousands of euros	Share capital	Share premium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity
Equity at 31 December 2016	**185,203**	**0**	**18,520**	**-1,008**	**149,346**	**352,061**
Profit for the period	0	0	0	0	31,420	**31,420**
Adjustments related to a merger with a subsidiary*	0	0	0	0	3,768	**3,768**
Other comprehensive income for the period	0	0	0	399	0	**399**
Total comprehensive income for the period	*0*	*0*	*0*	*399*	*35,188*	***35,587***
Dividends declared	0	0	0	0	-48,000	**-48,000**
Total transactions with owners	*0*	*0*	*0*	*0*	*-48,000*	***-48,000***
Equity at 31 December 2017	**185,203**	**0**	**18,520**	**-609**	**136,534**	**339,648**
Carrying amount of interests under control and significant influence	0	0	0	0	-2 003	**-2 003**
Value of interests under control and significant influence under the equity method	0	0	0	0	-11,853	**-11,853**
Adjusted unconsolidated equity at 31 December 2017	**185,203**	**0**	**18,520**	**-609**	**122,678**	**325,792**

* Reflects the difference between the acquisition cost and carrying amount of the acquired net assets that arose in a merger with a subsidiary under common control.

In accordance with the Accounting Act of the Republic of Estonia, adjusted unconsolidated retained earnings represent the amount that is available for distribution to shareholders.

NOTE 29 CONTINUED

In thousands of euros	Share capital	Share premium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity
Equity at 31 December 2017	**185,203**	**0**	**18,520**	**-609**	**136,534**	**339,648**
Loss for the period	0	0	0	0	-1,986	**-1,986**
Other comprehensive income for the period	0	0	0	184	0	**184**
Total comprehensive expense for the period	*0*	*0*	*0*	*184*	*-1,986*	***-1,802***
Contributions to share capital	77,797	44,478	0	0	0	**122,275**
Dividends declared	0	0	0	0	-105,000	**-105,000**
Total transactions with owners	*77,797*	*44,478*	*0*	*0*	*-105,000*	***17,275***
Equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**-425**	**29,548**	**355,121**
Carrying amount of interests under control and significant influence	0	0	0	0	-2,003	**-2,003**
Value of interests under control and significant influence under the equity method	0	0	0	0	14,556	**14,556**
Adjusted unconsolidated equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**-425**	**42,101**	**367,674**

30. UNBUNDLING OF ACTIVITIES BASED ON THE ELECTRICITY MARKET ACT

ACCOUNTING POLICIES

The financial statements have been prepared in compliance with section 17 subsection 3 of the Electricity Market Act. According to the above subsection an electricity undertaking has to present a statement of financial position and statement of profit or loss for each area of activity in the notes to its financial statements.

The financial statements include a statement of financial position and statement of profit or loss for each of the following areas of activity:

- provision of network services;
- sale of electricity;
- other activities.

During the financial year income, expenses and non-current assets directly attributable to the areas of activity are accounted for separately for each area of activity. Indirect and administrative expenses are allocated, in the case of personnel expenses, based on the estimated distribution of personnel between the areas of activity and, in the case of other expenses, based on the proportion of sales of each area of activity. At the end of the financial year, items of the statement of financial position are allocated as described below.

Trade receivables

Sales invoices for connection fees, maintenance services, sale of electricity, and provision of network service.

Inventories

Inventories attributable to network service.

Non-current assets

Non-current assets directly attributable to the provision of network service and sale of electricity.

Trade payables

Trade payables are allocated according to factual data, the analysis is based on invoices issued by suppliers.

Taxes payable, short-term provisions, other payables

Related to remuneration (wages and salaries, bonuses, taxes) and allocated to the areas of activity according to the allocation of personnel expenses.

Government grants

Liabilities arising from government grants related to non-current assets directly attributable to the provision of network service and the sale of electricity.

Contract liabilities

Due to the nature of connection fees, deferred income is allocated to network service and other operating activities.

