ANNUAL REPORT 2020

PORT OF TALLINN

AS Tallinna Sadam

Group Annual Report 2020

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Beginning of financial year	1 January
End of financial year	31 December
Legal form	Limited company (AS)
Auditor	KPMG Baltics OÜ

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MANAGEMENT REPORT

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1 Tallinna Sadam at a Glance

1.1 Business model

The business model of AS Tallinna Sadam (Port of Tallinn) and its subsidiaries (together: 'Tallinna Sadam' or 'the Group') is **based on four balanced business lines**: passengers, cargo, shipping and real estate.

Tallinna Sadam owns the largest cargo and passenger harbour complex in Estonia. Our harbours are navigable and easily accessible throughout 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.

PASSENGERS

- Annual average figures: **10 million passengers**, 1.4 million cars, 6,100 ferry calls
- Passenger harbours: Old City Harbour and Saaremaa Harbour. One route at Muuga Harbour
- **Reception of ferries and cruise ships**, provision and development of port infrastructure, provision of services to passengers and vehicles
- Ferry routes: Tallinn-Helsinki, Tallinn-Stockholm, Muuga-Vuosaari, Tallinn-St Petersburg. Cruise ships

CARGO

- Annual average figures: **20 million tonnes of cargo**, 450,000 freight vehicles, 1,600 cargo ship calls
- Cargo harbours: Muuga Harbour, Paldiski South Harbour. Ro-ro cargo at Old City Harbour
- **Reception of cargo traffic**, provision and development of port infrastructure
- Liquid bulk, dry bulk, container, ro-ro and general cargo

SHIPPING

TS LAEVAD OÜ

- **Operation of ferries** on two domestic routes: Rohuküla-Heltermaa and Virtsu-Kuivastu
- Annual average figures: 2.4 million passengers and 1.0 million vehicles
- Five ferries: Leiger, Tiiu, Tõll, Piret and Regula

TS SHIPPING OÜ (MPSV BOTNICA)

- **Icebreaking** in northern Estonian ports and harbours
- Off-shore work in the summer season (in Northern Canada)

KINNISVARA

- **Real estate development at Old City Harbour** 16 ha
- Muuga Industrial Park 76 ha
- Paldiski South Harbour Industrial Park 34 ha
- Saaremaa Harbour Logistics Park 10 ha
- Vacant land and rental premises in the harbours

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Tallinna Sadam owns two passenger harbours (**Old City Harbour** and **Saaremaa Harbour**) and two cargo harbours[1] (**Muuga Harbour** and **Paldiski South Harbour**). In terms of the number of passengers served, Tallinn Old City Harbour is the second-largest harbour on the Baltic Sea (after Helsinki) and the third-largest in Northern Europe. 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, port basins and the surrounding areas, leases land to cargo operators, organises vessel traffic in port basins and ensures safe navigation in port waters.

Structure of Tallinna Sadam Group

Tallinna Sadam owns passenger terminals and other facilities required for passenger service. Cargo harbour superstructure belongs to cargo operators. Waste management service in the harbours is provided by AS Green Marine (Green Marine), an associate of Tallinna Sadam, which offers innovative waste handling solutions.

We have been operating ferries and providing passenger transport between Estonia's mainland and two largest islands – Saaremaa and Hiiumaa – through our subsidiary OÜ TS Laevad (TS Laevad) since 2016. The Group has five ferries and the routes served are the busiest domestic ferry routes in Estonia. Our other subsidiary, OÜ TS Shipping (TS Shipping), is also involved in shipping. It owns the multifunctional icebreaker Botnica, which provides icebreaking services along the northern Estonian coast during the winter season and icebreaking, ice management and escort services in the Arctic waters of northern Canada during the summer season.

The real estate business line is still largely in the preparatory phase. Detailed plans for the areas included in the Old City Harbour real estate development plan have been initiated and are being processed by Tallinn City Government.

The Group's operating segments for financial accounting purposes differ somewhat from its business lines. **Operating segments** are Passenger harbours, Cargo harbours, Ferry and Other. The Passenger harbours segment comprises the provision of port services at the harbours mainly involved in passenger service – Old City Harbour and Saaremaa Harbour – and real estate development activities in Old City Harbour. The Cargo harbours segment comprises the provision of port services at the harbours mainly involved in cargo handling – Muuga Harbour and Paldiski South Harbour – and the activities related to the industrial parks located in these harbours. The Ferry segment comprises the activities of the subsidiary 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 TS Shipping and profits and losses on the investments made in the associate Green Marine (accounted for under the equity method). Segment results are presented in section 6.9 of the management report and note 3 to the consolidated financial statements.

[1] *Tallinna Sadam also owns Paljassaare Harbour but has discontinued active operations in that harbour in connection with a planned exit.*

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1.2 Key performance indicators for 2020

Revenue EUR 107.4m
(-17.8%)[2]

Adjusted EBITDA EUR 58.4m
(-21.4%)

EBITDA margin 54.4%, profit EUR 28.5m
(-35.8%)

Investment EUR 37.1m
(+26.0%)

Cargo volume 21.3m tonnes
(+7.0%)

Number of passengers 4.3m
(-59.3%)

Number of vessel calls 7,088
(-9.8%)

Dividends paid EUR 30.245m
(EUR 0.115 per share)

Utilisation rate for icebreaker Botnica 68%
(-3 percentage points)

Traffic between Estonia's mainland and largest islands: 2m passengers (-18%) **and 1m vehicles** (-8%)

18% vessel calls with Environmental Ship Index (ESI)[3] discounts

GHG[4] emissions: 25,070 tonnes of CO_2 equivalent
(-7.4%)

[2] On this page change compared to 2019.

[3] ESI – Environmental Ship Index.

[4] Greenhouse gases (GHG) – CO_2, N_2O and CH_4 converted into tonnes of CO_2 equivalent.

1.3 Significant events and recognitions in 2020

COMPLETION OF THE BUILDING AND MULTI-STOREY CAR PARK OF PASSENGER TERMINAL D (DIGITAL CONSTRUCTION CLUSTER: ACT OF THE YEAR 2020)

MAPPING OF THE ECOLOGICAL FOOTPRINT OF TALLINNA SADAM

COMPLETION OF A CARGO CHECK-IN BUILDING AT MUUGA HARBOUR

DREDGING WORKS AT PALDISKI SOUTH HARBOUR

TECHNICAL DESIGN OF THE RAIL BALTICA MUUGA FREIGHT STATION BEGAN

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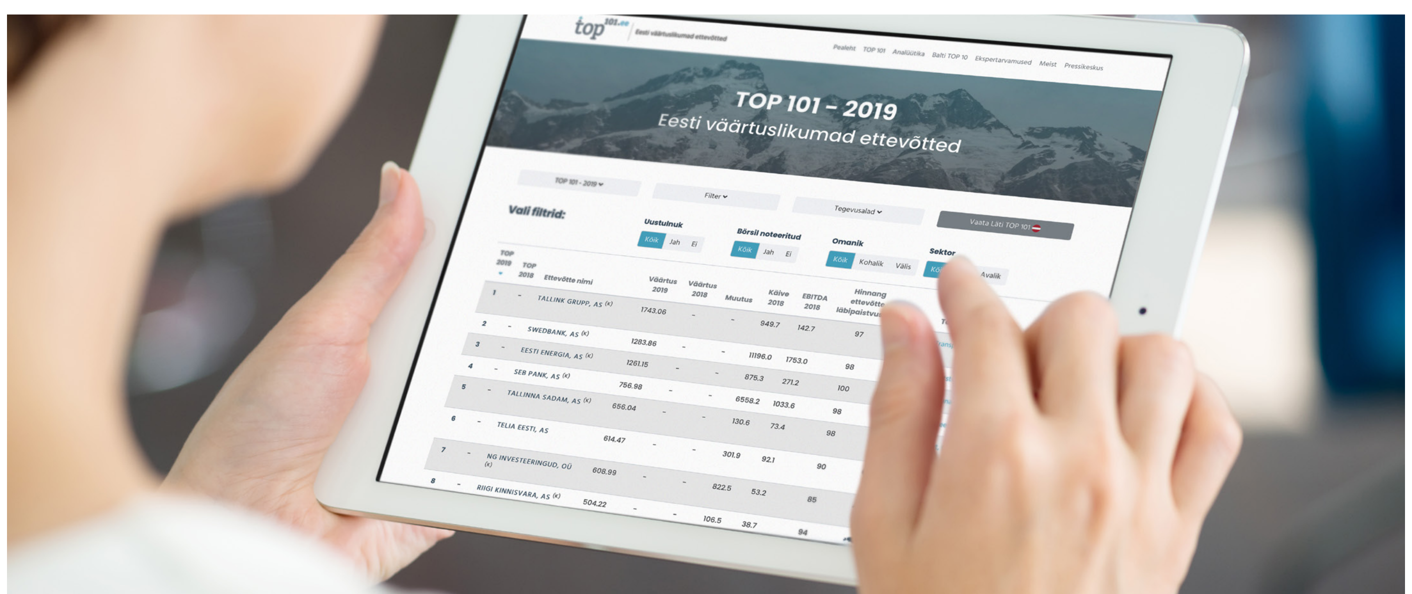
COVID-19 RELATED RESTRICTIONS AND TESTING AT PASSENGER TERMINALS (Photo: Siim Lõvi, ERR)

FIRST ELECTRONIC ANNUAL GENERAL MEETING

INVESTOR DAYS

NASDAQ BALTIC AWARDS 2021: INVESTOR RELATIONS OF THE YEAR AWARD

HYBRID FERRY TÕLL STARTED SERVING PASSENGERS



ONE OF THE 5 MOST VALUABLE COMPANIES IN ESTONIA

SUPPLY CHAIN MAKER
AWARD 2020

ENVIRONMENTAL CAMPAIGNS

1.4 Letter from the chairman of the supervisory board

The year 2020 will go down in history and be remembered as the year of the global pandemic for a long time. The COVID-19 crisis undoubtedly affected all people and businesses. The new situation called for new approaches — we were the first listed company in Estonia to conduct the annual general meeting using an innovative electronic voting solution. Our excellent financial performance in 2019 enabled us to keep the promise made to shareholders and pay a dividend in the range pledged during the IPO. Underpinned by a balanced business model, Tallinna Sadam continued to deliver strong financial results and to earn a profit despite the hardships of 2020.

The Port of Tallinn was one of the few ports on the Baltic Sea that was able to increase its cargo throughput in this unprecedented situation. The number of passengers passing through harbours plummeted due to the restrictions but with the support of governments vessel calls largely continued. This, in turn, helped preserve cargo traffic between neighbouring countries and thus maintain the operation of the Estonian economy and much-needed jobs during the crisis. In shipping, passenger flows recovered when the spring lockdown ended and in several summer months a surge in domestic tourism allowed us to set new records in the transport of vehicles. Our icebreaker Botnica broke ice in the Canadian Arctic for the third year in a row.

Besides business goals, we must pay increasing attention to the environment, sustainable development and people in order to ensure our long-term success and continuity. Being a forward-looking company, we updated our strategy, which is now more closely linked to our sustainable development goals, and will continue to develop our performance indicators and sustainable development action plan. The key to future success lies in the attitude and mindset that our daily business decisions and investments should equally support the company's profitability, the surrounding environment and the development of society as a whole.

I thank the dedicated staff of Tallinna Sadam and the company's nearly 16 thousand shareholders. Thanks to you, Tallinna Sadam has been named the company with the best investor relations in the Baltic countries. This is high recognition and an indicator that we continue to be a strong and reliable listed company. I hope that the success story of Tallinna Sadam will encourage other (state-owned) companies to go public, which would increase the interest of both domestic and foreign investors and improve the liquidity of our local stock exchange.

AARE TARK
Chairman of the Supervisory Board of Tallinna Sadam

VIEW VIDEO – SUMMARY OF THE YEAR 2020 BY AARE TARK, CHAIRMAN OF THE SUPERVISORY BOARD

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1.5 Letter from the Chief Executive

The year 2020 was dominated by the outbreak of COVID-19. The global pandemic affected the operations of Tallinna Sadam Group at every level and in every segment. Despite the challenges, we coped quite well — we had the past five years' largest cargo throughput and stable ship calls, carried on with our investment and development projects, and completed several new facilities and solutions.

> Despite the challenges, we coped quite well — we had the past five years' largest cargo throughput and stable ship calls, carried on with our investment and development projects, and completed several new facilities and solutions.

In terms of business lines, the public health crisis hit our passenger business the hardest. Passenger numbers fell sharply and we had to respond to disruptions quickly — ferry timetables changed daily while we had to reinstate border controls, try out thermal imaging cameras, enforce social distancing, disinfect premises, and so on. Although we had no cruise ship calls and the number of international route passengers dropped, there were also some positive developments — there was a record number of ferry trips between Estonia and Finland in the summer and temporary new ferry routes were launched at both Old City Harbour and Paldiski South Harbour. We opened a completely renovated passenger terminal D at Old City Harbour in July and completed a nearby multi-storey car park by the year end. We continued to build a cruise terminal and a footbridge across the canal of the Admiralty Basin and made preparations for the next phase in our real estate development activities.

In the cargo business, we succeeded in achieving the past five years' highest cargo throughput. We renovated a berth for ro-ro ships and opened a new service building for truck drivers at Muuga Harbour. We built new dry bulk cargo facilities in collaboration with customers. Dredging works carried out at Paldiski South Harbour have made us more competitive: we can now offer the handlers of oil products an opportunity to receive larger vessels.

In 2020, TS Laevad, a subsidiary of Tallinna Sadam, took an important step towards a cleaner Väinameri Sea and zero emissions. Since autumn, the Virtsu-Kuivastu route has been served by Estonia's first hybrid ferry Tõll. Passenger and vehicle numbers on domestic ferry routes were less affected by the global crisis. The most difficult period, when the two largest islands and the ferries' passenger lounges were closed and access to the service was restricted, lasted from mid-March to the first days of May. When restrictions were eased, the number of passengers and vehicles began to recover rapidly, occasionally exceeding the 2019 level during the summer months. TS Shipping's icebreaker Botnica provided ice management and escort services to Panamax-type cargo ships in the Canadian Arctic for the third year in a row. We also won a tender for the delivery of icebreaking services in Estonia, ensuring Botnica with work in Estonia's coastal waters for another ten winters.

Certainly, we all became more environmentally aware in 2020. Nature sent us a message that we need to make changes in our behaviour and habits, both as individuals and businesses.
In cooperation with the Estonian Maritime Academy, we mapped the ecological footprint of Tallinna Sadam Group. We have already taken tangible action to reduce greenhouse gas emissions and make the Baltic Sea cleaner. As a port operating in the centre of Tallinn, we have contributed to improving air quality by building onshore power supply systems for ferries and installing automated mooring systems for ships. To ensure the purity of the Baltic Sea, we have built sewage reception facilities and launched various environmental campaigns. Our goal is to achieve climate neutrality by 2050 at the latest.

VALDO KALM
Chairman of the Management Board of Tallinna Sadam

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1.6 Vision, mission, values

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

Tallinna Sadam is a modern gateway to the Baltic Sea. We are a growth-oriented development and service organisation. We create a sustainable environment and development opportunities for our customers and employees by combining services to people and cargo, shipping, and waterfront real estate development into an integrated logistics business. We listen to the communities and protect the environment. We are open, smart and reliable. We represent the image of Estonia and are one of the engines of its economy.

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

We are **open** to new ideas and innovation and find opportunities to implement them. We share information about our intentions and activities both internally and externally.

We make sensible and **smart** decisions and do the right things at the right time and in the right way. We seek, seize and offer resourceful and forward-looking solutions to improve the company's competitiveness.

We are **reliable**. We keep our promises and deliver quality. We are professional, competent and influential experts in our area and treat ourselves as well as others with respect and consideration.

1.7 Strategy 2021–2025

Tallinna Sadam's strategy is focused on implementing the vision of the company – to become the most innovative port on the Baltic Sea, meeting owners' expectations and the dividend promise, promoting a strong business culture and ensuring sustainable development.

Business strategy

By the year 2025, Tallinna Sadam will have moderate **growth opportunities** in all its business lines: cargo, passengers, real estate, and shipping. In the next five years, we will continue to increase the **competitiveness of cargo corridors** passing through Estonia together with other members of the logistics chain. We see opportunities in the growth of the liquefied gas market as well as north-south cargo flows, among other things through the opening of new ro-ro and container cargo routes. The replacement of fossil fuels with renewable and biofuels and alternative energy sources also presents new opportunities. Additionally, we intend to make wider use of the areas of the **industrial parks** located at Muuga Harbour and Paldiski South Harbour.

In the passenger business, which has been hit the hardest by the COVID-19 crisis, we will focus on restoring traffic volumes on regular routes and the services provided to cruise ships. Investments in the area will be aimed at improving passenger service infrastructure and providing environmentally friendly solutions for ships, buildings and passengers. We will also continue to create an attractive urban space by executing the development plan of Old City Harbour, that is, **Masterplan 2030**.

In shipping, the main focus in 2021–2025 will be on the electrification of the fleet, the launch of a new and more environmentally friendly ferry on the routes between the mainland and the two largest islands, and the finding year-round work for the icebreaker Botnica.

Development opportunities

PASSENGERS

- Restoring passenger traffic volumes on the Helsinki, Stockholm and St. Petersburg routes
- Restoring the numbers of cruise ship calls and cruise passengers
- Implementing a new concept of travel security
- Providing automated mooring systems for ships

CARGO

- Increasing market share in Estonia
- Seizing opportunities to increase north-south cargo flows (incl. Rail Baltica)
- Continuing the development of ro-ro/con-ro routes at Muuga Harbour and Paldiski South Harbour
- Creating a harbour for wind farm construction and maintenance
- Harnessing the opportunities arising from nearshoring

SHIPPING

- Bringing additional ferries on the routes between Estonia's mainland and two largest islands
- Increasing operational efficiency
- Electrification of ships
- Growth in demand for icebreaking and ice management services in international projects
- Providing services to Estonian wind farms (Botnica)

REAL ESTATE

- Executing Masterplan 2030+ created for the development of Old City Harbour
- Developing industrial parks and providing added value
- Renting out surplus resources and vacant premises

Sustainable development

Tallinna Sadam consistently strives to reduce the adverse environmental impacts of its business and development activities. **Environmental priorities** and the pursuit of climate neutrality by 2050 are keys to ensuring the company's sustainable development. We recognise that the Baltic Sea has one of the most vulnerable marine ecosystems in the world and that clean air is an important indicator of the quality of life as well as a critical factor in ensuring our ability to continue business and development activities in the vicinity of residential areas. Our goals also include supporting growth in the circular economy and improving energy efficiency, while using natural resources efficiently and promoting more sustainable consumption.

In addition to environmental priorities, we monitor the achievement of goals set in our **economic and social focus areas**. Being a forward-looking company, we use modern science-based digital solutions to increase our competitiveness. In selecting partners, we evaluate their approach to sustainability. We ensure the company's profitability and stable shareholder returns by complying with the dividend policy and applying modern management principles consistent with the company's core values.

As Estonia's largest gateway to the sea, we are responsible for Estonia's image as a maritime nation. Therefore, our priority is to create high-quality public space for both people visiting the country and living in the city. It is equally important to contribute to regional development by providing essential high-quality ferry service to the residents and visitors of Estonia's largest islands. Health, safety and security remain among our top priorities.

We implement the strategy by setting annual goals and adopting related action plans, and involving all our employees in their achievement. The key to Tallinna Sadam's future success lies in the attitude and mindset that our daily business decisions and investments should equally support the company's profitability, the surrounding environment and the development of society as a whole. Through its activities, Tallinna Sadam contributes to the achievement of Estonia's climate neutrality goal as well as the implementation of the European Green Deal and the UN sustainable development goals.

In 2020, our sustainable development working group continued to interpret the sustainable development goals and priorities and to plan activities for achieving those goals in collaboration with our in-house experts and members of the management board. As a result, at the year end the supervisory board approved the Group's updated strategy, which is driven by the principles of sustainable development, and the activities listed in the sustainable development action plan for 2021 were incorporated into the goals set in the framework of the performance management programme.

We developed the metrics and action plan for monitoring progress towards goals set in cooperation with Tallinn University of Technology and assessed our environmental impacts, mapped our ecological footprint and developed measures to reduce greenhouse gas emissions in collaboration with the Estonian Maritime Academy. In addition to adopting the Group-wide concept of sustainable development, our subsidiary TS Laevad has developed its own sustainable development programme, which is linked to the Group's goals.

ECONOMIC IMPACT

- Innovation
- Development based on R&D
- Sustainable business development and choice of partners
- Employer attractiveness

SOCIAL IMPACT

- High quality public space and regional development
- Health, safety, security
- Raising awareness on CSR and sustainability

ENVIRONMENTAL IMPACT

- Energy efficiency, sustainable consumption
- Clean Baltic Sea, increasing circular economy
- Clean air

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1.8 Tallinna Sadam's stakeholder groups

EMPLOYEES

- Current and future employees of Tallinna Sadam group
- Labour unions

CLIENTS & PARTNERS

- Operators (cargo terminals and passenger ships)
- Agents, lease holders
- Passengers (international and local)
- Charterers of icebreaker
- Suppliers, financiers
- Parties in logistics chain
- Surveillance and other institutions

SOCIETY & COMMUNITY

- Local municipalities
- Local communities
- Cooperation organizations and networks
- Education and science institutions
- Publicity and media

INVESTORS

- Estonian State
- International institutional investors
- EST investment and pension funds
- Retail investors
- Potential investors

2 Service Responsibility

2.1 Safety and security

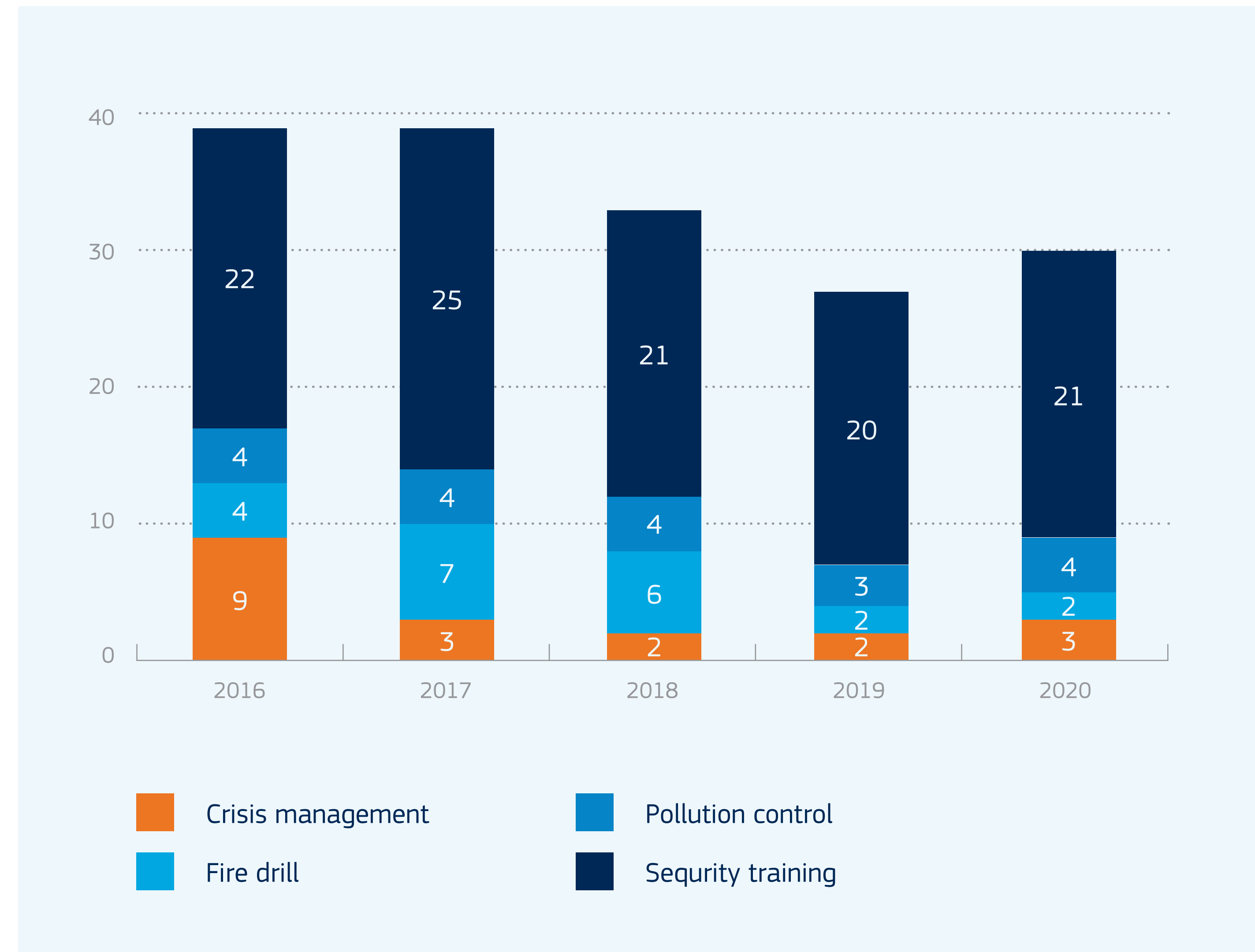
We invest daily in ensuring and promoting safety and security in all our business lines. Our main challenge is to make sure that all employees, passengers, cargo and companies are safe and secure. We do it by implementing innovative security systems.

Due to COVID-19, since early 2020 our main focus has been on preventing the spread of the virus in our harbours and the port community. We have participated in various working groups set up to develop virus containment measures to ensure optimal application of restrictions which take into account the nature of harbour operations and maritime transport. Also, we have been working closely with the Police and Border Guard Board and Health Board to make sure that our harbours comply with pandemic-related requirements (including the arrangement of health checks and tests) as well as across borders with other harbours to harmonize security measures and ensure smooth and swift exchange of information.

The harbours of Tallinna Sadam have implemented a **safety and security assurance system** to meet the requirements of the Estonian Ports Act in areas such as marine traffic safety, security, environmental protection, and safe cargo handling. We assess potential safety risks regularly and update our safety measures when necessary. General safety requirements are set out in the Port Rules. Our structural units' roles in preventing and responding to dangerous situations at the harbours of Tallinna Sadam are described in the procedure for preventing and resolving dangerous situations and each harbour has developed and implemented a plan for responding to safety incidents. To cope with dangerous situations, we carry out **regular drills and exercises** and work with supervision authorities, local communities and all operators, including handlers of hazardous substances operating on the premises of our harbours.

All detected incidents are recorded and continuous monitoring provides important input to the planning of additional safety measures.

Trainings



To ensure fire safety, our harbours are supplied with basic fire extinguishing equipment (dry powder, gas and water extinguishers, hose systems, fire blankets, etc.), automatic alarm systems (fire alarm, sprinkler, gas extinguishing, water curtain and alarm transmission systems) and external fire extinguishing water systems (fire hydrants, sea water extraction places). We conduct regular fire drills and checks of firefighting equipment, systems and installations in cooperation with the Rescue Board.

The Rescue Board's Muuga unit, which is based at Muuga Harbour, ensures swift response to possible rescue incidents. To increase rescuers' capabilities, we have acquired the following equipment for responding to possible incidents at Muuga Harbour: foam extinguishers and hose systems that can supply water from sources up to 3 km away and a HydroSub sea water pump with a capacity of 11,000 litres per minute. Also, there is a slip for launching watercraft in the eastern part of Muuga Harbour, which enables rescue units to respond quickly to incidents at sea.

The purpose of implementing security requirements at harbours is to assure the safety and security of ships, passengers, cargo and harbour employees and to prevent wrongdoing. All harbours in the composition of the Port of Tallinn apply the heightened ISPS[5] security code. Old City Harbour has been designated as a facility essential for national security and, accordingly, is subject to additional security measures.

All harbours in the composition of Tallinna Sadam have a security plan, which is based on a risk analysis carried out by the Transport Administration[6] and the Estonian Internal Security Service. 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 reviewed by the Transport Administration, which carries out relevant audits on an annual basis. Access to all harbours is restricted: entry is granted on the basis of permits. All harbours have manned guarding and consistently upgraded modern technical surveillance systems, which support security assurance.

Thanks to extensive preventive work, Tallinna Sadam has had only a few serious incidents in the past decade. There have been no safety incidents resulting in a large number of fatalities or injuries.

TS Shipping has implemented a safety and quality management system for its icebreaker Botnica, which integrates the requirements of the main international maritime conventions (SOLAS, MARPOL, STCW, etc.) and ISO standards (9001:2015, 14001:2015, 45001:2018). International offshore industry guidelines and best practices are also followed. TS Shipping is a member of the International Marine Contractors Association (IMCA) and complies with the Association's guidelines, recommendations and practices. Nearly twenty different safety and security drills and exercises are conducted on board the icebreaker in conformity with international conventions and the recommendations and practices of the offshore industry every year. In addition, joint emergency response drills to practice cooperation between the crew and the onshore team are held twice a year. The ship's main engines and other mechanisms and systems have been supplied with remote surveillance equipment. Besides improving safety, it allows using the vessel's engines and systems more efficiently and reducing its costs and emissions. Smooth operation of the vessel's propeller systems and their controls is also ensured with a remote management solution.

TS Laevad applies the safety and security requirements of the ISPS Code. Fire safety is ensured by conducting weekly rescue and firefighting drills on board the vessels as required by SOLAS. As a rule, various on-board and onshore emergency response drills are conducted in partnership with the Police and Border Guard Board, the Estonian Internal Security Service and the Rescue Board but in 2020 no joint exercises were organised due to pandemic related restrictions. In preventing the pollution of marine environment and managing waste, TS Laevad observes the requirements of MARPOL. All vessels of TS Laevad have implemented a comprehensive safety management system and the Transport Administration conducts separate audits of all vessels and the office on an annual basis.

[5] *International Code for the Security of Ships and Port Facilities.*

[6] *The Transport Administration was established on 1 January 2021 by merging the then Civil Aviation, Road and Maritime Administrations (and is their legal successor).*

2.2 Quality management and risks

The Group's parent, AS Tallinna Sadam, has been applying an integrated management system, which complies with the requirements of international quality and environmental management standards ISO 9001 and ISO 14001, since 2003 already. Conformity with international standards proves that the management system of AS Tallinna Sadam ensures the satisfaction of customers and other stakeholder groups, efficiency of work flows, and effective control of risks and environmental aspects. In March 2020, we successfully passed a recertification audit carried out by the certification agency Bureau Veritas Eesti OÜ, which confirmed our compliance with the requirements of ISO 9001:2015 and ISO 14001:2015. The next recertification audit will be carried out in March 2021. The main quality and environmental management system development goals included performing customer satisfaction, corporate reputation and employee engagement surveys and analysing the results. We also continued with several digitalisation projects, which are aimed at digitalising human resource management activities, implementing digital asset and incident management solutions and paperless teamwork tools.

TS Shipping has been applying an integrated management system, which complies with the requirements of quality management standard ISO 9001:2015, environmental management standard ISO 14001:2015 and occupational health and safety management standard OHSAS 18001 since 2017. In May 2020, the certification agency Bureau Veritas Eesti OÜ conducted a recertification audit of the integrated management system in accordance with quality management standard ISO 9001:2015, environmental management standard ISO 14001:2015 and occupational health and safety standard ISO 45001: 2018. TS Shipping achieved its key targets for 2020: a ship availability indicator of at least 90% and a customer satisfaction index of at least 80%.

The risks which influence the activities of Tallinna Sadam are reviewed in accordance with the Group's risk management framework. The risks affecting the operations of Tallinna Sadam have been classified into three main categories: risks resulting from the external environment (external risks), risks associated with specific business lines and operational risks. Each risk has been assigned a level of severity (low, moderate, high, extreme) and mitigation measures that depend on the nature of the risk. The Group's financial risks are managed separately and a comprehensive overview of their hedging and mitigation principles and means is provided in note 4 to the financial statements.

External risks which affect the Group's operations the most include long-term impacts of the COVID-19 pandemic on passenger and cargo flows, stricter environmental requirements resulting from climate change and possible unfavourable changes in national tax policy (including alcohol excise duties). Other significant risks include the business risks of the Group's major customers and prospective customers' unwillingness to invest due to the instability of the global economy. In the passenger business, significant risks in the long-term perspective include the construction of a competing passenger harbour and possible incidents with passengers on harbour premises. The cargo business is exposed to the continuation and expansion of the EU and US economic sanctions against Russia, increasing competition (including domestic competition) between the Baltic Sea ports, and Russia's ongoing restriction of rail transport volumes. In the real estate business, significant risks are related to possible delays in local governments' planning processes and possible legal disputes. In shipping, ferry operations may be affected in the long-term perspective by the possible construction of the Saaremaa bridge and the operations of the icebreaker Botnica may be affected by our inability to secure regular summer work for the vessel. High operational risks include the risks related to occupational health and safety, the planning and execution of business projects and a possible decrease in the market value of significant assets. According to the risk assessment, other risks, including environmental risks (such as the risk of pollution of the port basin and harbour premises, noise and odour nuisances), safety and security risks, personnel risks, etc., are not as high (taking into account the risk mitigation measures) and, depending on the specific risk, fall into the low or moderate category.

In keeping with our values and ethics and to prevent corruption, we have put in place a Group-wide procedure for avoiding conflicts of interest. The procedure requires, among other things, members of Group companies' management and supervisory boards (16 persons in total) and employees who can influence transactions (13% of the Group's employees) to declare their business interests. We also observe the requirements of the General Data Protection Regulation (GDPR) and pay increasing attention to ensuring cyber security. We address the topics at regularly organised training events and share relevant information (e.g. on our intranet) with employees and members of the governing bodies. Additionally, we regularly test our information systems with the assistance of external experts to improve our cyber security and mitigate related risks.

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2.3 Customers and suppliers

We have a broad customer base, which largely consists of stable big Estonian and international companies, many of which are listed on different stock exchanges. Our largest customers are ferry operators, cargo terminal operators, and the state (Republic of Estonia) through contracts for the provision of public ferry service and icebreaking service delivered by Botnica. Our customers also include the end consumers of our services: passengers travelling on our ferries to the islands of Saaremaa and Hiiumaa, passengers travelling on international routes, and cargo carriers and owners.

We wish to offer the highest possible service quality. To achieve this, we monitor customer satisfaction for six major customer groups: cargo terminal operators, ferry operators, shipping agents, tenants, passengers, and customers of the marina. In 2020, the **customer satisfaction index** was 5.13 on a 6-point scale (2019: 4.87). TS Laevad, which provides ferry service, measures its customers' satisfaction with services provided using the **net promoter score** (NPS) methodology. In 2020, the NPS was +73 on the scale of –100 to +100 (2019: +65).

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In customer relations, we observe the principles of openness and engagement. Our management and heads of business lines regularly meet our key customers. At least once a year, we organise a Customer Information Day to inform the general public about the company's significant plans, projects and investments.

In 2020, there were several events and conferences that **brought together customers and other stakeholders** in the Group's business lines: WDBE online seminar: *Data flow in the construction lifecycle*, Transestonia 2020, The Baltic Sea Day public discussion: *Towards a cleaner Baltic Sea – looking for solutions together*, BPO webinar: *The new reality of the ports sector*, Paldiski Association of Entrepreneurs' Investment Conference: *A different Paldiski*, XVI International Maritime Conference, etc. Although we could host fewer business delegations because of the pandemic, a number of public events were held to promote the cargo handling, passenger service and environmental protection capabilities of Estonian logistics companies and harbours. For example: a press conference on the 2019 results of the Estonian tourism sector at passenger terminal D, a press conference on the design of the Rail Baltica freight station at Muuga Harbour, a presentation of the Seabin floating trash collector and a presentation showcasing the harbour development ideas of the students of the Estonian Academy of Arts.

To harmonise service quality across passenger terminals, in 2019 we joined forces with ferry operators and developed the Old City Harbour Community Service Compass, which is a set of common principles and agreements on providing services to visitors of the harbour. In 2020, an Old City Harbour Community Day was held and we published the Service Compass on our website. TS Laevad wishes to offer its passengers the best travel experience in Estonia. To that end, we continued to renovate the shops and restaurants on board our ferries in 2020. Together with our partners, we make every effort to make visitors and passengers feel welcome and to develop an open and hospitable culture and vibe in our harbours and on board our ferries.

In ordering products and services, we prefer, where possible, sustainable solutions, which are aligned with the values of Tallinna Sadam. We observe the sustainability criteria already in preparing the procurement requirements and exclude bids which offer solutions that burden the environment.

In 2020, we adopted the **Port Community Internal Regulations**, which set out our expectations to partner organisations that provide services on harbour premises. The regulations include expectations regarding sustainability, safety and hospitality. Our partners have been informed about the Port Community Internal Regulations and the obligation to observe the regulations has been included in all partnership agreements signed since the end of 2020.

We wish that all our partners would share our values and would contribute to the wellbeing of society and the sustainability of the environment. This means that in selecting our partners we assess whether they observe sustainability and corporate social responsibility principles.

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3 Environment

Tallinna Sadam's environmental strategic priorities for sustainable development are:

- Energy efficiency and sustainable consumption
- A clean Baltic Sea and increasing our contribution to the circular economy
- Clean air.

Tallinna Sadam consistently strives to reduce the adverse environmental impacts of its business and development activities. We recognise that the Baltic Sea has one of the most vulnerable marine ecosystems in the world and that clean air is an important indicator of the quality of life as well as a critical factor in ensuring our ability to continue business and development activities in the vicinity of residential areas. Our goals also include increasing our contribution to the circular economy and improving energy efficiency, while using natural resources efficiently and promoting more sustainable consumption. We take responsibility for the natural and marine environment, listen to local communities and work with local authorities and research organisations as well as other major ports on the Baltic Sea to ensure the company's sustainable development and operation. We have an environmental management system by which we identify significant environmental aspects and their impacts, and determine our environmental goals and tasks to improve the effectiveness of our activities.

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3.1 Energy efficiency and sustainable consumption

We have set ourselves the goals of **improving energy efficiency, increasing the use of renewable energy to 90%** and consuming natural resources sustainably. Our long-term goals in this priority area are to **reach climate neutrality by 2050 and to maximise the use of renewable energy**. We measure our progress towards these goals using the following energy efficiency and sustainable consumption indicators.

In planning buildings and infrastructure, we use digital building information modelling (BIM), which enables us to improve the functionality of the building or infrastructure asset and to implement sustainable solutions already in the design phase. The construction of passenger terminal D was the first project where we required the use of BIM technology. The information obtained was used to ensure the quality of the design and construction work, and to reduce subsequent building management costs. It was a project in which we worked closely with the contractor and developed our own BIM requirements. Various digital solutions were used, and the requirements developed changed work processes and improved communication between the designers, the builders and the customer. Implications for the sector have been significant and broad-based: BIM has influenced the practices of numerous companies, from Tallinna Sadam to site contractors.

Our BIM requirements have triggered widespread interest in the use of BIM, particularly in the building management phase. **The building of terminal D**, completed in 2020, is equipped with **rooftop solar panels**, which allow its energy needs to be partly covered with renewable energy, and a double-skin façade, which reduces the need for cooling. In interior design, we have used real wood and wildlife: a multitude of plants and decorative trees. In 2020, we **continued to build the cruise terminal**, which is scheduled to be completed in 2021. It will be **heated and cooled by a sea water system** and additionally powered by **solar panels**.

In 2020, we continued to implement innovative solutions initiated in earlier years and to use energy generated from renewable sources. Our main and largest office and service buildings are equipped with building automation systems which allow us to monitor their performance in real time. A major step in the renovation of **passenger terminal D** was its **conversion from electric heating to district heating** and automating the control of energy consumption to further improve heating efficiency. During the year, we also invested in increasing the energy efficiency of outdoor lighting in streets and storage areas. **We analysed lighting needs** and timing and **implemented dimming of LED lights**, which has considerably reduced the energy consumption of lighting. A new cargo check-in building was opened at Muuga Harbour to offer better services to shipping companies and truck drivers travelling on the Muuga-Vuosaari route. This is the first energy class A building in the Port of Tallinn. The building has rooftop solar panels and is heated by an air-source heat pump.

Energy efficiency and sustainable consumption indicators

Indicator	Target 2030	2020	2019
MPSV Botnica Energy Efficiency Operational Index (EEOI)[7]	In the range of 0.3–0.4	0.3	0.4
Outdoor lighting upgrade rate	100%	31%	31%
Energy efficiency of buildings (kWh/m² per year)	130	184	197
Share of renewable energy in total energy consumption	Own production 10% Purchases 80%	Own production 0.9% Purchases 0%	Own production 0.4% Purchases 0%

[7] *EEOI = FC * CF / D * m, where FC is fuel consumption in tonnes, CF is the conversion factor for the diesel fuel used, D is the distance travelled in miles, m is the quantity of cargo (m=1).*

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We reduced the energy consumption of outdoor lighting in the port area by 12.5% (526.7 MWh) compared to 2019 by increasing the dimming of LED lights and reviewing where and when lighting is required. The use of heating energy grew in 2020 due to the significant expansion of passenger terminal D at Old City Harbour and the conversion of the terminal from electric heating to district heating. Electricity consumption decreased by 4%, mainly due to a warm winter and energy savings initiatives, such as the outdoor lighting project and the conversion of passenger terminal D to district heating.

TS Shipping implemented a Shipboard Energy Efficiency Management Plan (SEEMP) for its icebreaker Botnica in 2013 already. SEEMP is a part of the integrated management system, which describes procedures and measures for optimising energy consumption. Botnica's navigation management system incorporates a service which allows monitoring the movement of the vessel in real time and programs which allow the onshore staff to analyse the changes in the weather systems and the movement of the vessel and thus to suggest optimum routes and speeds, helping the captains to avoid strong headwinds and rough seas (weather routing). This has created considerable fuel savings and helped ensure safer ocean passage for the icebreaker.

At the end of 2019, TS Laevad equipped the ferry Piret with an innovative Blueflow Energy Management system to monitor its fuel consumption. The system helps to improve the deck officers' navigation methods in real time, to optimise vessel speed based on the navigation area, and to plan the maintenance of the underwater hull, which lowers the vessel's fuel consumption and reduces the negative environmental impacts of marine fuel. As a result, Piret achieved a 9% fuel saving per trip in 2020. The ferries Tõll, Leiger and Tiiu were supplied with the Blueflow Energy Management system in July 2020.

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3.2 A clean Baltic Sea and increasing circular economy

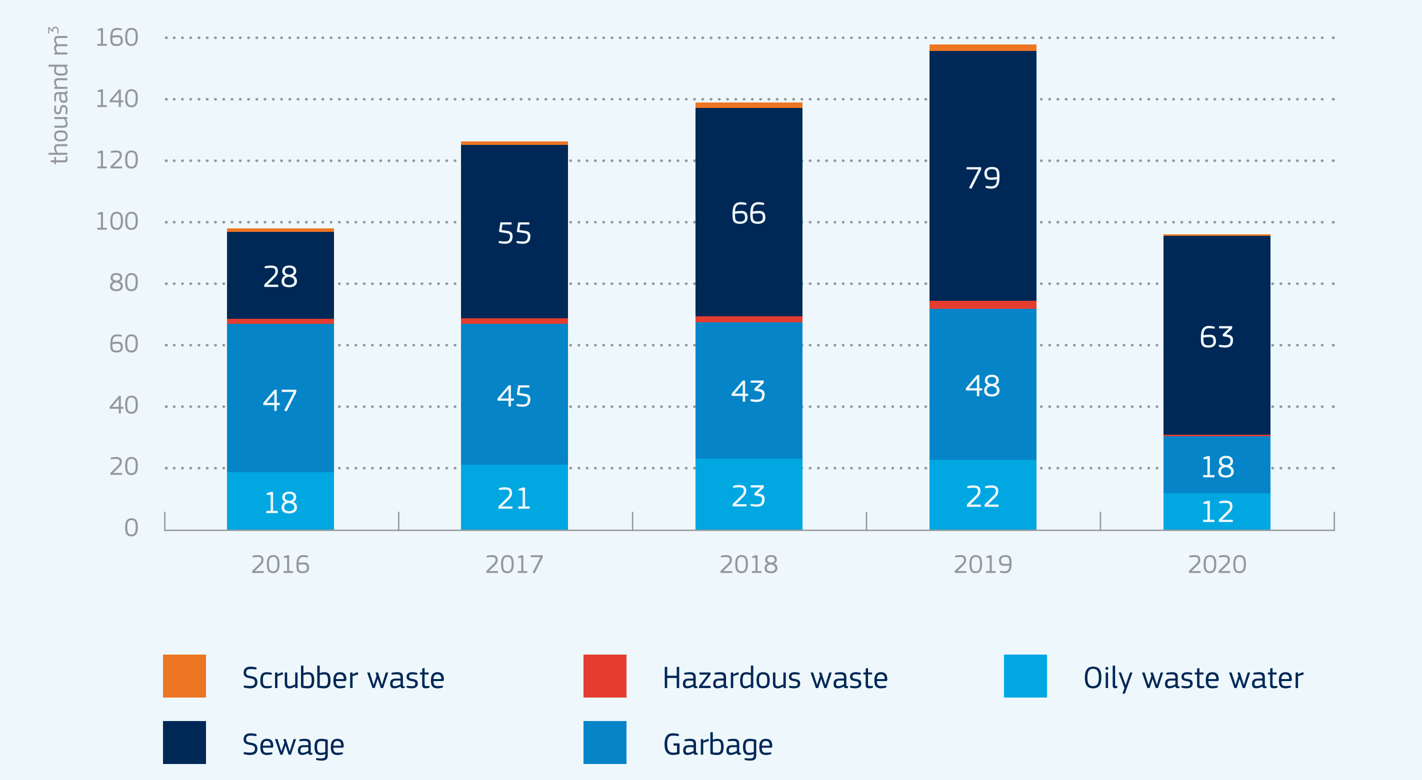
Our long-term goals in this priority area are to recycle or reuse **70% of waste in the circular economy, to minimise the risks and hazards of marine pollution** and to **maintain biodiversity** in coastal areas in the places where the Group operates. We monitor our progress towards these goals using the following indicators.

Tallinna Sadam works hard to ensure that the ecological footprint of its activities is kept to a minimum. We recognise that the marine ecosystem of the Baltic Sea is among the most vulnerable ones in the world. The harbours of Tallinna Sadam have adequate capacities to receive bilge water and oily sludges, sewage, garbage and scrubber waste from all ships calling at them. The volumes of ship-generated waste usually grow year by year but in 2020 the volumes declined, mainly because cruise ship calls were cancelled and the number of passengers travelling on regular routes dropped significantly due to the COVID-19 pandemic.

Unlike many other European ports, we support ships that have invested in scrubber systems in order to reduce sulphur compounds (SO_x) in their emissions and **we accept scrubber waste without extra charges**.

In 2020, 53% of ship-generated waste was recycled or reused in the circular economy[8] (2019: 54%). The waste calculation method changed in 2020: bilge water, oily sludges and other hazardous waste were excluded from the reuse figures to focus on the management of those categories of waste, which have the strongest environmental impact.

Ship-generated waste received



Ecological footprint indicators

Indicator	Target 2030	2020	2019
Share of ship-generated waste recycled or reused in the circular economy	70%	53%	54%
Share of port calls by cruise ships that disposed of sewage at Old City Harbour	100%	83%	81%
Number of pollution incidents in harbour basins	0	18	9
Benthic biodiversity indicator for Muuga Bay (compared with the reference area)	100%	100%	100%
Benthic biodiversity indicator for Tallinn Bay (compared with the reference area)	100%	71%	100%

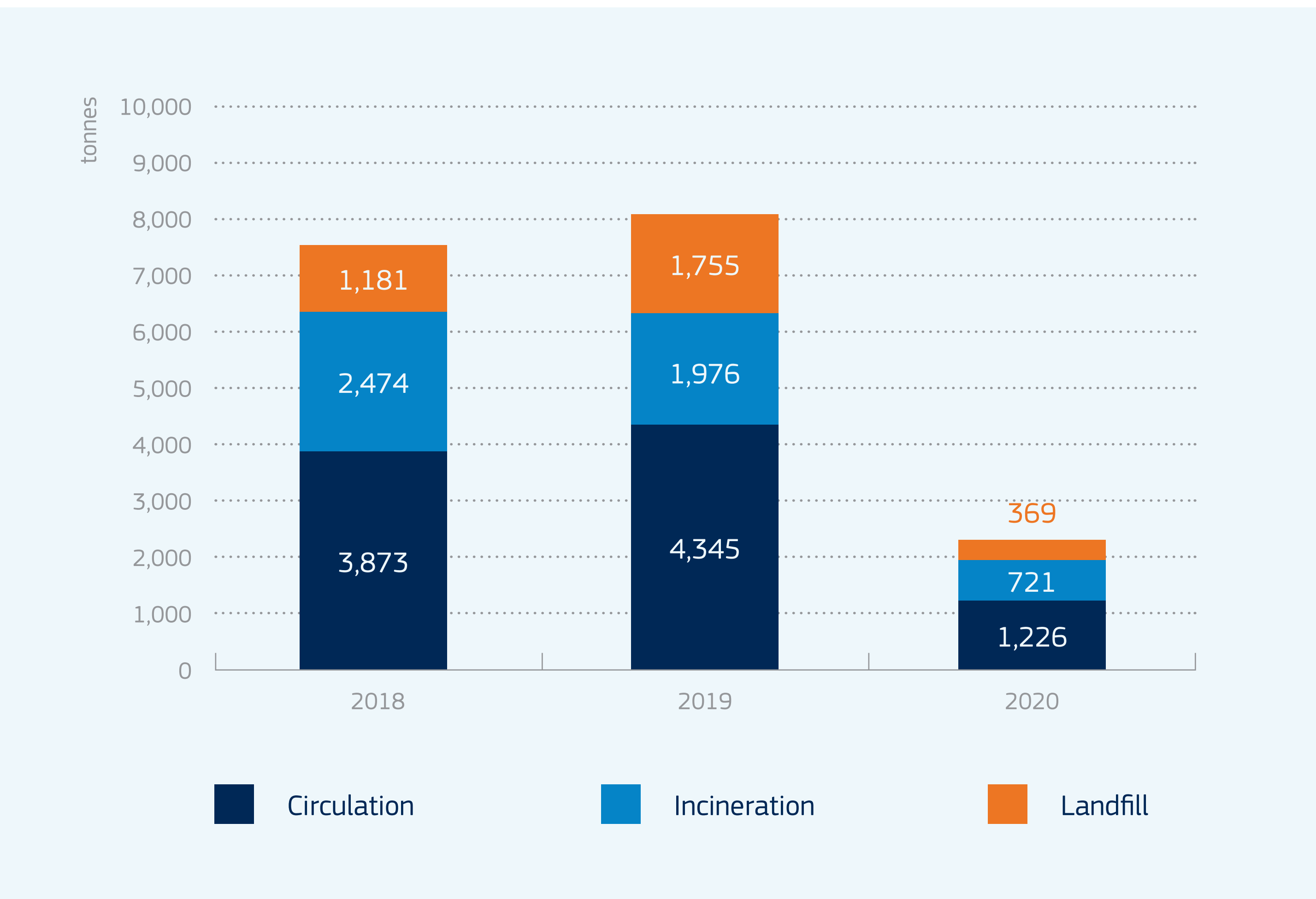
[8] https://www.keskkonnaamet.ee/sites/default/public/taaskasutus.png.