STATEMENT OF FINANCIAL POSITION

as at 31 December

In thousands of euros			Sale of electricity		Provision of electrical distribution network service		Other operations	
	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS								
Current assets								
Cash and cash equivalents	42,563	6,954	0	0	0	0	42,563	6,954
Trade and other receivables	8,017	9,271	246	186	425	455	7,346	8,630
Inventories	305	301	0	0	7	25	298	276
Total current assets	**50,885**	**16,526**	**246**	**186**	**432**	**480**	**50,207**	**15,860**
Non-current assets								
Investments in associates	1,569	1,256	0	0	0	0	1,569	1,256
Other long-term receivables	196	272	0	0	0	0	196	272
Property, plant and equipment	568,965	577,125	0	0	16,104	15,855	552,861	561,270
Intangible assets	2,024	1,958	0	0	0	0	2,024	1,958
Total non-current assets	**572,754**	**580,611**	**0**	**0**	**16,104**	**15,855**	**556,650**	**564,756**
Total assets	**623,639**	**597,137**	**246**	**186**	**16,536**	**16,335**	**606,857**	**580,616**
LIABILITIES								
Current liabilities								
Loans and borrowings	15,766	21,989	0	0	0	0	15,766	21,989
Derivative financial instruments	425	609	0	0	0	0	425	609
Taxes payable	5,844	698	0	0	56	61	5,788	637
Provisions	1,957	1,503	0	0	98	49	1,859	1,454
Government grants	174	303	0	0	0	0	174	303
Trade and other payables	9,517	7,810	265	396	362	419	8,890	6,995
Total current liabilities	**33,683**	**32,912**	**265**	**396**	**516**	**529**	**32,902**	**31,987**
Non-current liabilities								
Loans and borrowings	197,846	213,611	0	0	0	0	197,846	213,611
Government grants	23,418	23,826	0	0	1,094	1,015	22,324	22,811
Other payables	1,018	996	0	0	930	932	88	64
Total non-current liabilities	**222,282**	**238,433**	**0**	**0**	**2,024**	**1,947**	**220,258**	**236,486**
Total liabilities	**255,965**	**271,345**	**265**	**396**	**2,540**	**2,476**	**253,160**	**268,473**
EQUITY								
Share capital	263,000	185,203	0	0	0	0	0	0
Share premium	44,478	0	0	0	0	0	0	0
Statutory capital reserve	18,520	18,520	0	0	0	0	0	0
Hedge reserve	-425	-609	0	0	0	0	0	0
Retained earnings (prior periods)	17 678	96 253	0	0	0	0	0	0
Profit/loss for the period	24,423	26,425	-38	-14	642	714	23,819	25,725
Total equity	**367,674**	**325,792**	**-19**	**-210**	**13,996**	**13,859**	**353,697**	**312,143**
Total liabilities and equity	**623,639**	**597,137**	**246**	**186**	**16,536**	**16,335**	**606,857**	**580,616**

STATEMENT OF PROFIT OR LOSS

			Sale of electricity		Provision of electrical distribution network service		Other operations	
In thousands of euros	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenue	130,635	121,295	2,112	1,650	3,763	3,955	124,760	115,690
Other income	816	4,808	0	0	41	30	775	4,778
Operating expenses	-37,360	-41,041	-2,088	-1,611	-1,823	-1,823	-33,449	-37,607
Personnel expenses	-19,420	-17,957	-58	-51	-601	-743	-18,761	-17,163
Depreciation, amortisation and impairment	-22,345	-26,430	-4	-2	-738	-703	-21,603	-25,726
Other expenses	-251	-358	0	-1	0	-1	-251	-356
Operating profit/loss	**52,075**	**40,317**	**-38**	**-14**	**642**	**714**	**51,471**	**39,617**
Finance income and costs								
Finance income	33	33	0	0	0	0	33	33
Finance costs	-2,003	-2,318	0	0	0	0	-2,003	-2,318
Finance costs - net	**-1,970**	**-2,285**	**0**	**0**	**0**	**0**	**-1,970**	**-2,285**
Share of profit of an associate accounted for under the equity method	517	348	0	0	0	0	517	348
Profit/loss before income tax	**50,622**	**38,380**	**-38**	**-14**	**642**	**714**	**50,018**	**37,680**
Income tax expense	-26,199	-11,955	0	0	0	0	-26,199	-11,955
Profit/loss for the period	**24,423**	**26,425**	**-38**	**-14**	**642**	**714**	**23,819**	**25,725**

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of AS Tallinna Sadam

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Sadam (the Group) as at 31 December 2018, and 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 AS Tallinna Sadam, as set out on pages 48 to 125. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018,
- 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 ended, and
- the notes, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

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

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 for Group entities based on the size and/or the risk characteristics of the Group entities.

Of the Group's 3 components, we determined 3 components to be significant Group entities and we subjected those components to a full scope audit, covering all of the Group's consolidated financial

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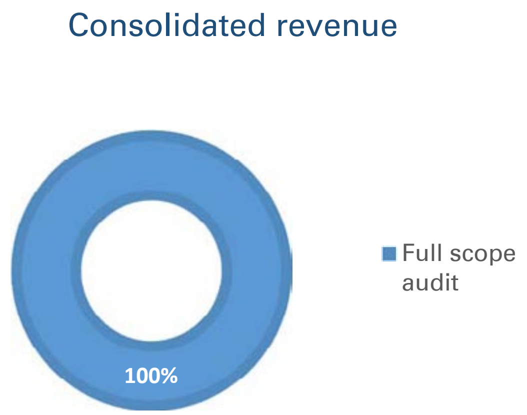
position and consolidated financial performance. These components include AS Tallinna Sadam, OÜ TS Laevad and OÜ TS Shipping.