Tallinna Sadam contributes to ensuring the purity of the Baltic Sea by **helping prevent the discharge of ship sewage into the sea**. For this purpose, we have provided Old City Harbour with **a sewage pipeline** for cruise berths and more frequently used ferry quays and a micro-tunnel with a sewage reception capacity of 1,200 m³ per hour. Thanks to the new **onshore sewer system**, cruise ships and ferries calling at Old City Harbour can dispose of unlimited amounts of sewage without any additional charges. To protect the marine environment of the Baltic Sea by enabling ferries to dispose of sewage at port, we decided that from January 2020 we will **receive unlimited quantities of sewage from ferries visiting Old City Harbour** (previously the limit was 7 m³).

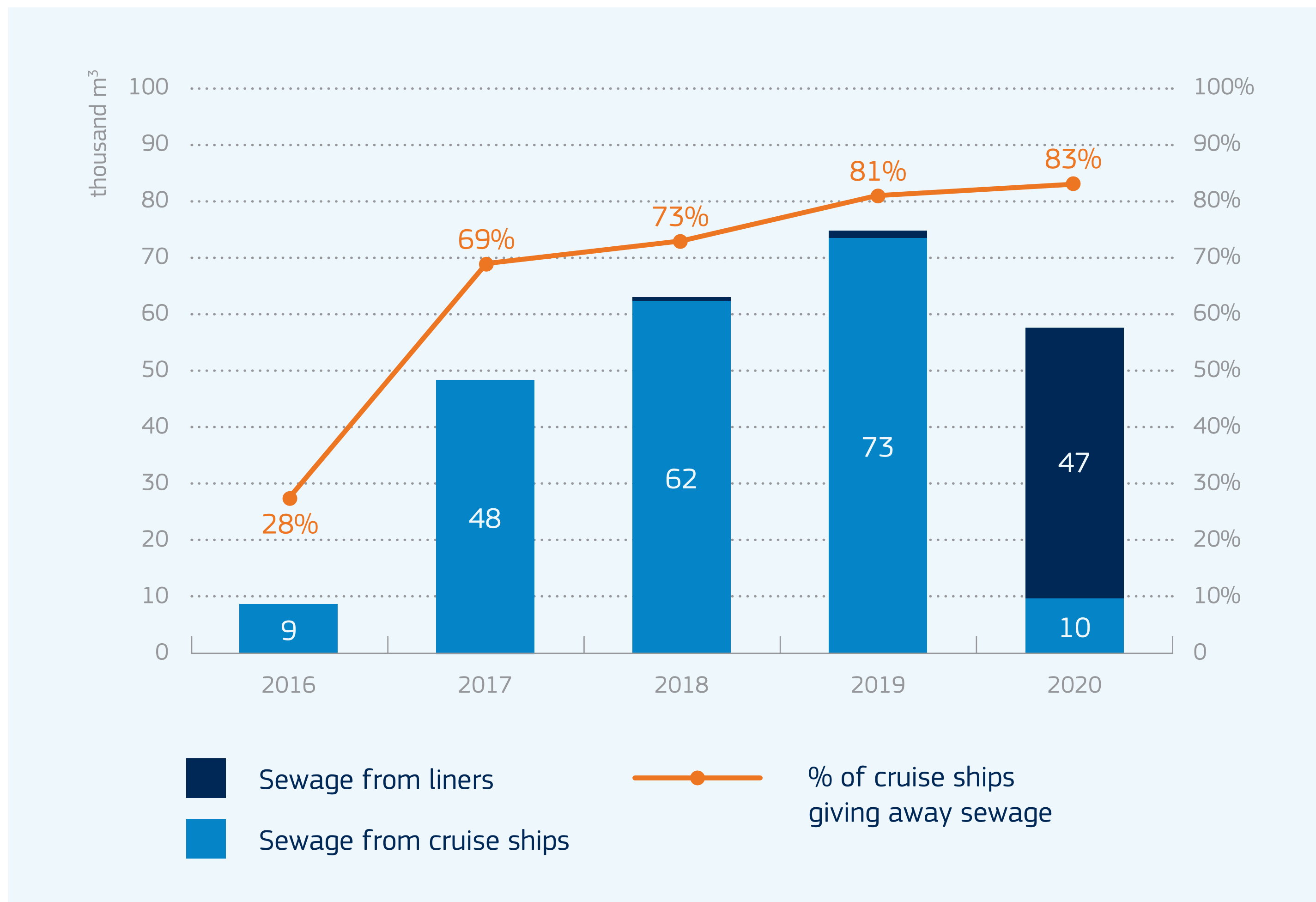
Following the lifting of the limit in 2020, the annual volume of sewage received from ferries at Old City Harbour surged to 47,000 m³ compared with 1,000–2,000 m³ in previous years. The volume for cruise ships comprises only sewage received during technical calls as there were no regular cruise ship calls due to the COVID-19 pandemic. The share of ferries disposing of sewage is not relevant because of their frequent timetables and generally short call times.

In 2020, we continued to contribute to recycling and the circular economy by **collecting waste by type** in our offices and passenger terminals as well as on board the ferries of TS Laevad.

Reuse of ship-generated waste in the circular economy



Volume of sewage received from cruise ships and ferries at Old City Harbour



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The approach canal and waters of Paldiski South Harbour were dredged from 19 December 2019 to 12 March 2020; the total dredged volume was 685 thousand m^3. During dredging, suspended solids, birdlife, benthic fauna and flora, and fish were monitored by researchers from OÜ Maves, the Institute of Marine Systems at TalTech, the Estonian Marine Institute of the University of Tartu, and the Estonian University of Life Sciences. Monitoring did not reveal any significant changes in the status of the environment due to harbour operations.

Because of the potential impacts of harbour operations, we monitor **marine biodiversity**. The long-term goal is that the number benthic community species near Old City Harbour (Tallinn Bay) and Muuga Harbour should not differ from the average values for the reference area (Kakumäe Bay). This is a good indicator of the effect of harbour operations on marine ecosystems because the number of benthic community species directly reflects changes in water transparency, the intensity of eutrophication, the volume of dredging and pollutant load. We use the benthic biodiversity data for Muuga and Tallinn Bays obtained from the national environmental monitoring programme (conducted annually by the Estonian Marine Institute and the Estonian Environment Agency of the Ministry of the Environment). According to the 2020 data, the condition of the sea near Muuga Harbour is the same as at the reference station (indicator 100%). A somewhat worse ecological condition near Old City Harbour (70%) is attributable to highly unusual environmental conditions during the winter, when a high level of precipitation and a large number of stormy days (the absence of ice cover) caused major changes in sea water transparency and eutrophication.

There were several environmental **events and campaigns focusing on the Baltic Sea** in 2020 – the Baltic Sea Day, floating trash collection with Seabin and a cigarette litter campaign The Sea Starts Here. For further information, see section 5.2. of the report.

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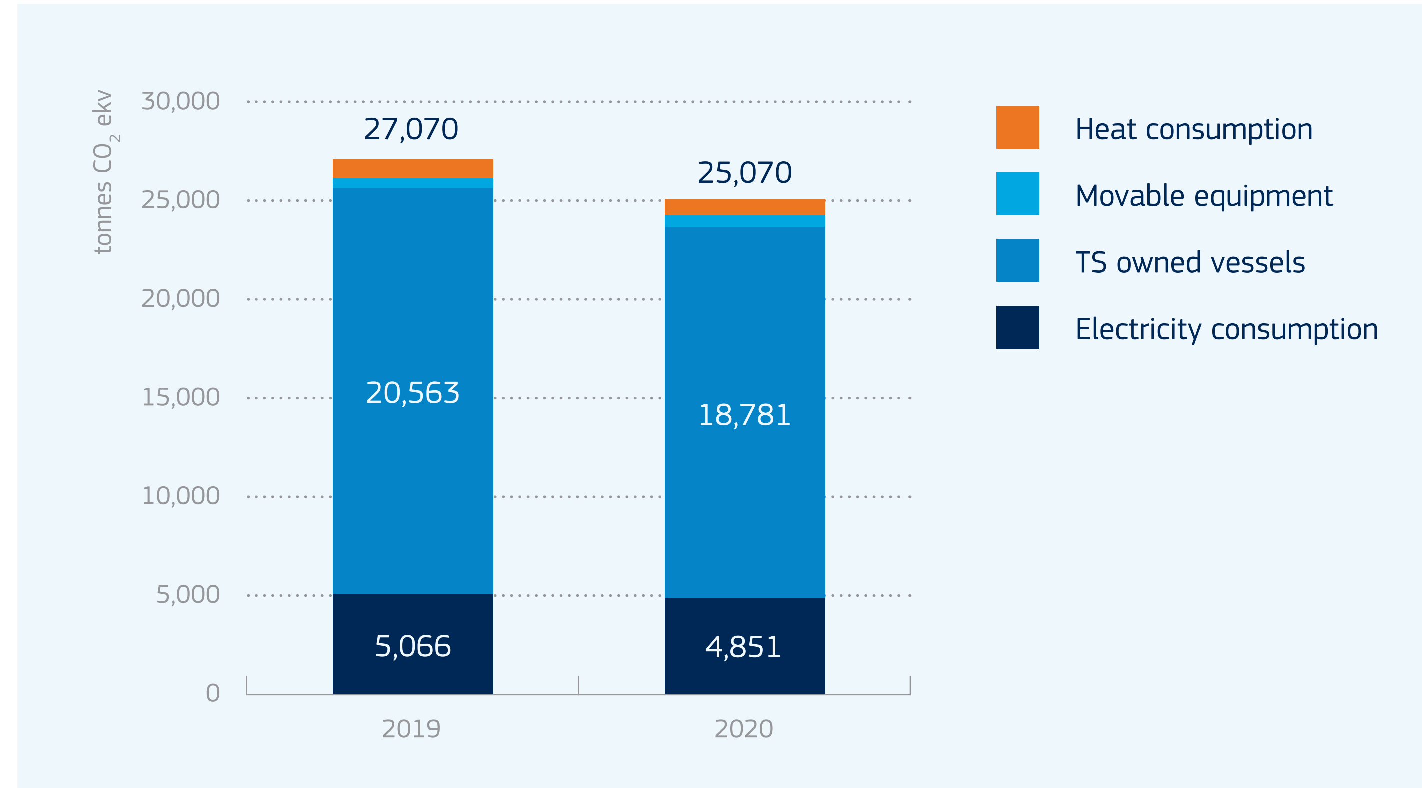
3.3 Clean air

Our long-term goals in this priority area are to achieve **climate neutrality and zero emissions from ships staying in our harbours by 2050**. We monitor our progress towards these goals using the following indicators.

Our goal is to make sure that outdoor air in our locations of operation is clean and of high quality. To achieve this, we employ innovative solutions and work closely with our customers and partners.

In addressing possible air pollution from our operations we focus on several key areas: mapping of GHG emission sources and measuring carbon emissions, odour issues at oil terminals, air pollution from ships and differentiating port dues based on ships' investments in reducing air pollution.

GHG emission of Tallinna Sadam



Air pollution indicators

Indicator	Target 2030	2020	2019
GHG[9] emissions (tonnes of CO_2 equivalent)	2,050=0	25,070	27,069
CO_2 emissions of TS Laevad per trip (%; 2019=100%)	26%	94%	100%
Share of vessel calls with Environmental Ship Index (ESI) discounts	50%	18%	18%
Time during which ferries use onshore power supply as a percentage of total call time at Old City Harbour	60%	0%	0%
Share of cargo harbours' ro-ro units in the total number of ro-ro units	50%	29%	29%

[9] *Greenhouse gases (GHG) - CO_2, N_2O and CH_4 converted into CO_2 equivalent.*

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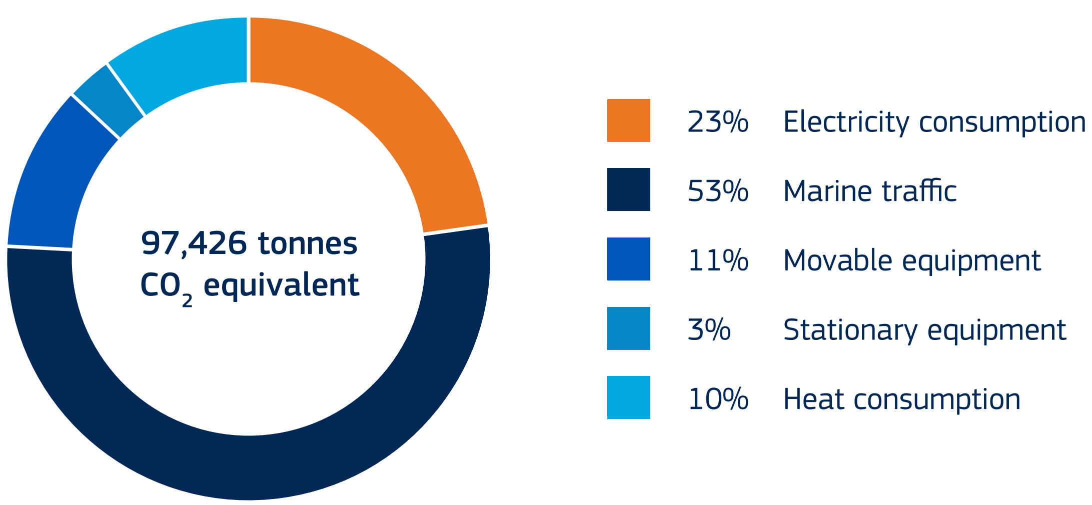
Mapping the GHG emissions of Tallinna Sadam

In 2020, Tallinna Sadam and the Estonian Maritime Academy at Tallinn University of Technology developed a methodology and mapped the **GHG emissions of our harbours and vessels** based on the 2019 data. GHG emissions, which were mapped and calculated, were categorised into three scopes based on the ownership or control of the emission source and the operational boundaries:

- Scope 1 – Direct emissions from sources owned or controlled by Tallinna Sadam (ships, motor vehicles, other equipment and boiler plants owned by Tallinna Sadam).
- Scope 2 – Indirect emissions from energy purchased and used by Tallinna Sadam (electricity and heat purchased for the buildings and infrastructure owned by Tallinna Sadam).
- Scope 3 – All other indirect emissions (from tenants, operators, shops calling at harbours, traffic and ro-ro cargo passing through the harbours, cargo handling equipment, rail traffic).

2019 total GHG emission (incl. operators, tenants, marine traffic)



In addition to measuring the volume of our GHG emissions, **measures with significant effect on reducing the emissions** were worked out. Several of the measures are already in partial use or under development, such as the onshore power supply for ferries at Old City Harbour, use of renewable energy, discounts on port dues for environmentally friendly vessels, implementation of economical hybrid solutions in ferry traffic between the mainland and the largest islands, preparation for transition to complete renewable energy solutions, etc. Activities which have the strongest direct impact on Tallinna Sadam's GHG emissions are power and heat consumption and the choice of fuels and means of transport. Therefore, energy efficiency and a wider use of renewable energy sources are the keys to reducing our GHG emissions.

All direct and indirect GHG emissions from Tallinna Sadam's operations, including emissions from operators, tenants and port calls (scopes 1–3) was 97,426 tonnes of CO_2 equivalent in 2019. Ship traffic, i.e. the **GHG emissions of vessels calling at our harbours**, accounted for over a half of this, followed by electricity consumption of which just a quarter was attributable to Tallinna Sadam itself. The total GHG figure for 2020 (scopes 1–3) will be available in autumn 2021 because the parties included in the calculation need to update large volumes of data.

Tallinna Sadam's own direct and indirect emissions (scopes 1 and 2) **was 25,070 tonnes of CO_2 equivalent** in 2020[10], of which 59% was attributable to ferry traffic between the mainland and the largest islands which is operated by TS Laevad.

In 2020, the Group's CO_2 emissions decreased by around 7% year on year. This was mainly due to an increase in the energy efficiency of the ferries of TS Laevad (reduced fuel consumption), a decrease in the charter days of TS Shipping and a pandemic related decline in the parent's power and heat consumption.

[10] *Emissions from electricity consumption have been calculated based on the specific emission factor for 2018 (National Inventory Report NIR 2020).*

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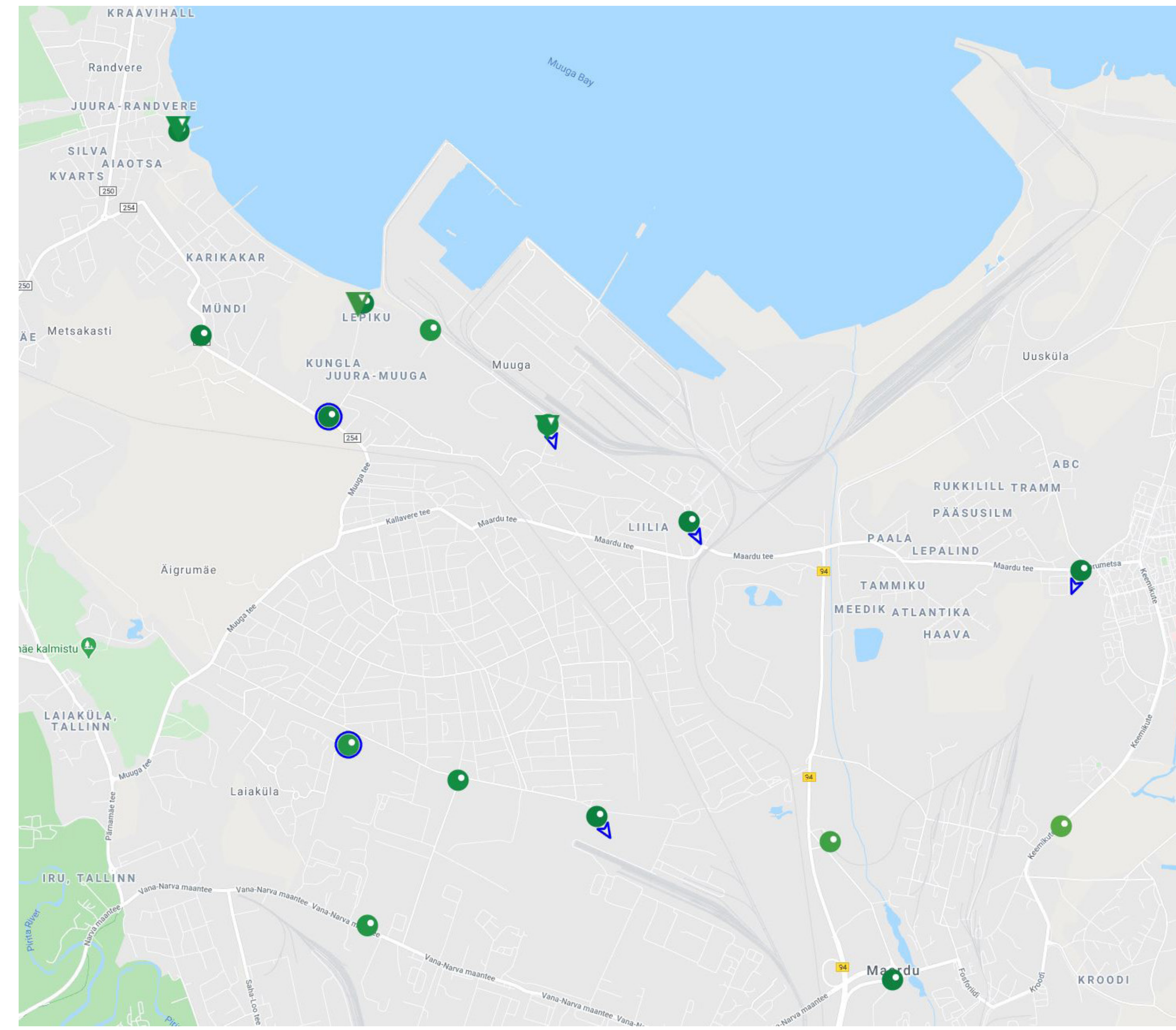
Other solutions to achieve clean air

Smart Port traffic management system (automated vehicle check-in and direction to the waiting area and boarding), which has been implemented at Old City Harbour, simplifies and speeds up the check-in of passengers with vehicles and their movement in the harbour area, which in turn reduces emissions on the harbour premises. In 2020, we made preparations for implementing the system at Muuga Harbour and Paldiski South Harbour, which has been scheduled for 2021.

Taking heavy goods vehicles and cars out of the city centre. Due to restrictions imposed on cruise travel because of the COVID-19 pandemic, the Tallinn-Stockholm route was suspended and cargo traffic between Estonia and Sweden, including heavy goods vehicles and cars, was transferred to the Paldiski-Kapellskär route, which was served by two ro-pax vessels[11] (previously there was one). The Muuga-Vuosaari route continued to be served by two ro-pax vessels, which during the state of emergency in spring 2020 temporarily departed from Old City Harbour. Heavy goods vehicles passing through Paldiski South Harbour and Muuga Harbour accounted for 24% of the total number of the ro-ro units handled by the Port of Tallinn. Taking heavy traffic out of the city centre has reduced the traffic burden and improved air quality in Old City Harbour and the surrounding area. According to estimates, carbon emissions have dropped by around 167 tonnes.

Odour issues caused by the cargo handled by oil terminals are mitigated by three stationary air quality monitoring systems and an electronic nose (e-nose) network installed in the area of Muuga Harbour. The e-nose network is a preventive round-the-clock warning system consisting of 16 odour sensors. In 2020, we adjusted the locations and number of e-noses based on prior years' analyses. The system enables us to promptly identify the location and source of the issue and start resolving it without delay. In 2020, the Environmental Inspectorate received 121 complaints about odour issues (related to oil, gas and chemicals) in the area (2019: 135). In 114 cases, the wind was not blowing from the direction of the harbour or there were no loading works in progress at the time mentioned in the complaint. The figure also includes cases when loading was in progress at the harbour and a brief change in the composition of air was detected by a far-off e-nose but not by those in the immediate vicinity of the harbour. An analysis of complaints and e-nose reports reflects that only 7 of the complaints made in 2020 (2019: 17) are directly attributable to operations at Muuga Harbour because loading was in progress at the time and a change in the composition of air was also flagged by e-noses. This indicates that in addition to Muuga Harbour there are other companies in the area that are responsible for odour issues. Air quality monitoring results by year are available on the website of Tallinna Sadam at www.ts.ee/en/air-monitoring.

A map of e-noses in the area of Muuga Harbour and Maardu



[11] *Ro-pax vessel (roll-on/roll-off passenger vessel) is a ro-ro ship that is permitted to carry more than 12 passengers. The ship may have amenities and services similar to a ferry but its main purpose is to carry wheeled cargo.*

In 2020, we invested in creating an onshore power supply system for line ferries on five quays (3, 5, 7, 12 and 13) of Old City Harbour. The system enables ferries to connect to an onshore electricity network and stop their engines, which reduces ship-generated emissions, particulate matter and noise pollution. The project was funded from TWIN-PORT 3, a project co-financed by the European Union, and the total investment was EUR 3.5 million. The offshore power supply system at Old City Harbour can be used by ferries serving the Tallinn-Helsinki and Tallinn-Stockholm routes. This helps improve air quality and reduce noise and vibration both in the harbour and the city.

A multi-storey car park with one underground and four above ground levels was completed near passenger terminal D at the end of 2020. The car park can accommodate nearly 400 vehicles and will have up to 40 electric vehicle charging points, which is Tallinna Sadam's contribution to supporting carbon-free transport.

In 2020, we started installing automated mooring systems at Old City Harbour to reduce vessels' emissions by shortening their manoeuvring and mooring times. Automated mooring systems will be installed on quays 5, 12 and 13 for ferries serving the Tallinn-Helsinki route. Testing of the systems on quays 5 and 12 was completed by the end of 2020. A total of 18 automated mooring systems will be installed in the framework of the project, which is funded from TWIN-PORT 3, a project co-financed by the European Union. The total cost of the investment exceeds EUR 8 million.

We grant eco-friendly vessels a discount on port dues based on the Environmental Ship Index (ESI).[12] In 2020, we gave an ESI-based discount on 1,309 port calls, i.e. 18% of all port calls, similarly to 2019.

In 2020, Tallinna Sadam's subsidiary TS Laevad took a significant step towards a cleaner sea, discontinuing the use of fossil fuels and reaching zero emissions. Since September 2020, the Virtsu-Kuivastu route has been served by Estonia's first environmentally friendly hybrid ferry Tõll. When it was rebuilt, the vessel was equipped with storage batteries which enable it to partly run on electricity, thereby reducing diesel fuel consumption, noise and air pollution. TS Laevad plans to also implement the hybrid technology on other newer ferries in its fleet. The storage batteries of Tõll allow replacing about a fifth of its diesel fuel consumption with electricity. According to estimates, this should reduce the vessel's carbon emissions by up to 1,600 tonnes per year.

Setting environmental goals and linking them to our sustainable development goals helps us meet both our climate neutrality goal as well as other ambitious long-term environmental targets.

[12] *ESI is based on the emissions of nitrogen compounds (NO_x), sulphur compounds (SO_x), particulate matter (PM) and carbon dioxide. It also takes into account whether the ship is connected to the onshore electricity network and uses electricity while in port.. https://www.environmentalshipindex.org/Public/Home.*

4 Our People

4.1 Employees

Tallinna Sadam employs nearly 500 people. The Group's average number of employees in 2020 was 465 (2019: 492). The dynamics of the number of staff are presented in the graph below.

In recent years, our headcount has mainly been influenced by two factors: more effective work arrangement and the addition of new business lines. We have streamlined harbour administration and implemented digital planning and scheduling tools. As a result, we have been able to optimize the workforce in the harbour business. On the other hand, we have created new business lines. We started providing ferry service between Estonia's mainland and two biggest islands in 2016 and fully filled relevant positions in 2017. The corona crisis of 2020 has also influenced Tallinna Sadam's operations (particularly the passenger business) and it has been necessary to find cost savings in the human resources department.