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

Coverage of procedures performed on consolidated revenue and consolidated total assets:



The work on significant Group entities was performed by the Group audit team in Estonia.

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.

Determining the recoverable amount of the icebreaker Botnica asset group

Refer to notes 5 and 10 to the consolidated financial statements for further information.

The key audit matter	How the matter was addressed in our audit
The Group's consolidated statement of financial position as at 31 December 2018 includes the ice breaker Botnica asset group in the carrying amount of 27,373 thousand euros. Financial reporting standards require that impairment testing is required when there is indication of possible impairment or that a previously recognised impairment loss may have reversed. Assessing the recoverable amount requires significant judgment in determining the future performance of the cash-generating unit (CGU) of Botnica. The Group's management determined the recoverable amount of	In this area, we conducted, among others, the following audit procedures: • assessing the methods used for calculating the recoverable amount against the requirements of relevant financial reporting standards with the assistance of our own valuation specialists; • making alternative calculations of the discount rate (WACC) based on available market data and comparing it to the rate used in the Group's calculations; • assessing the critical assumptions and estimates used for calculating the recoverable amount based on our knowledge of the

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Botnica's asset group as at the year-end by reference to value in use. In carrying out the valuation, the recoverable amount of the CGU was found using the discounted cash flow method which requires management to make significant estimates and judgments regarding inputs such as the discount rate and expected future cash flows. The outcome of value in use is most sensitive to the revenue projections used in the cash flow scenarios, depending mostly on the probability of finding charter contracts for the icebreaker Botnica in the period from April to October. Even a minor change in the probability of expected future cash flows may cause a significant increase or decrease in value in use and the need to adjust the carrying amount of the asset group. The value in use determined from the valuation was, at the reporting date, at the level of the carrying amount of the asset group. Determining whether the internal and external inputs used by the Group to calculate the recoverable amount of Botnica were based on reasonable and appropriate estimates required our particular attention during the audit. Even minor changes in inputs may have a significant impact on the estimate of the recoverable amount and, thus, also on the Group's financial results for the current period or future periods.	economic environment and the Group's business; • evaluating the appropriateness of the cash flow projections used to determine the recoverable amount by comparing them to recent years' actual cash flows; • checking whether the cash flows used to determine value in use include all cash flows arising from the current use and ultimate disposal of the asset group; • evaluating the sensitivity of the key assumptions applied in the valuation, such as the discount rate and future cash flows. • assessing how appropriate alternative valuation methods would have been; • assessing the appropriateness of related disclosures (including the disclosure of the key assumptions and conclusions) in the consolidated financial statements and the compliance of the disclosures with disclosure requirements.

Other Information

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

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

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

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

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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 skepticism 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.

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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

The Group has set out the principles and disclosures in note 31 of the consolidated financial statements, which was drawn up as required by the Electricity Market Act § 17. In our opinion, the data presented in note 31 of the consolidated financial statements, is in all material respects in conformity with the accounting policies presented in note 31 of the consolidated financial statements.

Appointment as Auditor and Audit Period

We were appointed by those charged with governance on 25 April 2018 to audit the financial statements of AS Tallinna Sadam for the periods ended 31 December 2018 to 31 December 2020. Our total uninterrupted period of engagement is one year, covering the period ended 31 December 2018. In accordance with the Estonian Auditors Activities Act and Regulation (EU) No 537/2014, our engagement as auditors of AS Tallinna Sadam may be extended until the period ending 31 December 2027.

Tallinn, 15 March 2019

Andris Jegers

Certified Public Accountant, Licence No 171

KPMG Baltics OÜ
Licence No 17

KPMG Baltics OÜ

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Statement of the Supervisory Board

The supervisory board of AS Tallinna Sadam has approved the group annual report of AS Tallinna Sadam as at and for the year ended 31 December 2018, which consists of the management report and the financial statements, and the accompanying independent auditors' report.

19 March 2019

Aare Tark	**Ahti Kuningas**	**Maarika Liivamägi**
Urmas Kaarlep	**Üllar Jaaksoo**	**Raigo Uukkivi**

Profit Allocation Proposal

At 31 December 2018, the Group's retained earnings amounted to EUR 42,100,654 including profit for the period of EUR 24,423,303. Based on the dividend policy approved by the general meeting under which dividend payments have to amount to at least EUR 30 million in 2019 and 2020 and at least 70% of net profit from 2021, the management board proposes that the Group allocate a dividend of EUR 35,242,000. The expected dividend per share is EUR 0.134.

Based on section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 42,100,654 for the year ended 31 December 2018 be allocated as follows:

Dividend distribution	EUR 35,242,000
Transfer to retained earnings	EUR 6,858,654

Valdo Kalm
Chairman of the
Management Board

Valdo Kalm
Member of the
Management Board

Margus Vihman
Member of the
Management Board