The company's sustainable development is underpinned by its **diverse and highly competent workforce**.

Number of employees and personnel expenses

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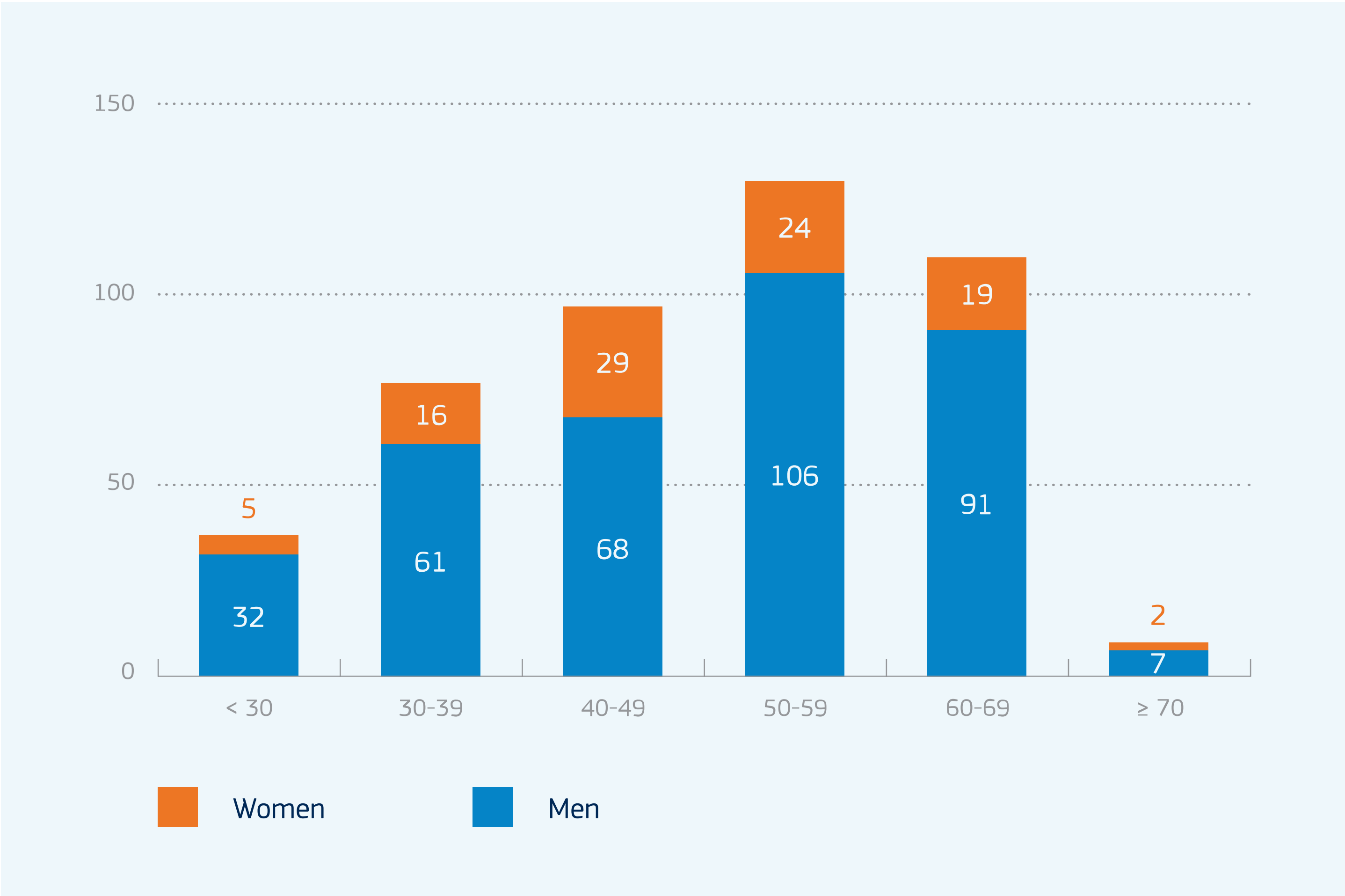
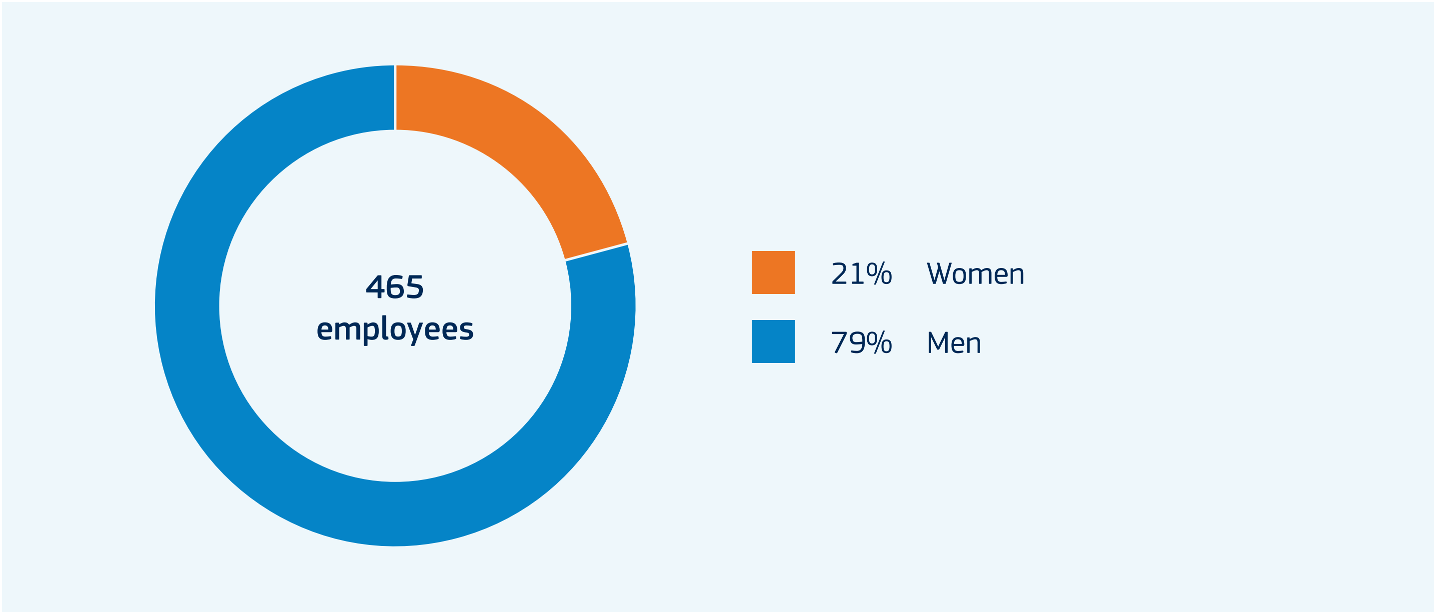
At the end of 2020, **17%** (2019: 11%) of the people working for the Group were **up to 35 years old**. We have set ourselves a long-term sustainable development goal to raise the indicator to 25% by 2030 in order to improve competitiveness and promote innovative thinking. To make sure that the positions of more experienced specialists will be filled by young talent, we signed an **agreement with the Estonian Maritime Academy** in 2019, which will **support our collaboration in the field of internship and research**. In 2020, we offered internships to 15 students from the Estonian Maritime Academy and the Estonian Nautical School. We have begun similar collaboration with the Tallinn Lasnamäe School of Mechanics.

The average length of employee service at Tallinna Sadam is 8.4 years. The figure is the highest for employees involved in the harbour business (nearly 17 years) and the lowest at our more recently established subsidiary TS Laevad (3.1 years). 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 and repairmen. Out of the 14 members of Tallinna Sadam's extended management team and subsidiaries' managers, 5 are women, i.e. **36%** (2019: 36%) **of senior management positions are held by women**. Our goal is to increase the share of women among senior managers to 45% by 2030.

Workforce by age at 31 December 2020



Workforce by gender at 31 December 2020



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4.2 Human resource strategy

The focus areas of our human resource strategy for the coming years are: unity and good cooperation, learning and development, smart work processes and effective work arrangement, and innovation. We maintain and develop the focus areas in our daily work through specific actions and a management culture that is driven by our values. The main performance indicators for the human resource strategy are our people's engagement index and the voluntary employee turnover rate.

We monitor employee engagement with annual **employee engagement surveys**. In 2020, 71% of our people responded to the survey and the engagement index rose to 3.5 points on a 4-point scale (2019: 3.4 points). **The voluntary employee turnover rate for 2020 was 4.9%** (2019: 10.8%) and it decreased at all Group entities.

In 2020, we started recognising our people for their hard work and strong results on a quarterly basis (Stars of the Quarter). Each quarter management recognises one or several employees who have stood out in recent months for working hard, representing our values or showing initiative.

Tallinna Sadam supports the learning and professional development activities of its employees and invests in systematic employee engagement. We introduced a basic computer skills programme in 2020, which was completed by 124 employees. We offer employees whose mother tongue is Russian an opportunity to participate in Estonian language courses for beginners. In addition to developing digital skills, our near-term focus is on improving management quality based on the management principles of Tallinna Sadam. In 2020, we introduced a development programme for our extended management team and in 2021 we will offer it to other managers. We organise a staff day for new employees on a quarterly basis to make sure that new joiners know the company's goals, business lines and management structure. However, due to the COVID-19 pandemic the staff day was held twice in 2020.

Due to the restrictions imposed on classroom training in connection with COVID-19, we implemented our own **e-learning portal**. The purpose is to enable our people to learn and gain new knowledge at a suitable time and location and at their own pace. We add new courses and materials to the portal continuously. We provided employees with an opportunity to improve their remote work skills by means of an Online Meetings course.

We maintain a common information environment by organising **regular staff days**, which in 2020 mostly took place online. At staff days, we provide an overview of the company's performance and important projects and discuss developments in the business environment. As our employees work in different locations (at eight harbours and on six vessels) and at different times, we use different internal communication channels: live broadcasts/recordings of staff days and internal training events, the intranet, the Microsoft Teams application, an internal newsletter (published both on paper and in electronic format) and social networks. In 2020, we supplemented our corporate website with a section about work at Tallinna Sadam, where one can read exciting stories about our colleagues' careers and activities.

To achieve our common goals, we have implemented a **performance management system** to make sure that the company's strategic objectives are communicated to each team and team member. Our goal-setting approach is that expected results should be clearly agreed and measurable. Based on the achievement of agreed goals, employees are eligible to either annually or quarterly provided performance-related bonuses. To improve goal-setting and feedback, we offered managers training in conducting performance review interviews: at the beginning of the year in the classroom and later as a moderated online course. We also implemented StaffLogic in 2020. This is a new user-friendly work time management software, which enables our managers to plan and track their teams' working time more efficiently and effectively.

When recruiting or promoting employees, we take into account their values, experience and competence and avoid discrimination on the basis of gender, age, ethnicity or other factors. In 2020 and previous years, there were no reported incidents of employee discrimination at Tallinna Sadam.

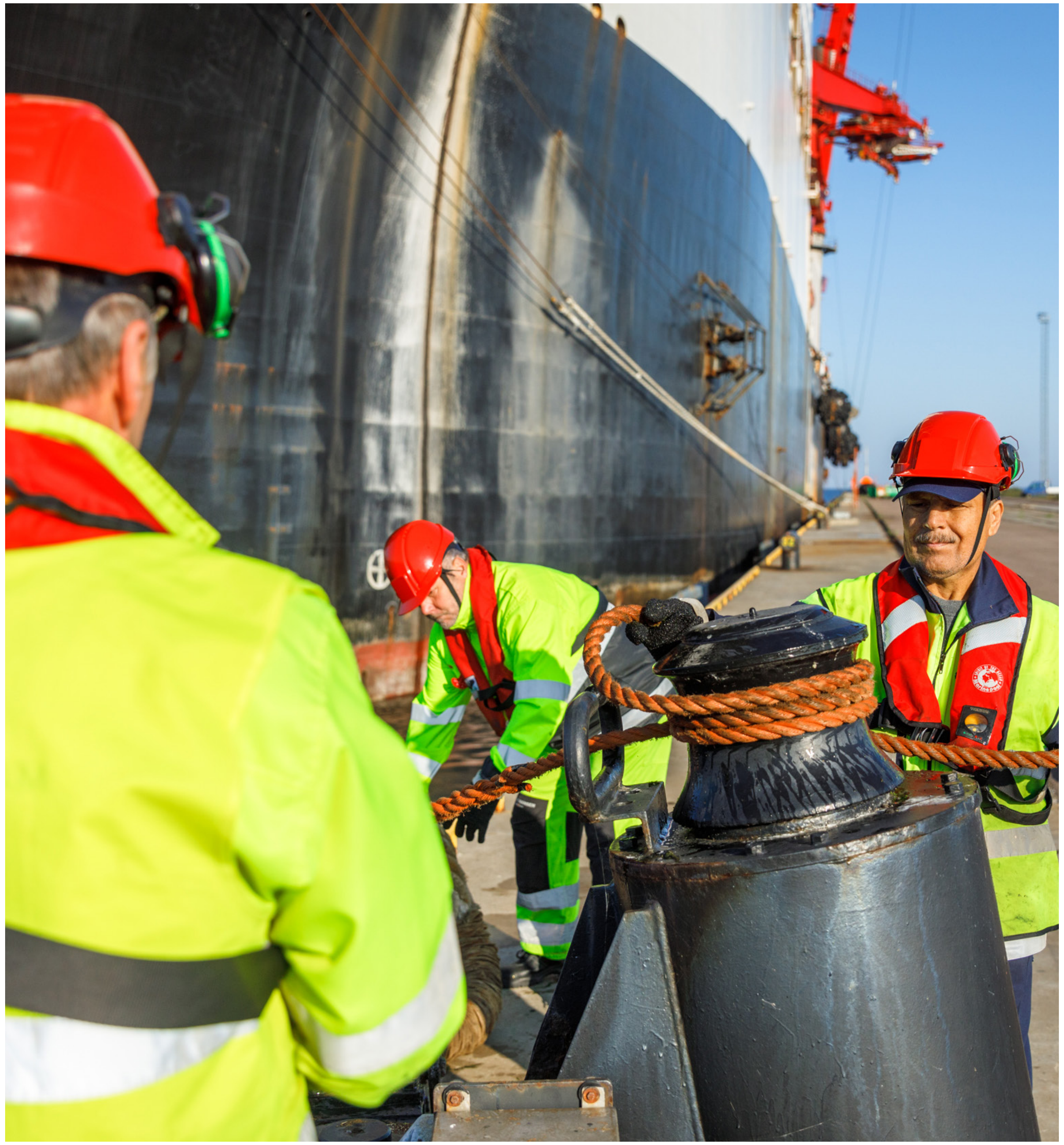
4.3 Occupational health and safety

Tallinna Sadam cares about the health and wellbeing of its people. In connection with the coronavirus pandemic, we decided in 2020 that we are going to provide **compensation for sick leave days from the second day** an employee is sick. In addition, we offer **mental health counselling** by the psychologists of our chosen partner Meeletervis OÜ. To help employees stay healthy, we **cover their sport expenses** within an agreed limit, give them an **extra week off in the winter and support team sports**. To raise awareness of the importance of health, we organise **annual health weeks**, where we invite interesting speakers to talk about health topics and introduce new opportunities for keeping and improving one's health through sports, physical activity, a healthy diet and stress management.

Occupational safety is one of our main priorities. Out of all our employees, 40% are office staff whose work environment risk factors include lack of exercise (forced position) and work with a computer. 60% have high risk jobs because they have to work at night or at height. Risks are also higher for those who work with fire, use dangerous equipment (landing bridges, ramps), or work on ferries or quays, with equipment, or in passenger terminals. We analyse work environment risks and improve our work environment continuously, taking into account employee proposals for improving their working conditions. We send employees to **regular health checks**, make sure that they are aware of work environment risks and protective measures, provide personal protective and special equipment, and promote healthy lifestyles. The most recent serious work accident was in 2017. **In 2018–2020 there were no work-related accidents**.

In 2020, we created an **occupational safety e-learning portal** (based on Microsoft LMS365) for our office staff where they can familiarise themselves with safety instructions, video materials and various guidelines and manuals. The e-course ends with a test to make sure that the employee knows occupational health, fire and occupational safety topics. We are going to include the e-learning environment in our new employee onboarding process to provide introductory training in occupational safety.

In connection with the COVID-19 pandemic, we have updated the company's work environment risk analysis and prepared additional guidelines for remote work and occupational hygiene. Due to the pandemic we have also implemented various practical measures to protect our frontline staff (including in shipping), such as personal protective equipment and distancing in work flows. In addition, we regularly update our internal safety measures and instructions which have been established to prevent the spread of the virus in the work environment and are available to all staff on our intranet.



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5 Giving Back to Society

5.1 Participation in organisations

Tallinna Sadam works with the following organisations:

- AmCham Estonia
- Baltic Ports Organization (BPO)
- British-Estonian Chamber of Commerce
- Cruise Baltic
- Cruise Europe
- Digital Construction Cluster
- EcoPorts (an environmental initiative of the European ports sector)
- Estonian Association for Environmental Management
- Estonian Chamber of Commerce and Industry
- Estonian Employers' Confederation
- Estonian Logistics and Transit Association
- Estonian Power Plants and District Heating Association
- Estonian Ports Association
- Estonian Responsible Business Forum
- Estonian Taxpayers Association
- German-Baltic Chamber of Commerce
- Green Tiger
- PARE
- PIANC
- Rail Baltica
- The European Sea Ports Organisation (ESPO)
- The Institute of Internal Auditors Estonia
- The International Harbour Masters Association
- The Paldiski Association of Entrepreneurs

INVESTMENT CONFERENCE OF THE PALDISKI ASSOCIATION OF ENTREPRENEURS "DIFFERENT PALDISKI 2020"

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5.2 Sustainable development cooperation and volunteer work

In conducting our business activities and making plans for the future, we prioritise awareness of sustainable development principles, sharing our knowledge and insights, and engaging with stakeholders on topics related to the impacts of our operations.

Tallinna Sadam and 23 other companies in which the state is a shareholder **signed an agreement** in 2019 by which they undertook **to uphold the principles of responsible business conduct** and to promote those principles in their business activities and society as a whole by setting a good example. **We enhanced our sustainable development strategy** in 2020 and will continue to develop and implement related performance indicators and an action plan in 2021. Our **cargo harbours' socio-economic impact assessment and the design of our sustainable development action plan** were developed in a master's thesis of a student of Tallinn University of Technology. In partnership with the Maritime Academy, we mapped our ecological footprint and relevant improvement measures and created an application to monitor our progress towards our sustainable development goals.

In 2019, Tallinna Sadam, the Estonian Academy of Arts and the City of Tallinn launched a research project **"Tallinn Old Town: Sustainable Management and Presentation"**[13]. The purpose is to obtain academic input on how to manage and present Tallinn Old Town, which is a UNESCO World Heritage Site, in a dignified and sustainable manner, how to improve tourist logistics between the harbour and the old town, and how to develop new services which would support sustainable development of Tallinna Sadam's passenger business and create opportunities to increase the number of passengers. The project term is 2019–2022 and the support granted by Tallinna Sadam to meet the project's objectives amounts to EUR 231 thousand, including taxes. We have involved experts from Tallinn University of Technology to develop a logistical solution for the **Old Town Circle Bus**.

[13] *I interim report, II interim report.*

Through our cooperation with the Estonian Maritime Academy we contribute to improving the education of seafarers and ensuring the availability of future talent as well as projects addressing vessels' cyber security and digitalisation of the logistics chain. We also work with other research institutions in Estonia and abroad in developing digital solutions and analysing innovative engineering options. We introduce the Port of Tallinn to students and offer internship opportunities, and our people volunteer as lecturers in their areas of expertise.

Twice a year we organise traditional blood donation events in collaboration with the Blood Centre of the North Estonia Medical Centre where our employees and those of our business partners as well as other voluntary blood donors have an opportunity to donate blood. In 2020, a total of 84 people donated blood at the events, including 25 employees of Tallinna Sadam Group.

Tallinna Sadam has joined the charity initiative Let's Donate Time. Our people contribute by doing volunteer work in the field of nature conservation, education and healthcare. Due to COVID-19, major traditional community events were cancelled in 2020 (such as Tallinn Maritime Days and Viimsi Safety Day). Despite that, we engaged with the community and contributed to society in our impact areas.

Kersti Täht, a member of the customer service staff of TS Laevad, was named Tallinna Sadam's Star of the Quarter in recognition of her performance during the emergency situation as well as her volunteer work. As a member of the Defence League, she volunteered on her days off to help the police control access to the islands of Muhu and Saaremaa at Virtsu Harbour.

BLOOD DONATION DAY AT TALLINNA SADAM 2020

KERSTI TÄHT, CUSTOMER SERVICE STAFF OF TS LAEVAD, VOLUNTEERING AT VIRTSU HARBOUR

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A clean Baltic Sea is a sustainable development priority for Tallinna Sadam. During the summer season, the floating trash collector Seabin, set up in the waters of Old City Marina in collaboration with the City of Tallinn and the Finnish Embassy, helped collect municipal waste from the sea. The students of Tallinn University environmental management programme sent the collected data to a global project database created for environmental education purposes. For the purity of the Baltic Sea it is important to tackle cigarette litter pollution because a single cigarette butt can pollute up to 100 litres of water if it ends up in the sea. In the summer of 2020, we carried out a campaign against cigarette litter pollution together with the City of Tallinn, the World Cleanup initiative and shipping companies. As part of the campaign, rainwater hatch covers at Old City Harbour were supplied with the marking The Sea Starts Here and special Ballot Bins for cigarette butts were set up on the premises of our harbours and on board the ferries of TS Laevad. During the World Cleanup Day, our employees voluntarily collected nearly 10,000 cigarette butts from the premises of Old City Harbour and nearby areas which were later used in an art project. In August we celebrated the Baltic Sea Day with the Finnish Institute, the Embassy of Finland, and the City of Tallinn by holding a panel discussion on how to ensure the purity of the Baltic Sea.

Tallinna Sadam contributed to the preparations for the City of Tallinn Green Capital campaign: we helped prepare a presentation of Tallinn's Green Capital activities, which highlighted Tallinna Sadam's efforts in improving air quality (Smart Port, onshore power supply and automated mooring systems for ferries), ensuring the purity of the Baltic Sea (the marine trash collector, sewage reception facilities, anti-cigarette litter campaign) and environmentally friendly urban development activities (the cruise terminal, a walking trail called the Culture Kilometre). We work closely with the City of Tallinn in executing Masterplan 2030, created for developing Old City Harbour into a modern and vibrant city centre with attractive public areas.

Tallinna Sadam is involved in the Green Tiger project where we work with various Estonian companies with a view to increasing the role of the circular economy in waste management and achieving a balanced economic model.

CAMPAIGN AGAINST CIGARETTE BUTT POLLUTION "THE SEA STARTS HERE"

TESTING OF THE FLOATING TRASH COLLECTOR SEABIN AT THE OLD CITY MARINA

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6 Business Review

6.1 Key performance indicators

Figure	Unit	2020	2019	Change	%
Revenue	EUR '000	107,358	130,536	–23,178	–17.8%
Operating profit	EUR '000	35,562	51,679	–16,117	–31.2%
Adjusted EBITDA[14]	EUR '000	58,423	74,292	–15,869	–21.4%
Depreciation, amortisation and impairment	EUR '000	–24,094	–23,037	–1,057	4.6%
Income tax	EUR '000	–4,913	–5,764	851	–14.8%
Profit for the period	EUR '000	28,518	44,404	–15,886	–35.8%
Investment	EUR '000	37,138	29,484	7,654	26.0%
Number of employees (average)		465	492	–27	–5.5%
Cargo volume	t '000	21,327	19,931	1,396	7.0%
Number of passengers	'000	4,333	10,639	–6,306	–59.3%
Number of vessel calls		7,088	7,855	–767	–9.8%
Total assets at period-end	EUR '000	628,093	625,532	2,561	0.4%
Net debt at period-end	EUR '000	184,901	172,663	12,238	7.1%
Equity at period-end	EUR '000	375,432	377,018	–1,586	–0.4%
Number of shares at period-end	'000	263,000	263,000	0	0.0%
Operating profit/revenue		33.1%	39.6%		
Adjusted EBITDA/revenue		54.4%	56.9%		
Profit for the period/revenue		26.6%	34.0%		
EPS: Profit for the period/ weighted average number of shares	EUR	0.11	0.17	–0.06	–35.8%
Equity/ number of shares	EUR	1.43	1.43	–0.0	–0.0%
Profit for the period/ total assets		4.5%	7.1%		
Profit for the period/ equity		7.6%	11.8%		
Share price at period-end		1.80	1.99	–0.19	–9.5%
P/E: Share price/ earnings per share		16.6	11.8	4.8	40.7%

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

6.2 Economic environment

The COVID-19 pandemic, which emerged in China in autumn 2019 and broke out in Europe in early 2020, has disrupted the **global economic environment** in an unprecedented and significant manner, causing the world economy to develop unexpectedly differently from earlier forecasts. Hence, according to current estimates in 2020 the global economy declined by 3.5% instead of growing by 2.9% as was forecast a year ago. Tourism, transport and services have been the hardest-hit sectors. Assessments of the state of the world economy have changed rapidly during the crisis because both the downside factors and their mitigation measures have extensive impacts and it is difficult to estimate their combined effect at a certain point in time. Nevertheless, in the second half of 2020 the world economy performed better than expected. According to current projections, global growth should recover to a vigorous 5.5% in 2021. The forecast is based on the assumptions that the COVID-19 infection rate will decrease and restrictions will be eased in the first quarter already and that large-scale support programmes will continue. However, growth will differ widely from country to country, depending mainly on the success of the vaccination and the implementation of economic support measures for which countries have varying capacities. Green investment support coupled with the taxation of CO_2 emissions is expected to be as an important measure for the recovery of economic growth.[15]

It is generally believed that things turned out better than expected for the **Estonian economy** in 2020, including compared to other European countries. It is estimated that the economy contracted by around 3%, which is less than in most European countries. According to forecasts, in 2021 Estonia's economy will see a turnaround and annual growth in the range of 2–3.5%.

Recovery should begin in the second quarter when restrictions are expected to be eased and vaccination is expected to succeed. Recovery should be supported by consumers' purchase and travel decisions which were postponed during the restrictions and savings growth. Economic growth projections are also supported by good prospects for export of services in the second half of the year because the downturn in our main export markets, Finland and Sweden, has been less steep than expected. Full recovery of the tourism sector, however, is expected to take longer than that of other sectors which were hit the hardest by the COVID-19 crisis. Unemployment is forecast to rise to 10% in the first half of the year and to start falling rapidly thereafter. Consumer prices, which fell by 0.4% in 2020, are not expected to increase significantly in 2021; price increase should remain in the range of 1–2%.[16]

The COVID-19 crisis, which evolved into a pandemic in early 2020, has had a direct impact on the performance of Tallinna Sadam through the **cross-border travel restrictions** imposed by countries. In 2020, the restrictions caused a drastic fall in the number of international route passengers and the cancellation of the entire summer cruise season. The summer charter of the icebreaker Botnica was also shorter than in 2019 because COVID-19 related restrictions disrupted the production operations of the Canadian charterer. Since the slowdown in economic activity had a strong impact on specific sectors only, cargo volumes remained largely stable and the throughput of some cargo, particularly liquid bulk cargo, even grew. As a result, the economic environment of 2020 affected the Group primarily through the decline in international passenger business and related revenue in the Passenger harbours segment. On the other hand, the changes in the economic situation have forced us to streamline the organisation to further increase our efficiency and to reduce or postpone planned costs.

[15] IMF World Economic Outlook Update, January 2021.

[16] According to the media, Statistics Estonia, Swedbank, SEB.

6.3 Impacts of the COVID-19 pandemic

The protective measures imposed by countries due to the COVID-19 pandemic began to affect the Group from the second half of March 2020. As the measures focused on minimizing contact between people and cross-border movement, they had the greatest impact on the tourism sector and passenger traffic, which in turn **mainly affected the performance of the Group's Passenger harbours segment**.

The state of emergency declared in Estonia in March 2020 lasted until 17 May and at the time foreign citizens were banned from entering the country in both Estonia and Finland. **Labour migration between Estonia and Finland** resumed in the middle of May. Estonia opened its border to arrivals from most European countries from 1 June and Finland opened its border to all arrivals from Estonia on 15 June. Due to changing restrictions and quarantine requirements in most European countries, cruise companies cancelled the cruises they had scheduled and there were **no cruise ship calls in 2020**. In connection with a rise in the infection rate in September, Finland re-imposed restrictions on arrivals from Estonia from 28 September. Only people who travel for work, are in transit, or have other compelling reasons can enter Finland without the quarantine requirement. From 15 June 2020, people arriving in Estonia from other countries are subject to a two-week self-isolation requirement, depending on the weekly infection rate per 100,000 inhabitants in the country of departure and the established limit. Cruises between Estonia and Sweden are banned and Sweden has been classified as a high-risk country since spring, which means that all arrivals from Sweden are subject to the two-week self-isolation requirement.

Due to the fall in demand caused by the restrictions, international ferry operators have made a number of adjustments to their timetables and the ferries serving the routes. The **Tallinn-Stockholm and the Tallinn-St Petersburg routes have been closed** since the middle of March while **new temporary routes** have been added, such as Paldiski-Sassnitz (from Estonia to Germany) during the state of emergency in Estonia, Tallinn-Mariehamn from June, and Tallinn-Turku from July, but these have had a smaller effect. At the end of June, a record number of vessels sailed between Estonia and Finland and ferry traffic was busier than ever. However, the total number of passengers was almost half smaller than it was in the same period in 2019 and began to decline again towards the end of the year.

There have been no restrictions on cargo transport between countries and **cargo throughput at the Group's harbours increased** due to growth in the volume of liquid bulk cargo and ro-ro cargo. According to management's assessment, cargo transport may be affected by the general economic crisis, caused by the virus containment measures, in the next quarters, mainly through container and ro-ro cargo, although the impacts feared for the second half of 2020 did not materialise.

Domestic ferry service on routes between mainland Estonia and the islands of Saaremaa and Hiiumaa that are operated by OÜ TS Laevad, a subsidiary of AS Tallinna Sadam, continued through the state of emergency but with reduced timetables. The restrictions on movement between mainland and the two islands were lifted on 8 May and normal passenger traffic has resumed with measures taken to prevent the spread of the virus. During the summer months, the number of vehicles carried even increased year on year. The changes resulting from the **restrictions did not have a significant impact on the Ferry segment** because a major share of ferry service revenue is made up of a fixed fee that does not depend on the number of trips or passengers.

The multifunctional icebreaker **Botnica**, which is operated by OÜ TS Shipping, a subsidiary of AS Tallinna Sadam, has **continued its normal operations** and its revenue (segment Other) has not been significantly affected by the COVID-19 pandemic. The number of charter days decreased by 5% year on year because Botnica's summer charter was shorter than a year earlier due to COVID-19 containment measures, which disrupted the Canadian charterer's production operations.

The Group has taken all the necessary measures and cooperates closely with the authorities to prevent the spread of the virus and to protect people's lives and health. From 1 September, passengers arriving from high-risk countries can take a COVID-19 test in the passenger terminals of Old City Harbour in order to reduce the period of self-isolation and to be able to return to work more quickly.

To compensate for the decrease in revenue in the changed circumstances, we have critically reviewed all of the Group's expenses but due to a large share of fixed costs, a decline in the Group's profitability, particularly in the Passenger harbours segment, is inevitable. To improve the Group's cash flow, some planned investments have been postponed but **ongoing investments have not been suspended**. The Group's management believes that the impacts of COVID-19 do not endanger the Group's ability to continue as a going concern.

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6.4 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 region. It is estimated that usually 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 the second-largest passenger port in the area after Helsinki**. 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 close economic relations between Estonia and Finland, and the region's growing attractiveness as a destination for Asian tourists who after arriving by airplane 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.

Number of passengers in the eastern part ports of the Baltic Sea

** Excluding ports where most of the number of passengers results from short trips (lasting up to 1 hour)*

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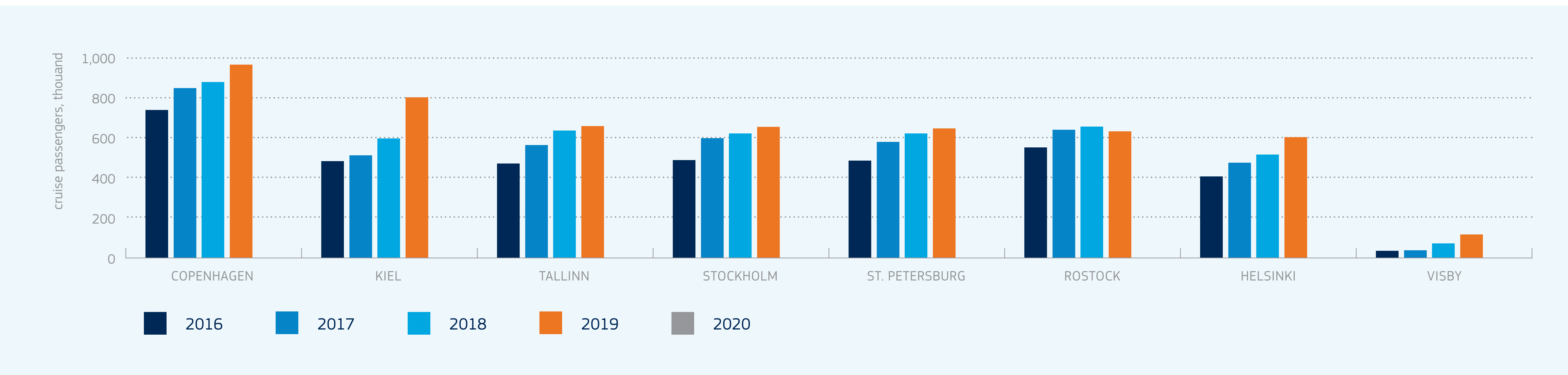
Due to the global COVID-19 crisis that broke out in early 2020 and the restrictions on cross-border movement imposed by European countries in early spring to prevent the spread of the virus, the number of passengers in the Baltic Sea region plummeted in 2020 as it did all over the world. Passenger traffic on international routes, which had been at the usual level in the first months of the year, essentially ceased in the Baltic Sea from mid-March, recovered somewhat in a couple of summer months and declined again in the autumn due to the tightening of restrictions during the second wave of the pandemic. Therefore, the results for 2020 are not directly comparable with those of previous years. The largest ports on the Baltic Sea remained the largest but Tallinn rose from the third to the second place, mainly because passenger traffic through Stockholm dropped more. The largest port in terms of the number of passengers was Helsinki (4.8 million passengers), followed by Tallinn (4.3 million passengers) and Stockholm (3.6 million passengers). Altogether, the number of passengers passing through the largest ports in the eastern part of Baltic Sea decreased by 66% in 2020, falling from 44.1 million passengers to 15.1 million passengers.

The Baltic Sea region has had a reputation of being a rapidly developing and swiftly growing global cruise tourism area. Because of the COVID-19 pandemic, in 2020 **international tourism, including cruise tourism, essentially halted across the world**, including in the ports of the Baltic Sea where the main cruise season is during the warm summer months.

In 2020, the number of traditional cruise passengers in the region was practically zero compared with 5.4 million a year earlier (5.1 million for the reference group in the graph). Copenhagen and Kiel are usually the busiest cruise ports in terms of the number of cruise passengers. They are also the main ports where the Baltic Sea cruises start and end and in previous years they saw the biggest growth in cruise passenger numbers. Tallinn was the third-largest cruise port but the lead over the next ones was small.

Largest cruise ports of the Baltic Sea



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6.5 Overview of the market: cargo

The cargo market overview comprises major ports of countries situated on the east coast of the Baltic Sea (Poland, Lithuania, Latvia, Estonia, and Russia) and large Finnish ports on the Gulf of Finland, many of which are also involved in handling east-west transit cargo flows. In previous years, the operations of large ports on the eastern coast of the Baltic Sea grew steadily but in 2020 their cargo throughput declined due to the global COVID-19 crisis. In 2020, the total cargo turnover of the ports was 511 million tonnes, a decline of 42 million tonnes (roughly –8%) year on year.

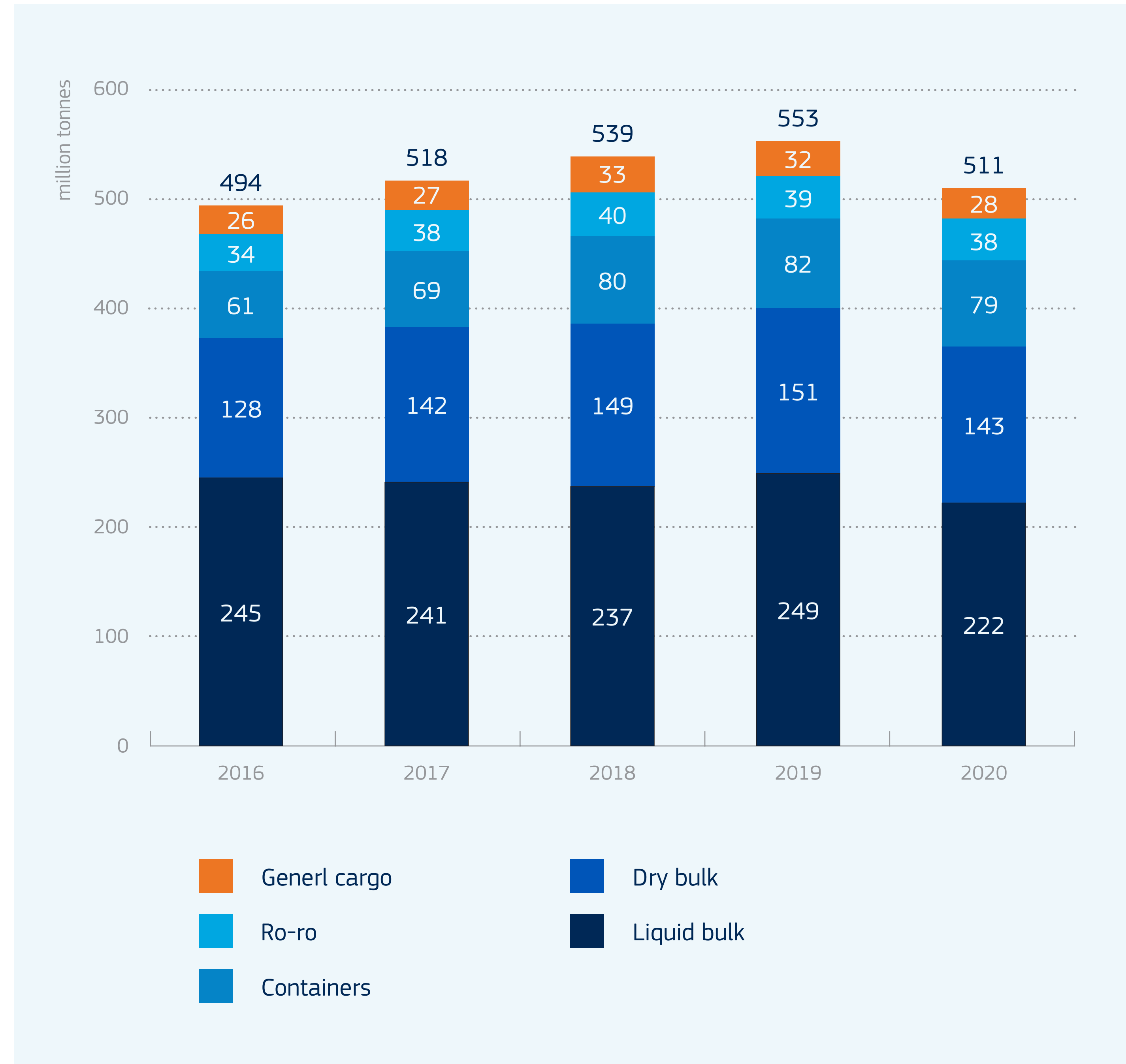
Together with the cargo throughput of smaller Estonian ports (8.1 million tonnes), **the market volume of cargo handled** by Tallinna Sadam and its competitors in 2020 was **518.9 million tonnes**, a decrease of 42.8 million tonnes (–7.6%) year on year.

In terms of cargo types, the biggest decline of 2020 was in the volume of liquid bulk cargo, which dropped by 27.5 million tonnes (–11%), mainly through a decrease in the volume of crude oil at Russian and Lithuanian ports. The volume of container cargo decreased by 4 million tonnes (–5%) because of a decline at Russian, Lithuanian and Polish ports. The volume of dry bulk cargo decreased by 6 million tonnes (–4%), mainly due to a decrease in the volume of coal at Latvian ports. The decrease in dry bulk cargo was somewhat offset by an increase of almost 5 million tonnes in the volume of grain (+28.5%), mainly at Polish and Lithuanian ports. The volume of ro-ro cargo remained stable year on year. The volume of general cargo decreased by 5 million tonnes (–13.8%), primarily through a decrease in general cargo at Finnish ports.

The largest growth in cargo throughput was achieved by Tallinna Sadam (+ 1.4 million tonnes, +7%, mainly due to liquid bulk cargo) and the Port of Gdynia (+0.6 million tonnes, +2.7%, mainly due to dry bulk cargo). Cargo throughput decreased the most at the Port of Primorsk (–11.7 million tonnes, –19%, due to liquid bulk cargo) and the ports of Riga and Ventspils (mainly due to coal and liquid bulk cargo) by –9.1 million tonnes (–-28%) and –7.6 million tonnes (–37%), respectively.

Because of the above changes, in the comparison of Russian and Baltic ports the market shares of Russian, Lithuanian and Estonian ports increased while the market share of Latvian ports decreased. The market shares were: Russian ports 63.7%, Estonian ports 10.3%, Latvian ports 11.4% and Lithuanian ports 14.7% (the corresponding figures for 2019: 62.3%, 9.5%, 14.7% and 13.4%).

Cargo volume of the largest ports on the eastern coast of the Baltic Sea



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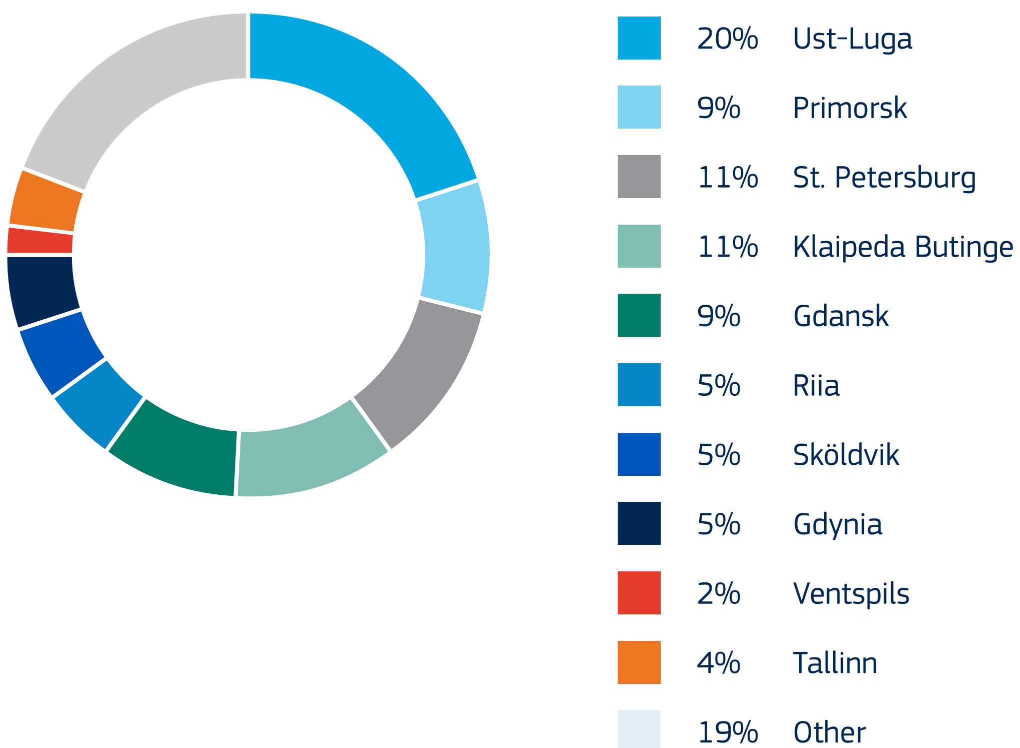
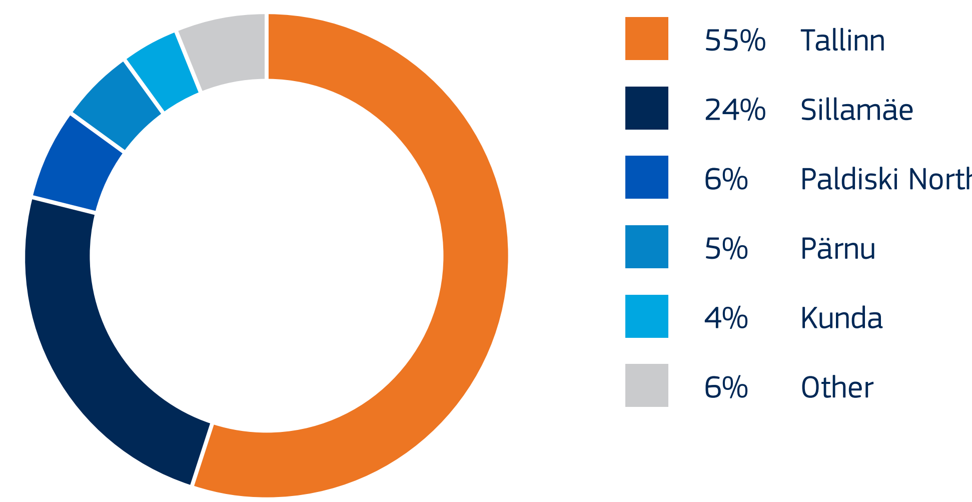
The largest cargo ports on the eastern coast of the Baltic Sea were Ust-Luga (103 million tonnes, market share 20%), St Petersburg (60 million tonnes, 12%) and Klaipeda (56 million tonnes, 11%). **Tallinna Sadam** was in the ninth position with a **market share of 4.1%** (2019: 3.5%).

The volume of cargo handled in Estonian ports amounted to 39 million tonnes in 2020. **Tallinna Sadam** as the largest port accounted for **55% of the total Estonian ports' cargo volume** (2019: 51%).

Market share of the largest ports on the eastern part of the Baltic Sea



Market share of the Estonian ports



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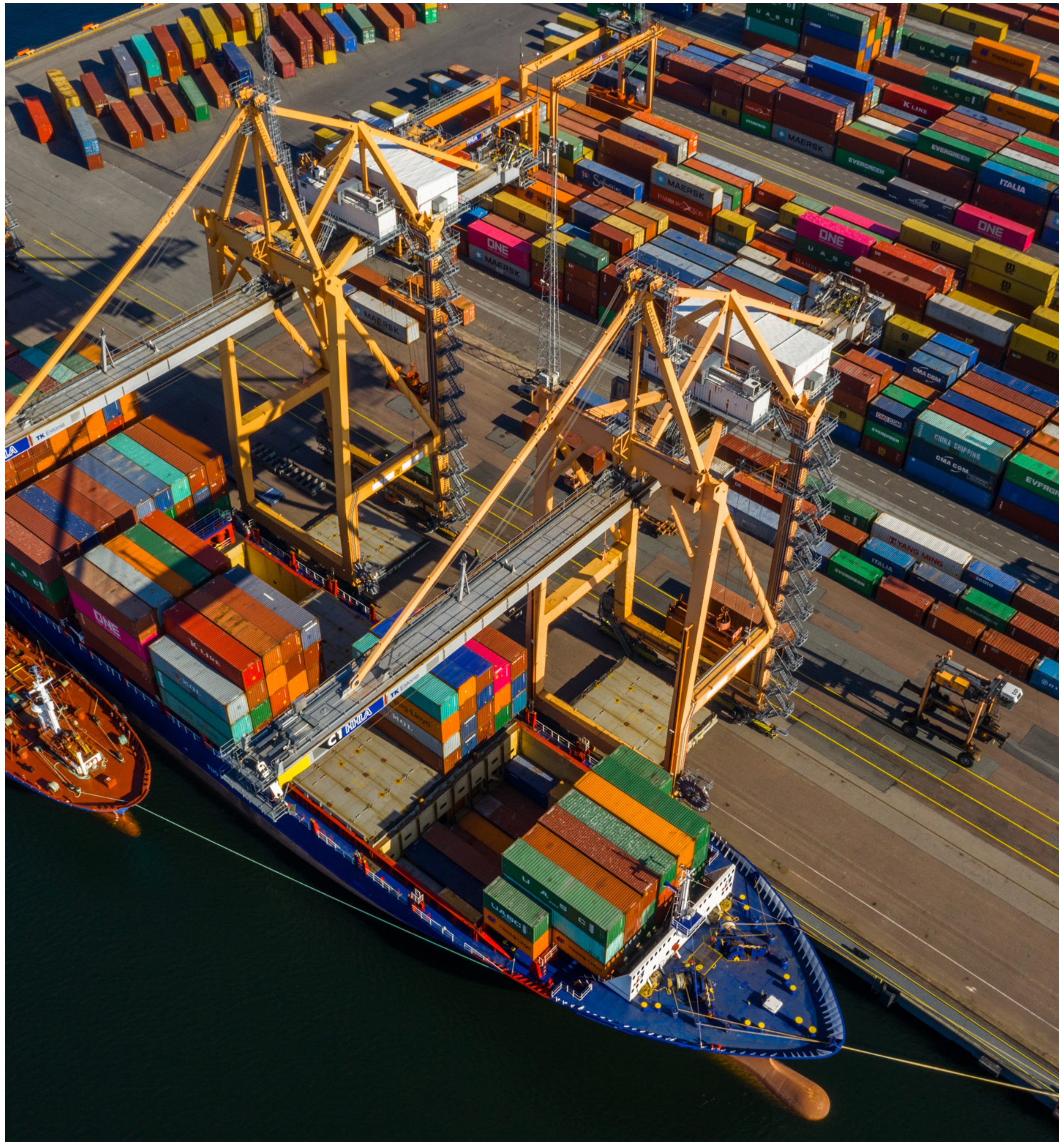
6.6 Results of operations

As a result of the COVID-19 pandemic, the year 2020 was both turbulent and fairly stable for Tallinna Sadam because the crisis affected our four main operating segments in different ways. Our largest business segment, Passenger harbours, was hit hard: due to the crisis, its various business volumes declined by 50–100%. The other harbour operations segment, Cargo harbours, remained strong, however, and delivered the past five years' highest cargo throughput. The full-year results of the Ferry segment and the segment Other remained stable. Due to the weaker performance of Passenger harbours, our revenue, operating profit and EBITDA decreased significantly: –18%, –31% and –21%, respectively. At the same time, cargo throughput grew by 1.4 million tonnes to 21.3 million tonnes (+7.0%). Growth was driven by a strong increase in liquid bulk cargo (+1.5 million tonnes) and supported by growth in ro-ro cargo (+0.2 million tonnes, +3.7%). After 12 consecutive years of growth, the number of passengers dropped by 59% to 4.33 million. Travel restrictions affected all routes as well as traditional summer cruises, which practically ceased in the Baltic Sea region in 2020.

In the provision of ferry service between Estonia's mainland and two largest islands, the pandemic brought about a halt in passenger traffic in March and April and a slight decline in the number of trips (–4%). A lower number of trips, operation without an additional vessel during the summer months (additional trips were made by the existing replacement ferry) and a decrease in some contractual fee rates due to a decline in the Estonian fuel price index caused a certain decrease in revenue, which was offset by comparable cost savings and the segment ended the year with its highest-ever adjusted EBITDA.



The year was stable and therefore successful for the multifunctional icebreaker Botnica. After the end of the icebreaking season in Estonian waters, Botnica was chartered out for the summer and provided escort and ice management services in Arctic waters around the Baffin islands in Northern Canada. Although the charter period was 5% shorter than in 2019 due to COVID-19 restrictions which affected the Canadian charterer, this can be considered as a rather small impact.

In terms of segments, revenue and operating result decreased mainly in the Passenger harbours segment. However, the operating result improved in the Cargo harbours segment, weakened slightly in the segment Other and remained stable in the Ferry segment.

The Group's revenue decreased by EUR 23.2 million (–18%) to EUR 107.4 million in 2020. In terms of revenue streams, vessel dues and passenger fees revenue decreased in the Passenger harbours segment due to travel restrictions imposed in the region. Expenses related to operating activities declined by EUR 5.1 million (–6.4%), operating profit decreased by EUR 16.1 million (–31%) and net profit decreased by EUR 15.9 million (–36%). The added value created by the Group[17], that is the Group's contribution to the Estonian economy, was EUR 79.1 million in 2020 (2019: EUR 94.6 million). The figure declined due to a decrease in operating profit brought about by the pandemic.

[17] *Added value = operating profit + personnel expenses + depreciation, amortisation and impairment losses.*

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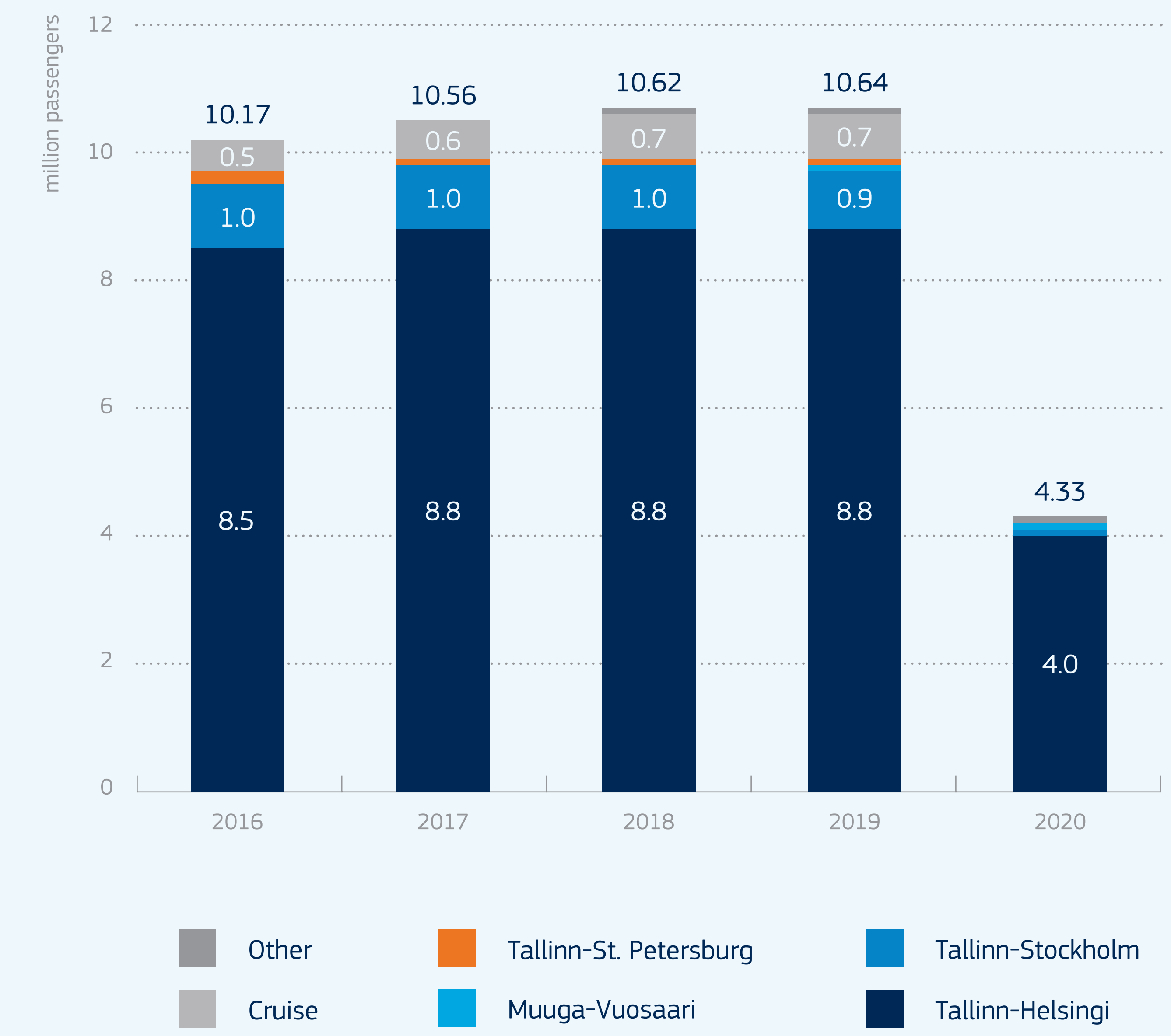
6.6.1 Number of passengers

The COVID-19 pandemic which spread across the world in 2020 and the resulting **cross-border travel restrictions** have caused an unprecedented drop in passenger numbers. The number of passengers passing through our harbours, which had been growing steadily for more than ten years, dropped from a record 10.64 million to 4.33 million in 2020, a **decrease of 6.3 million passengers year on year (–59%)**. The decline was sharp but it is attributable to a non-recurring external factor. Based on current information, it will not affect the increasingly closer relations between Estonia and Finland, both in tourism and economy, which has underpinned continuous growth in passenger numbers. The services required for the recovery of the passenger business are still available. Ferry operators are ready to ensure frequent ferry service. Our harbours have modern and comfortable passenger facilities, which we continued to improve in 2020. All this has made travelling by ferry increasingly easier and more convenient.

The number of passengers fell sharply on all routes in 2020. The biggest drop occurred on the busiest route, Tallinn-Helsinki, where the number of passengers fell by 4.8 million (–55%). The number of passengers on the Tallinn-Stockholm route declined by 0.8 million (–85%) and the number of traditional cruise passengers dropped by 0.7 million (–100%). Due to the restrictions imposed to prevent the spread of the virus and the resulting decrease in the demand for travel services, ferry operators reduced timetables on the Tallinn-Helsinki route, but it was done flexibly based on the situation during the year. The Tallinn-Stockholm route was closed in March and at the date of release of this report it has not yet been reopened. There were **no traditional cruise ship calls in 2020**. Despite a major decline in the number of passengers, ferry operators did not reduce their timetables accordingly because they continued to operate mostly as ro-ro cargo carriers. Governments have supported such operations during the COVID-19 outbreak due to their economic significance. Because of the decrease in the number of passengers on the main routes, in the summer ferry operators sought opportunities to transport passengers on other and new routes but the number of relevant port calls remained small. All in all, the number of port calls by ferries serving international routes decreased by 5.5% in 2020.

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

Number of passengers by routes



6.6.2 Cargo volume

Despite the crisis caused by COVID-19, which had an unprecedented effect on the global economic environment in 2020, **cargo throughput at our harbours grew** by 1.4 million tonnes (+7%) to 21.3 million tonnes, which is the highest level recorded in the past five years. In terms of cargo types, growth was driven by an increase in liquid bulk cargo (+1.5 million tonnes, +20%) and ro-ro cargo (+0.2 million tonnes, +3.7%) and partly offset by a slight decrease in other cargo types.

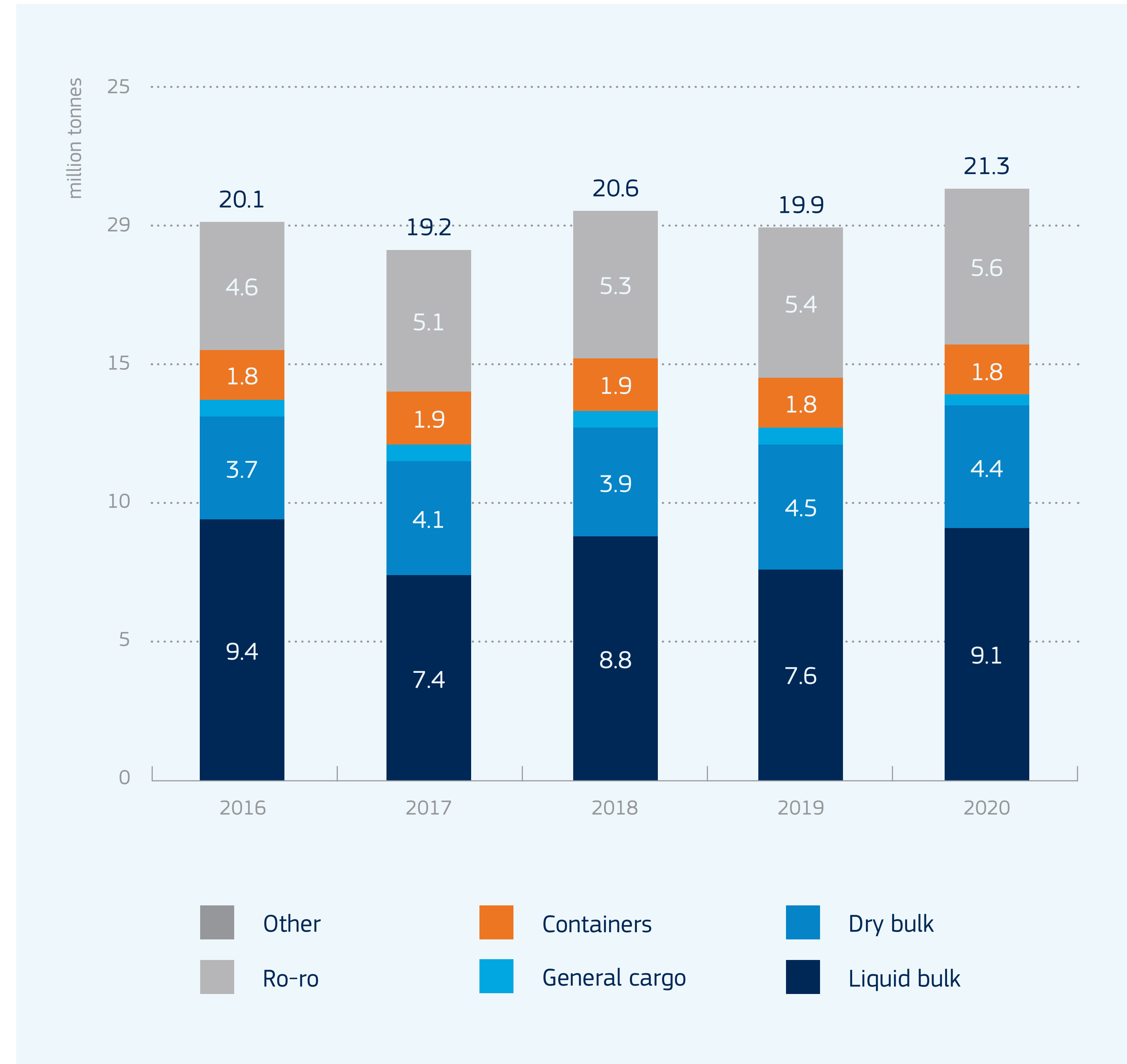
In 2020, the volumes of **liquid bulk cargo** continued to fluctuate by quarter due to the project-based nature of the freight, changes in the world market prices of different liquid bulk products and the business opportunities found by the terminals or their customers. The volume of **ro-ro cargo** grew fairly evenly throughout the year, reaching a record level of 5.6 million tonnes. Most of the ro-ro cargo moved in the north-south direction on the Tallinn-Helsinki and Muuga-Vuosaari routes, reflecting busy trade between and through the neighbouring countries, which was not significantly affected by the COVID-19 crisis. Since most of the ro-ro cargo moves on the Tallinn-Helsinki route, passing through Old City Harbour, relevant revenue is recognised in the Passenger harbours segment.

The volume of general cargo decreased by 0.19 million tonnes (–31%), primarily because pulpwood exports declined and in 2019 there was one-off project cargo (building materials for the Baltic Connector gas pipeline). The volumes of other cargo types remained more or less stable. The volume of dry bulk cargo decreased somewhat (–97 thousand tonnes, –2.1%) as did the volume of container cargo (–27 thousand tonnes, –1.5%). The volume of container cargo in TEUs[18] decreased by 9 thousand units to 214 thousand TEUs.

In terms of transport directions, the biggest changes occurred in transit cargo which grew by 1.0 million tonnes (+9.9%) and Estonia's exports which grew by 0.4 million tonnes (+7.8%). In terms of the main cargo types, liquid bulk accounted for 43%, ro-ro for 26%, dry bulk for 21% and container cargo for 9% of the total cargo volume (2019: 38%, 27%, 23% and 9% respectively). In terms of transport directions, transit accounted for 52%, exports for 26% and imports for 21% of the total cargo volume (2019: 51%, 26% and 23% respectively).

Cargo throughput at our harbours is not seasonal by nature. Typically, fluctuations in cargo volumes result from changes in market conditions (including changes in the world market prices of the cargo) or volatility in the volumes of project cargo.

Cargo volume by cargo types



[18] TEU (Twenty-foot Equivalent Unit) – Standard unit for counting containers and describing the capacities of container ships or terminals. One 20-foot container equals one TEU.

6.6.3 Ferry service

In October 2016, TS Laevad entered a new business line: 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 with up to four ferries at a time (during the summer peak periods with up to five ferries). Most of contract revenue is fixed but some fixed revenue components are adjusted for price indices to reflect 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 is covered by 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.

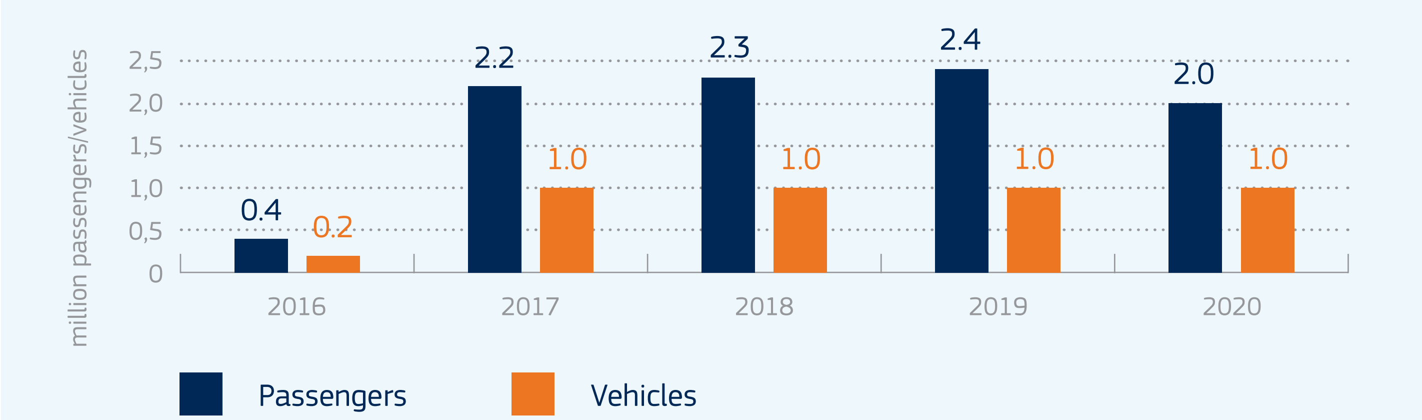
In 2020, the Group's ferries made a total of 20,118 trips, which is 4.2% less than a year earlier, serving 2.0 million passengers (–18%) and 1.0 million vehicles (–8%). The figures declined because in spring passenger traffic between the mainland and the islands was suspended to contain the spread of the pandemic. Based on an agreement with the state (the customer of the ferry service), 346 additional trips were made by a stand-by vessel to increase service capacity during the summer (June-August). In the summer of 2019, 534 additional trips were made by an additional vessel, which was put in service in agreement with the state.

6.6.4 Multifunctional icebreaker Botnica

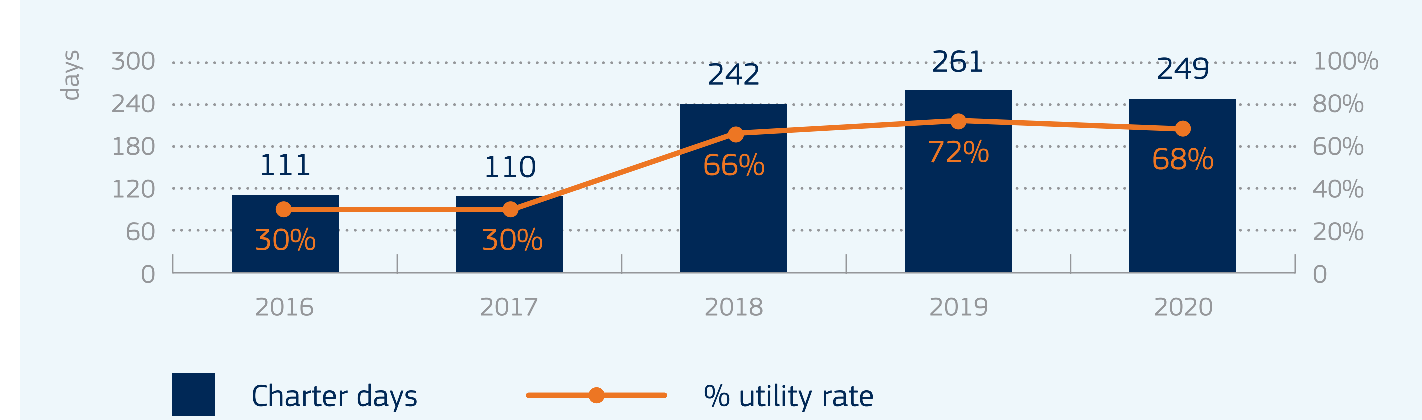
Since the beginning of 2013, we have been providing Estonian ports on the Gulf of Finland with icebreaking service during the icebreaking period, which lasts from December to April, according to 10-year agreement. In early 2021, TS Shipping won the public contract for delivering icebreaking service also during the next 10-year period. The contract pays a fixed fee for a season of 120 days that is adjusted for changes in the consumer price index. Outside the icebreaking season, we charter the 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 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 their ten years' lowest levels where they have more or less remained to date.

To secure work for Botnica outside the icebreaking season, in June 2018 TS Shipping signed a five-year frame agreement with the Canadian company Baffinland Iron Mines. The customer confirms its needs at the beginning of each year and, where necessary, commissions additional days during the season. In 2020, the charter period was 12 days shorter than in 2019 because COVID-19 related restrictions disrupted the charterer's production operations. The fee was adjusted for changes in the consumer price index.

Ferry segment volumes

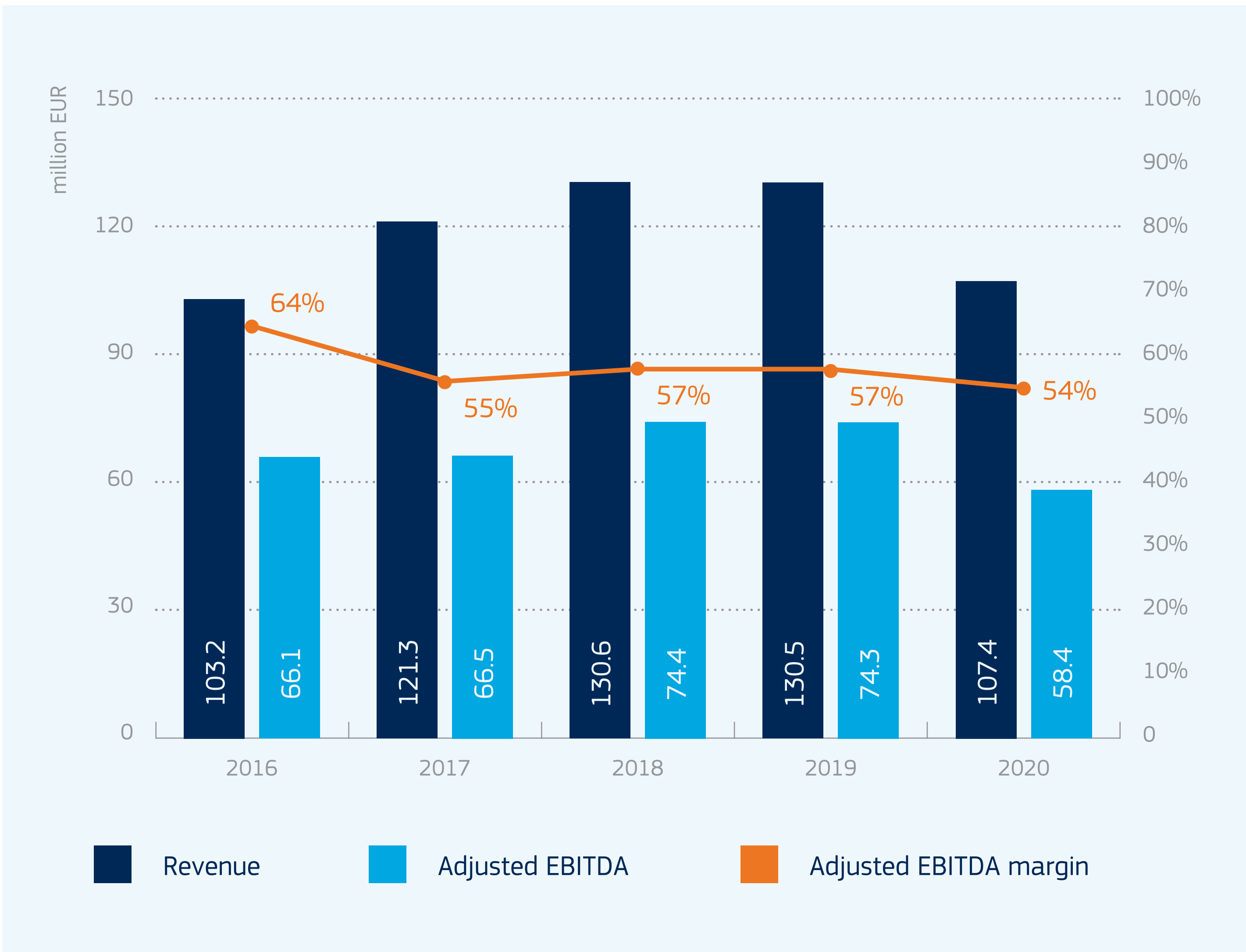


MPSV Botnica charter



6.7 Revenue and expenses

Revenue and EBITDA



Revenue streams

Tallinna Sadam ended the year 2020 with revenue of EUR 107.4 million, EUR 23.2 million (–18%) less than in 2019. Adjusted EBITDA for 2020 was EUR 58.4 million, EUR 15.9 million (–21%) down from 2019. Due to a slightly larger change in the latter figure, adjusted EBITDA margin also declined slightly: from 57% to 54%. In October 2016, the Group's business lines were supplemented with ferry service, which has increased both revenues and expenses.

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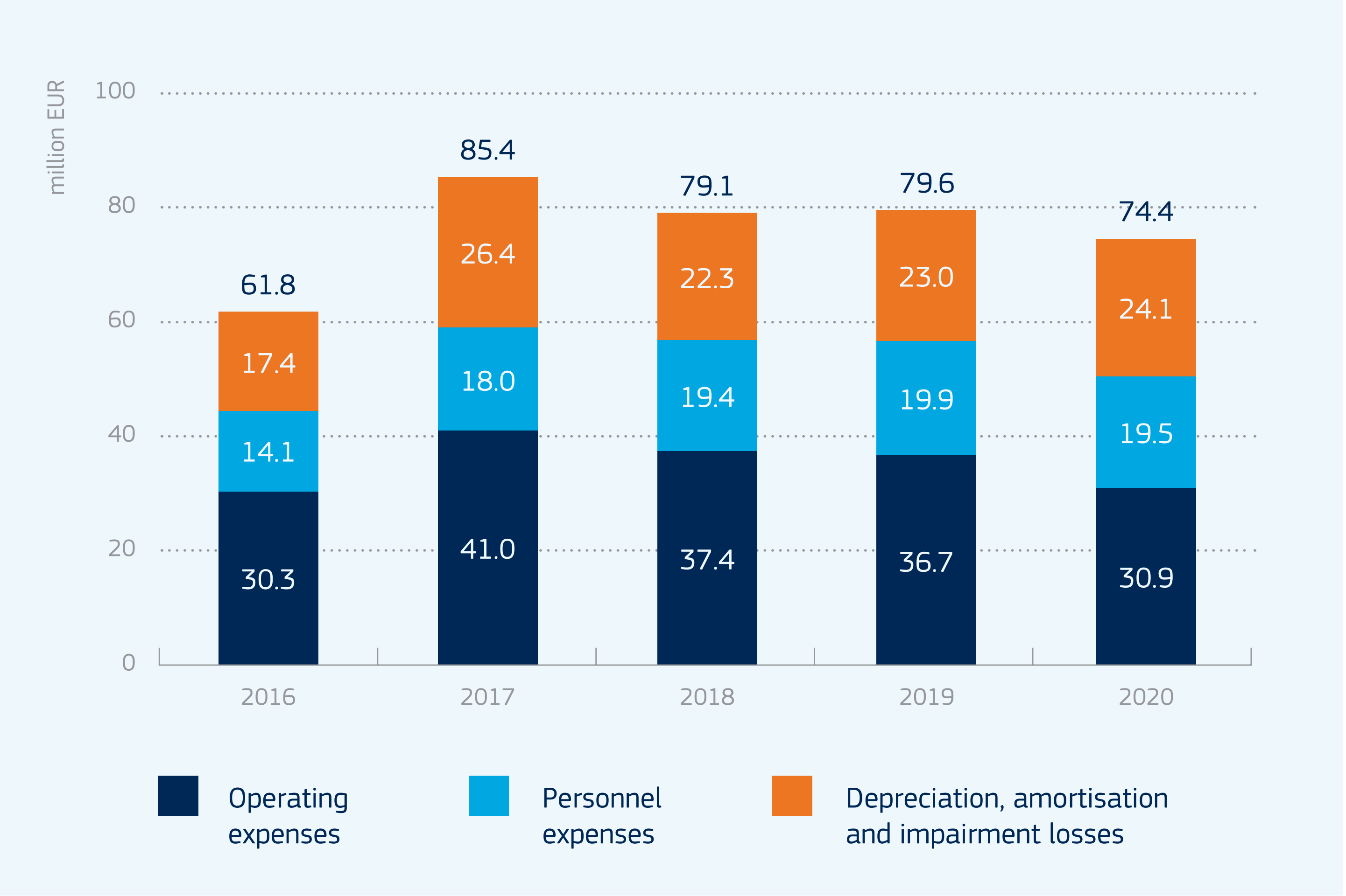
All revenue streams decreased. The fall was the sharpest in passenger fee revenue, which dropped by EUR 10.0 million (–59%) to EUR 7.0 million due to an equivalent fall in the number of passengers. Vessel dues revenue also decreased significantly, dropping by EUR 9.1 million (–20%) to EUR 37.6 million. The decline is mainly attributable to the cancellation of the cruise season as well as reduced ferry timetables and a slight decrease in the volumes of general, dry bulk and container cargo. Growth in the volume of liquid bulk cargo had a positive effect on vessel dues revenue.

Revenue from the provision of domestic ferry service decreased by EUR 1.2 million to EUR 29.0 million, mainly because the number of extra trips made during the summer season was smaller and they were provided without an additional ferry and because voyage fee revenue declined due to fewer trips (COVID-19 restrictions) and a lower fee rate, resulting from a fall in the fuel price index (negative indexation). Revenue from electricity sales decreased by EUR 1.0 million (–17.8%) to EUR 4.5 million, mostly because demand at cargo harbours declined, the volume of electricity sold as an agent decreased and the weather was warmer than in 2019. Revenue from other services dropped by EUR 0.6 million (–26%) through a COVID-19 related decrease in the volume of services, such as sales of water to cruise ships and advertising space at passenger terminals. Charter fee revenue from the icebreaker Botnica decreased by EUR 0.5 million (–5.5%) to EUR 9.1 million because the summer charter was somewhat shorter due to COVID-19 related restrictions, which disrupted the charterer's production operations. The effect was mitigated by the indexation of charter fees. Lease income declined by EUR 0.4 million (–3.2%) to EUR 11.6 million, primarily due to rent reductions at Old City Harbour where pandemic related restrictions have had the strongest impact. Cargo charge revenue decreased by EUR 0.3 million (–4.8%) despite growth in cargo volumes, because the volume and share of liquid bulk cargo (particularly the handling of vessel-terminal-vessel cargo), whose cargo charges are lower, increased and penalty income decreased.

Other income grew by EUR 2.0 million to EUR 3.0 million in 2020. The main sources of growth were gain on the sale of assets used in the operations of Paljassaare Harbour and, to a lesser extent, disposal of land in the Industrial Park of Muuga Harbour with a view to expanding the operations of a hinterland logistics terminal. Income from government grants decreased (EUR –0.1 million, –14%) due to a decline in costs eligible to external support.

Expenses related to operating activities (operating expenses, personnel expenses, and depreciation, amortisation and impairment losses) totalled EUR 74.4 million, EUR 5.1 million down from 2019 (–6.4%).

Expenses of operating activities



In terms of expense items, the biggest decrease was in **operating expenses**, which dropped by EUR 5.8 million (–15.8%) through a decline in different cost items. Fuel and energy costs decreased the most (EUR –2.9 million, –25.9%), both in ferry operations, where fuel costs dropped due to lower fuel prices and optimisation of the vessels' operating modes, and in harbour operations, where consumption decreased and the price of electricity sold as an agent declined. Non-current asset repair costs decreased (EUR –1.9 million, –26.8%), mainly through the cost-cutting measures implemented in harbour operations due to the COVID-19 crisis which included reducing and deferring planned repairs.

Expenses on services purchased to provide services to ships declined as well (EUR –1.1 million, –20.2%), primarily due to the cancellation of the cruise season, reduced ferry timetables and a significantly lower number of passengers (less waste received from ships). Expenses on port dues incurred from the provision of public ferry service increased due to the rise in port dues but the state (the customer of ferry service) covered the difference with an equivalent increase in the service fee. Expenses on short-term leases decreased (EUR –0.6 million, –100%) because the Ferry segment did not lease an additional vessel for the summer season. Expenses on the acquisition of assets of insignificant value grew (EUR +0.5 million, +36.6%) in connection with the reconstruction and refurbishment of Terminal D at Old City Harbour but they were of a one-off nature. Within other operating expenses, allowances for expected credit losses grew, mainly because of the deterioration of the economic environment.

Personnel expenses decreased by EUR 0.4 million (–1.9%) due to the combined effect of a reduction of the number of employees and a temporary reduction of salaries, and one-off downsizing expenses.

Depreciation, amortisation and impairment expenses grew by EUR 1.1 million (+4.6%), mainly through growth in depreciation and amortisation in harbour operations where non-current assets increased at Old City Harbour in connection with the reconstruction of Terminal D, the construction of onshore electricity supply systems for ships and the completion of a shore promenade, and at Muuga Harbour in connection with the completion of several projects undertaken to increase the capacity to serve ro-ro traffic. Depreciation, amortisation and impairment expenses also grew in the Ferry segment due to the installation of an innovative energy saving battery bank solution on the ferry Tõll and somewhat due to growth in depreciable assets, which resulted from scheduled dry dock maintenance of ferries. Impairment losses on non-current assets increased by EUR 0.35 million.

Other expenses did not change significantly (EUR +0.07 million).

Operating profit for 2020 was EUR 35.6 million. Compared to 2019, operating profit decreased by EUR 16.1 million (–31.2%) through a revenue decline, which significantly exceeded the combined effect of a decrease in expenses of a mostly fixed cost nature and growth in other income. Due to the decrease in operating profit, operating margin, which reflects the Group's operating efficiency, also dropped: from 39.6% to 33.1%. Operating profit decreased in the Passenger harbours segment and, to a lesser extent, in the segment Other. The decrease was partly offset by growth in the operating profit of the Cargo harbours segment.

Adjusted EBITDA (earnings before depreciation, amortisation and impairment losses, finance income and costs, and income tax expense, adjusted for amortisation of government grants) declined by EUR 15.9 million (–21.4%) to EUR 58.4 million, mostly due to a fall in the Passenger harbours segment. Adjusted EBITDA margin declined from 56.9% to 54.4%.

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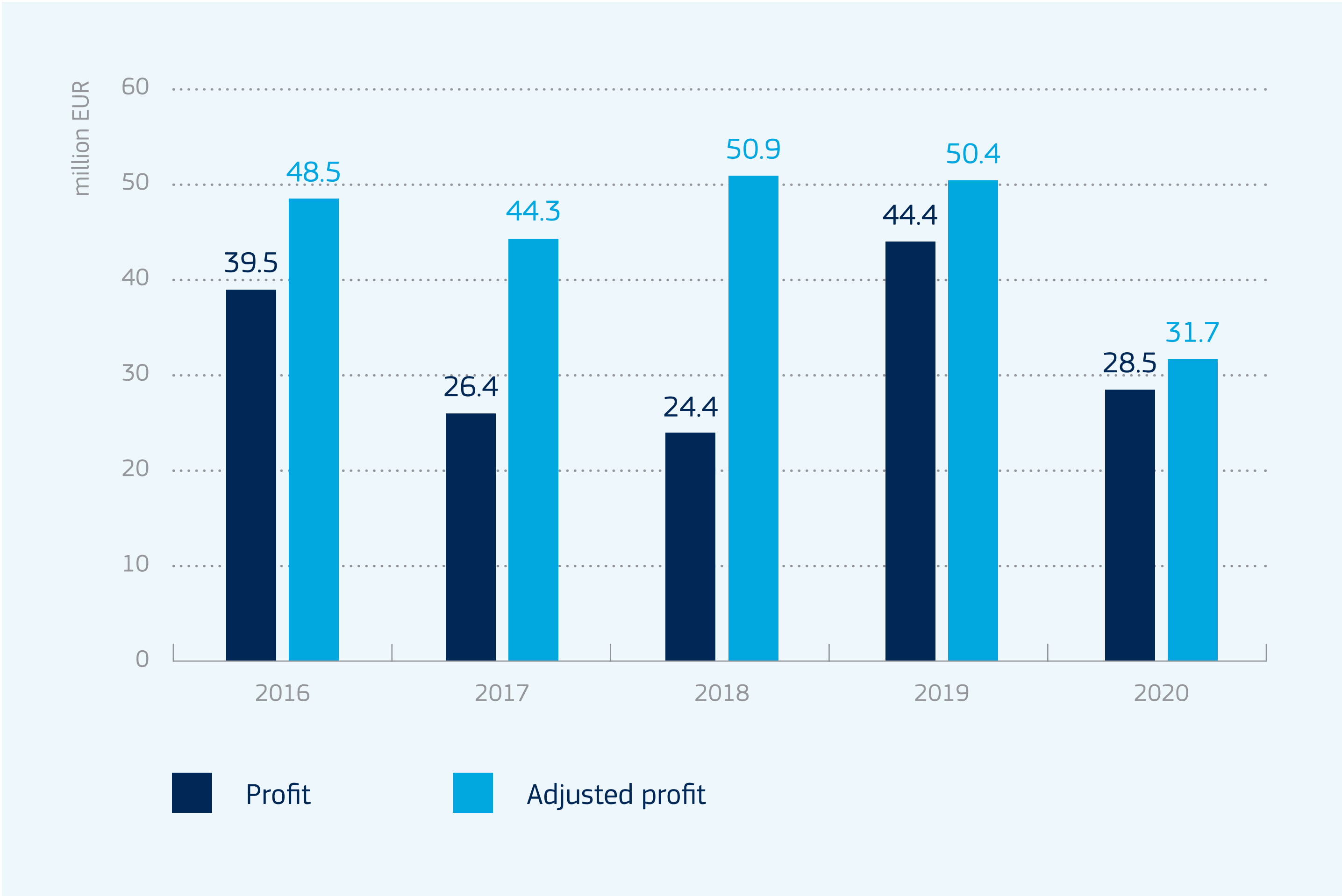
6.8 Profit

The development of profit was also influenced by finance income and costs, and income tax on dividends. Finance income did not change but finance costs decreased by EUR 0.1 million (–5.1%), mostly due to a decrease in expenses on derivative financial instruments. In 2020, the Group's loss on its investment in the associate Green Marine, which is accounted for using the equity method, amounted to EUR 0.46 million, compared with a profit of EUR 0.24 million for 2019 (EUR –0.71 million). The associate incurred a loss due to a decline in the handling of ship-generated waste , caused by a decrease in the number of cruise ship and ferry calls and a significant fall in the number of passengers. In addition, the performance of the associate Green Marine was affected by a record low oil price in the middle of the year, which temporarily suspended profitable sales of the oil product recovered from oil-containing waste. Profit before income tax amounted to EUR 33.4 million, a decrease of EUR 16.7 million (–33.4%) compared to 2019.

The Group achieved a **net profit of EUR 28.5 million** in 2020, EUR 15.9 million less than in 2019. Net profit decreased less than profit before tax because income tax on dividends was about EUR 0.9 million lower due a smaller dividend distribution (EUR 30.2 million in 2020 compared with EUR 35.2 million in 2019).

In the comparison of the Group's profit for different years, profit is adjusted for significant one-off income and expenses and income tax expense on dividends. After adjustments for income tax on dividends of EUR 4.9 million and one-off items consisting of gains on non-current asset sales and impairment losses of EUR 1.72 million, adjusted profit for 2020 amounts to EUR 31.7 million. Profits for 2019, 2018, 2017 and 2016 have been adjusted for income tax expense on dividends of EUR 5.8 million, EUR 26.2 million, EUR 12.0 million and EUR 8.75 million, respectively, and one-off impairment losses of EUR 0.25 million, EUR 0.3 million, EUR 5.95 million and EUR 0.27 million, respectively. The decrease in adjusted profit (EUR –18.7 million) is mainly attributable to a decrease in operating profit.

Profit



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6.9 Segment reporting

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

In terms of segments, annual revenue dropped primarily in the Passenger harbours segment (EUR –21.1 million, –42.3%) and slightly in other segments: in the Ferry segment by EUR –1.1 million (–3.6%), in the segment Other by EUR –0.6 million (–5.9%) and in the Cargo harbours segment by EUR –0.4 million (–1.1%). Adjusted EBITDA for the year declined in the Passenger harbours segment and in the segment Other but increased in the Cargo harbours segment and, to a lesser extent, in the Ferry segment.

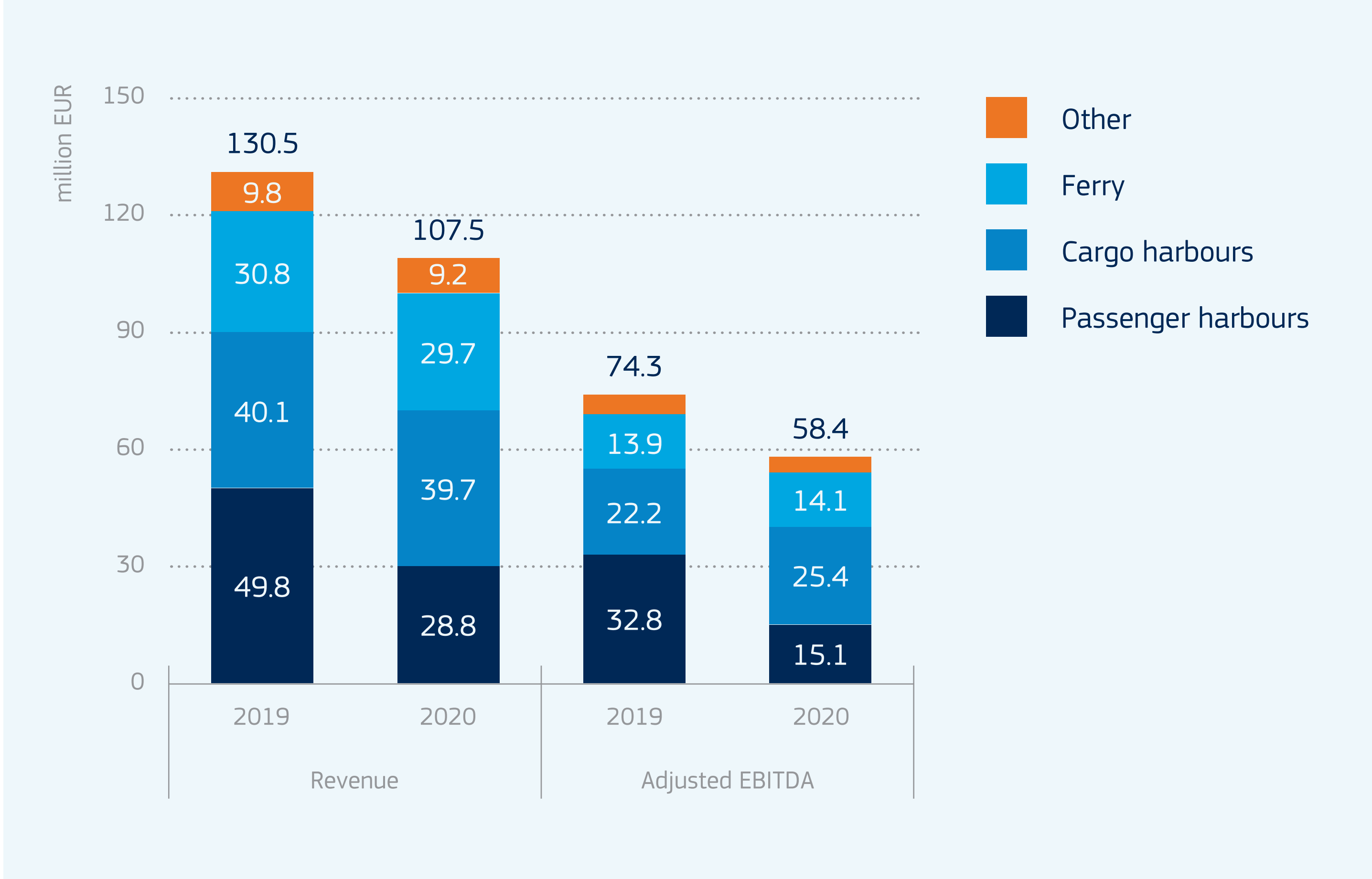
The revenue of the **Passenger harbours segment** decreased because the number of passengers declined in connection with COVID-19 related restrictions, which led to the reduction of ferry timetables and the cancellation of the cruise season. As a result, revenue from vessel dues and passenger fees contracted. The segment's revenue was supported by the temporary transfer of the Muuga-Vuosaari route (Cargo harbours segment) to Old City Harbour, effective from mid-March to late June, due to the temporary reinstatement of border checks. Revenue from the sale of electricity and services decreased, as did lease income due to rent concessions provided to lessees.

The revenue of the **Cargo harbours segment** decreased only slightly because cargo throughput grew in spite of the crisis. In terms of revenue streams, vessel dues revenue grew although it was negatively affected by the temporary transfer of the Muuga-Vuosaari route to Old City Harbour as described above (Passenger harbours segment). Revenue from the sale of electricity declined due to a decrease in the volume of electricity distribution service and the volume and price of electricity sold as an agent. Cargo charge revenue also decreased somewhat, both due to the temporary transfer of the Muuga-Vuosaari route to Old City Harbour and growth in the volume and share of liquid bulk cargo whose cargo charges are lower.

The revenue of the **Ferry segment** decreased mostly during the summer season when the state (the customer) ordered a smaller number of extra trips and did not order an additional ferry to be put in service. Instead, extra trips were made with an existing stand-by vessel. Contract revenue decreased through a smaller number of trips (due to COVID-19 related restrictions) and a fall in the voyage fee rate (due to a decrease in the fuel price index).

The revenue of the **segment Other** decreased because the summer charter of the icebreaker Botnica was shorter than in 2019 due to COVID-19 related restrictions, which disrupted the production operations of the Canadian charterer. The indexation of the ice-breaking and charter fee rates to the inflation index had a slight positive effect on revenue.

Revenue by EBITDA and segments



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In terms of segments, **adjusted EBITDA** for the year decreased the most in the Passenger harbours segment (EUR –17.7 million, –54%), due to revenue decline. This was partly offset by growth of EUR 3.1 million (+14%) in the adjusted EBITDA of the Cargo harbours segment, where cost savings exceeded the decrease in revenue. In the segment Other, adjusted EBITDA dropped by EUR 1.5 million (–29%) because, in addition to a decrease in revenue, expenses increased somewhat and the Group incurred a loss from its associate Green Marine, which is accounted for under the equity method. Adjusted EBITDA for the Ferry segment increased somewhat, because the decrease in expenses slightly exceeded the decrease in revenue, and reached an all-time high of EUR 14.1 million.

Adjusted EBITDA margin dropped from 56.9% to 54.4% as a result of a steep decrease in the Passenger harbours segment due to COVID-19 related restrictions.

Results by segments

	2020					2019				
EUR '000	Passenger harbours	Cargo harbours	Ferry	Other	Total	Passenger harbours	Cargo harbours	Ferry	Other	Other
Revenue	28,770	39,683	29,705	9,200	107,358	49,826	40,113	30,825	9,772	130,536
Adjusted EBITDA	15,140	25,377	14,101	3,805	58,423	32,792	22,248	13,932	5,320	74,292
Operating profit	8,665	16,685	8,209	2,003	35,562	26,367	14,151	8,289	2,872	51,679
Adjusted EBITDA margin	52.6%	63.9%	47.5%	41.4%	54.4%	65.8%	55.5%	45.2%	54.4%	56.9%

Changes 2020/2019

	2020				
EUR '000	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	–21,056	–430	–1,120	–572	–23,178
Adjusted EBITDA	–17,652	3,129	169	–1,515	–15,869
Operating profit	–17,702	2,534	–80	–869	–16,117
Adjusted EBITDA margin	–13.2%	8.5%	2.3%	–13.1%	–2.5%

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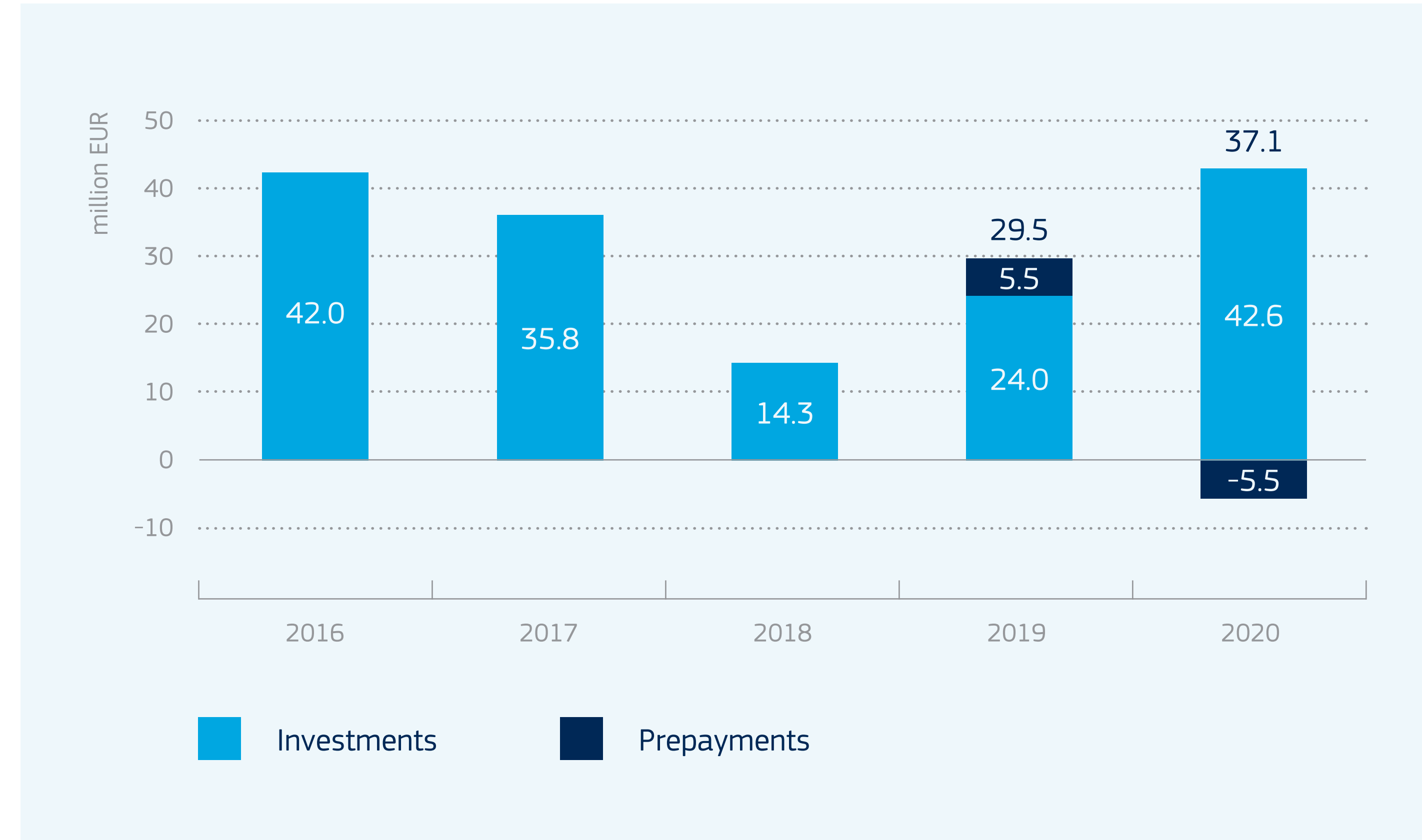
6.10 Investments and development prospects

The Group's **capital investments in 2020 amounted to EUR 37.1 million**, which is EUR 7.7 million (+26%) more than in the prior year and recent years' highest figure. Investments in harbour infrastructure assets, acquisition of non-current assets and improvements to existing infrastructure assets totalled EUR 39.6 million but the figure was lowered by prepayments made for investments in 2019. Investments in the icebreaker Botnica amounted to EUR 0.9 million and investments in the provision of ferry service totalled EUR 2.1 million.

The investments of 2020 were mainly related to Old City Harbour, where major investments in the improvement of the environment and travel conditions continued despite the crisis. The largest completed projects were the reconstruction of passenger terminal D and the construction of a nearby multi-storey car park. The installation of on-shore power supply systems and auto-mooring equipment for ferries reached the final phase and the construction of a cruise terminal and a footbridge across the canal of the Admiralty Basin was started. The largest works at Muuga Harbour were related to improving the conditions of ro-ro traffic. Dredging works were carried out in the turning basin and approach canal of Paldiski South Harbour to be able to receive larger vessels. The largest projects in the Ferry segment were the installation of a battery bank energy solution on the ferry Tõll in order to achieve energy savings and make the ferry more environmentally friendly and scheduled smaller-scale dry dock maintenance of ferries. On the icebreaker Botnica, the second part of the machinery control system was renewed and other technical systems were also upgraded.

The largest **investment planned for 2021** is the start of the construction of a new ferry, which depends on the order to be placed by the state. Other investments are mainly related to harbour operations at Old City Harbour where we are planning to complete the construction of a cruise terminal and a footbridge. We are also planning to begin the reconstruction of the area surrounding passenger terminal D, which is part of the project designed to transform the harbour area into a modern and vibrant urban space. The investments made at Old City Harbour are aimed at creating a modern, environmentally friendly and comfortable environment for growing ferry traffic and developing the harbour area into an integrated and attractive part of the city. At Muuga Harbour, we will continue to invest in the quay equipment to increase our capacity to serve ro-ro traffic. Our icebreaker Botnica will undergo scheduled dry docking. Ferries will also undergo their scheduled dry docking and we will continue to improve their customer service and ticket sale systems.

Investments



In addition to capital investments, every year we incur substantial **research and development expenditures**, which in 2020 amounted to EUR 0.25 million (2019: EUR 0.35 million). Research and development expenditures of the period were mainly related to environmental studies and observations, assessments and monitoring of the impacts of harbour operations, and the preparation of the assessments and draft and detailed plans required for our development plans. In 2020, we continued planning activities for the execution of various phases of Masterplan 2030 at Old City Harbour. This included studies and surveys for the proceedings carried out by the City of Tallinn for the adoption of detailed plans for the areas to be developed (6 detailed plans). We are planning to develop the areas in stages (within 10–15 years), in a manner that will support busy passenger traffic and integrate the harbour more closely with the city.

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We hope that the impacts of the COVID-19 pandemic will start to subside in 2021 and, as a result, the business volumes of the Passenger harbours segment will recover slightly, which would also increase the Group's total revenue somewhat compared to 2020. It will not be possible continue with all the cost-cutting measures implemented in 2020 on a long-term basis, which is why operating expenses will inevitably increase in 2021. However, we expect that revenue growth will exceed the increase in expenses and, accordingly, we will be able to increase the Group's profit.

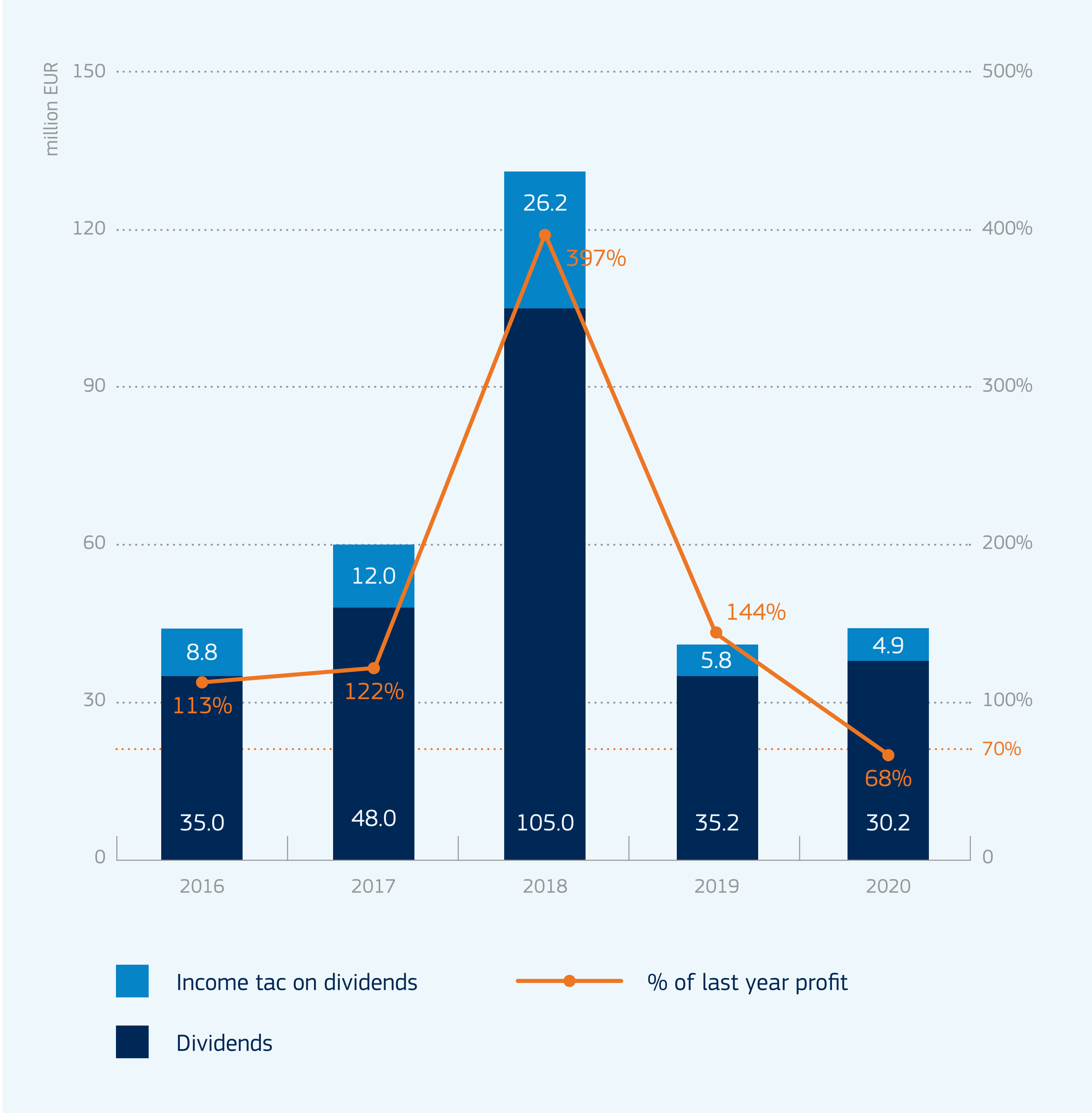
We forecast that in 2021 investments in harbour operations will fall to the usual level of EUR 20 million. Investments in shipping will mainly depend on whether or not the state wishes to order a new ferry to develop traffic between the Estonian mainland and two largest islands.

6.11 Dividends

The dividend policy of AS Tallinna Sadam sets the target to pay the shareholders regular post-tax dividends, which from 2021 should amount to **at least 70% of the preceding year's 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. The target for the period 2019–2020 was to distribute a dividend of at least EUR 30 million per year. The target was met despite the COVID-19 pandemic which had an unprecedented effect on the global economy in 2020.

In 2020, we distributed our shareholders a **dividend of EUR 0.115 per share and EUR 30.2 million in total** on which we paid income tax of EUR 4.9 million, the gross distribution amounting to EUR 35.1 million. We withheld income tax from payments to individuals, making a net distribution of EUR 30.0 million. In 2019, we distributed our shareholders a dividend of EUR 0.134 per share and EUR 35.2 million in total on which we paid income tax of EUR 5.8 million, the gross distribution amounting to EUR 41.0 million. We withheld income tax from payments to individuals, making a net distribution of EUR 35.0 million. For further information, see note 19 to the financial statements.

Dividends paid



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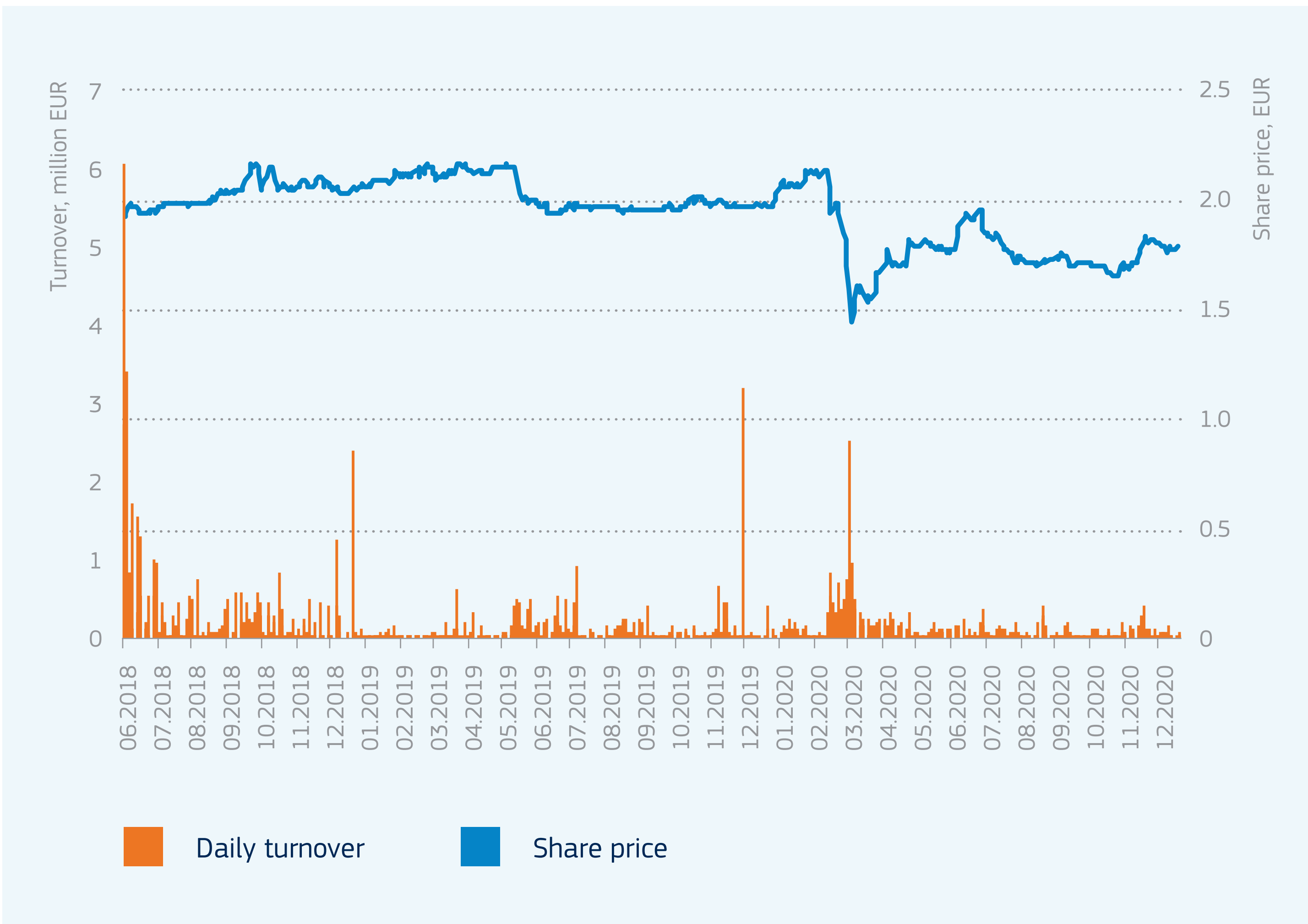
6.12 Share and shareholders

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, that is 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 AS Tallinna Sadam share and the daily turnover of shares traded since listing on the Nasdaq Tallinn Stock Exchange, that is from 13 June 2018 to 31 December 2020, is presented in the graph below.

The dynamics of the closing price of the AS Tallinna Sadam share and the daily turnover of shares traded since listing on the Nasdaq Tallinn Stock Exchange, that is from 13 June 2018 to 31 December 2020



The opening price of the share at the beginning of 2020 was EUR 1.99. The closing price of the share at 31 December 2020 was EUR 1.8. The company's **market capitalisation** at 31 December 2020 was **EUR 473.4 million** (2019: EUR 522.1 million). The dynamics of the price of the Tallinna Sadam share in comparison with the OMX Baltic Benchmark GI index is presented in the graph below.

The dynamics of the price of the Tallinna Sadam share in comparison with the OMX Baltic Benchmark GI index

Source: nasdaqbaltic.com

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In 2020, there were 47,555 transactions (2019: 9,412 transactions) with the Tallinna Sadam share in which 20.4 million shares (2019: 15.5 million shares) changed hands and the total **turnover of the transactions was EUR 36.1 million** (2019: EUR 31.1 million). The number of transactions has increased significantly year on year because banks have lowered their transaction fees, which has triggered a surge in retail investors' trading activity. Turnover has increased as well but at a slower pace.

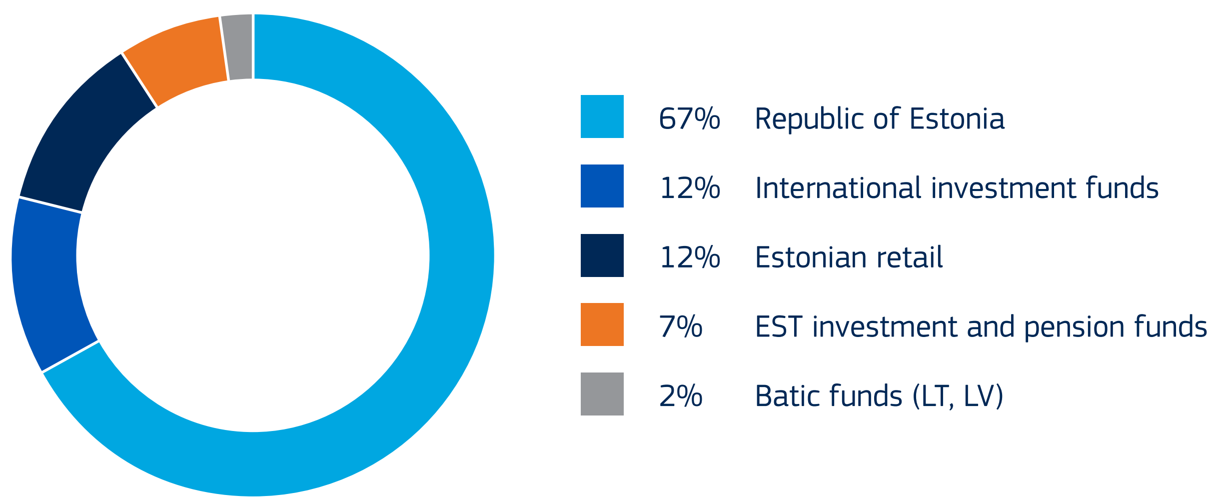
At 31 December 2020, the company had **15,433 shareholders** (31 December 2019: 12,796) but only the Republic of Estonia had an ownership interest exceeding 5% (through the Ministry of Economic Affairs and Communications).

The shareholder structure has changed somewhat compared to the end of 2019. The share of international investment funds has decreased from 14% to 12% (–5 million shares), the share of Estonian retail investors has increased from 10% to 12% (+5.2 million shares) and the share of Estonian and other Baltic investment and pension funds has remained more or less stable.

The five largest shareholders at 31 December 2020

Name of shareholder	Number of shares	Interest, %
Ministry of Economic Affairs and Communications	176,295,032	67.0%
State Street Bank and Trust Omnibus (USA)	9,850,682	3.7%
European Bank for Reconstruction and Development (EBRD)	9,350,000	3.6%
SEB Progressiivne Pensionifond	6,484,365	2.5%
LHV Pensionifond L	5,536,570	2.1%

Shareholder structure as at 31 December 2020



7 Corporate Governance

The governing bodies of Tallinna Sadam are the general meeting, the supervisory board and the management board. The supervisory board and the 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 are disclosed and explained in section 7.10 of the management report.

The **controlling shareholder** is the Republic of Estonia, which holds an **interest in Tallinna Sadam** mainly to:

- Earn optimal and stable shareholder return through the company's profitable and efficient operation in each of its chosen business lines
- Involve 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
- Apply and promote good corporate governance, corporate social responsibility and business culture.

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7.1 General meeting

The general meeting is the highest governing body of Tallinna Sadam whose **primary responsibilities** include changing the articles of association; increasing and decreasing share capital; appointing, recalling and remunerating members of the supervisory board (based on the proposal of the nomination committee); approving the annual report and allocating the company's profit; approving a share option programme; appointing and recalling the auditor(s); establishing the rules of procedure of the supervisory board; deciding the acquisition or disposal of a significant interest in another company; establishing the management and reporting principles of the subsidiaries; and adopting other decisions within its power in accordance with 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, not later than within six months after the end of the financial year. The agenda of the general meeting, the proposals of the management and supervisory boards, any draft resolutions and other relevant materials are made available to shareholders at least three weeks before the general meeting on the company's website and through a stock exchange announcement. 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 2020, the company had an annual general meeting, which was conducted without physical attendance, and no extraordinary general meetings. Physical attendance was not possible due to COVID-19 related restrictions on public gatherings in Estonia.

On 29 June 2020, the shareholders of Tallinna Sadam passed resolutions on the approval of the annual report for 2019, allocating the profit and distributing a dividend of EUR 30.245 million in total and elected a new supervisory board. Shareholders could vote remotely from 22 June to 29 June and this was the first known occasion in the history of Estonian publicly traded companies where shareholders could express their opinion solely by voting remotely, either by e-mail or regular mail or by casting a vote at the head office of the company. Shareholders who did not vote were deemed to have voted against the resolutions. Votes on the resolutions were cast by 106 shareholders whose shares represented 218,876,934 votes, that is 83.22% of the company's total share capital.

Prior to the beginning of the voting period, Tallinna Sadam arranged a **public webinar, which was held on 19 June 2020**, to discuss the agenda and explain the voting procedure of the general meeting. The chairman of the supervisory board Aare Tark, the chairman of the management board Valdo Kalm and the chairman of the nomination committee Veiko Tali presented the shareholders' draft resolutions and answered the questions received.

Tallinna Sadam has made available on its website at www.ts.ee the resolutions adopted by general meetings since July 2017 and the invitations, materials and minutes of general meetings since the general meeting of 14 May 2019.

The Republic of Estonia (through the Ministry of Economic Affairs and Communications) holds a 67.03% interest in Tallinna Sadam. 32.97% of the shares are held by Estonian and international investment funds, banks, pension funds and Estonian retail investors. An overview of the shareholder structure and the largest shareholders as at 31 December 2020 is provided in section 6.12 of the management report.

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7.2 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 six to eight members, who are appointed for a term of up to five years. At least half of the members of the supervisory board (31 December 2020: 6 out of 8, including the chairman of the supervisory board) are independent as required by the CGC. The work of the supervisory board is managed by the chairman of the supervisory board.

The members of the supervisory board are appointed by the general meeting based on the proposal of the nomination committee of Tallinna Sadam (through a committee formed by the government 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. Further information on the nomination committee is provided in section 7.4. of the management report.

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 the risks associated with the Group's operating activities, legal and regulatory topics, investments, large-scale financing projects and other significant matters related to the Group's business.

At 31 December 2020, the **composition of the supervisory board** was as follows: Aare Tark (chairman), Urmas Kaarlep, Üllar Jaaksoo, Ahti Kuningas, Raigo Uukkivi, Maarika Honkonen, Riho Unt and Veiko Sepp. The members that meet the definition of independence as provided in the annex to the CGC are Aare Tark, Urmas Kaarlep, Üllar Jaaksoo, Maarika Honkoken (formerly Liivamägi), Riho Unt and Veiko Sepp. In 2020, the general meeting approved a new composition of the supervisory board (effective from 1 July 2020), consisting of all members of the previous composition and Riho Unt and Veiko Sepp as new members, and appointed all members of the supervisory board for a term of two years, that is until 30 June 2022. The new supervisory board re-elected Aare Tark as the chairman. There were no changes in the remuneration of the members 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 of procedure of the supervisory board approved by the general meeting. Meetings of the supervisory board take place as needed and are generally held once a month, except during the summer months. In 2020, there were 10 meetings (2019: 8 meetings). The rules of procedure of the supervisory board and the supervisory board's reports to the general meeting (on the annual report of Tallinna Sadam and the activities of the supervisory board) have been made available on the website of Tallinna Sadam since 2017 (within the information concerning the general meeting since 2019).

AARE TARK
Chairman of the Supervisory Board

URMAS KAARLEP
Member of the Supervisory Board

ÜLLAR JAAKSOO
Member of the Supervisory Board

AHTI KUNINGAS
Member of the Supervisory Board

RAIGO UUKKIVI
Member of the Supervisory Board

MAARIKA HONKONEN
Member of the Supervisory Board

RIHO UNT
Member of the Supervisory Board

VEIKO SEPP
Member of the Supervisory Board

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The appointment and remuneration of a member of the supervisory board is regulated by section 85 of the State Assets Act. The amount of the **remuneration of a member of the supervisory board** is determined by the general meeting based on the proposal by the nomination committee. The remuneration determined for a member of the supervisory board is EUR 1,000 per month and the remuneration determined for the chairman of the supervisory board is EUR 2,000 per month. The 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. Additional remuneration is paid to the members of the supervisory board who are also members of the audit committee, which is a body set up by the supervisory board. In 2020, the compensation provided to the members of the supervisory board totalled EUR 98.8 thousand (2019: EUR 82.9 thousand), including the remuneration of the members of the supervisory board of EUR 96 thousand (2019: EUR 81 thousand). The members of the supervisory board of Tallinna Sadam are not entitled to termination benefits or any additional remuneration (besides the remuneration for participating in the activities of the audit committee).

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, the 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.

The 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 closely associated with them[19] at 31 December 2020:

Member of the supervisory board	Number of shares in Tallinna Sadam held at 31 December 2020	
	Personally	Through closely associated persons
Aare Tark	44,171	0
Urmas Kaarlep	24,039	0
Raigo Uukkivi	6,626	1,486
Maarika Honkonen	0	1,300
Üllar Jaaksoo	148	0
Veiko Sepp	7,258	2,500
	82,242	5,286

As at 31 December 2020, Ahti Kuningas and Riho Unt did not hold any shares in Tallinna Sadam either personally or through persons closely associated with them.

Member of the supervisory board	Term of office	Participation in meetings in 2020		Remuneration in euros in 2020	
		Supervisory board	Audit committee	Supervisory board	Audit committee
Aare Tark (chairman)	3 Oct 2015–30 Jun 2022	10/10	–	24,000	0
Urmas Kaarlep	3 Oct 2015–30 Jun 2022	10/10	8/8	12,000	1,065
Üllar Jaaksoo	3 Oct 2015–30 Jun 2022	10/10	–	12,000	0
Ahti Kuningas	8 Sept 2017–30 Jun 2022	10/10	–	12,000	0
Raigo Uukkivi	8 Sept 2017–30 Jun 2022	10/10	8/8	12,000	709
Maarika Honkonen	17 Apr 2018–30 Jun 2022	10/10	8/8	12,000	709
Riho Unt	1 Jul 2020–30 Jun 2022	4/4	4/4	6,000	355
Veiko Sepp	1 Jul 2020–30 Jun 2022	4/4	–	6,000	
				96,000	2 838

[19] *In accordance with the definition of the market abuse regulation (Article 3, 1.25) of EU 596/2014).*

7.3 Audit committee and internal audit unit

Consistent with the requirements of the Auditors Activities Act, the company has set up an audit committee, which is a body that **advises the supervisory board** and is responsible for monitoring and analysing the processing of financial information, the effectiveness of the development and operation of the risk management and internal control system, the process of the audit of the consolidated financial statements, and the independence of the audit firm and the certified public accountant representing the audit firm as well as their compliance with the requirements related to auditors' activities. The audit committee makes proposals and recommendations to the supervisory board on matters within its remit. The committee has four members that are appointed by the supervisory board. The following members of the supervisory board have been on the audit committee since 15 May 2018: Urmas Kaarlep (chairman), Raigo Uukkivi and Maarika Honkonen. On 3 July 2020, the supervisory board approved a new composition for the audit committee, reappointing all former members and appointing Riho Unt as the fourth member of the committee.

The audit committee conducts its activities in accordance with the requirements of the Auditors Activities Act and the rules of procedure approved by the supervisory board. The audit committee carries out its work in meetings and in 2020 eight meetings were held (2019: six meetings). All members of the audit committee attended all meetings.

The rates of the remuneration provided to the 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 2020, 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 in 2020 is provided in the table presented in section 7.2 of the management report.

Tallinna Sadam 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 which also decides matters related to the remuneration of the head of the unit. There internal audit unit comprises three employees: the head of the unit, the internal auditor and the chief information security officer who is responsible for monitoring the Group's compliance with information security requirements.

In conducting its internal audit activities, the internal audit unit observes the requirements of the Auditors Activities Act, International Standards for the Professional Practice of Internal Auditing and the rules of procedure of the internal audit unit which have been approved by the supervisory board. In the field of information security, the unit acts in compliance with the Cybersecurity Act, information security standards and guidelines and the information security policy of Tallinna Sadam. The activities of the unit are based on a risk-based work plan approved by the supervisory board. Where necessary, the unit engages external experts. The unit also takes into account the results of other external audits and control procedures. Reports on internal audits and advisory and consultative work performed are submitted to the audit committee and more significant findings and recommendations are communicated on an ad hoc basis at meetings of the supervisory board. At least 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.

Additionally, the internal audit unit is responsible for collecting and handling the declarations of the business interests of the members of the Group's governing bodies and key personnel. The declarations are used as a basis for checking the compliance of related party transactions with the arm's length principle (related party transactions with the members of the governing bodies are disclosed in note 24 to the financial statements).

In 2020, the employees of the internal audit unit participated actively in the work of professional organisations: the internal auditor was a member of the board of the Institute of Internal Auditors Estonia and the chief information security officer participated in the preparation of the European Union Agency for Cybersecurity (ENISA) guidelines *Cyber Risk Management for Ports*.

7.4 Nomination committee

In 2019, the general meeting decided to form the nomination committee for nominating the members of the supervisory board of AS Tallinna Sadam. **The committee is responsible** for evaluating the suitability of candidates to the supervisory board and making proposals to the general meeting regarding the election and removal of the members of the supervisory board, the composition of the supervisory board, and the duration of the mandate and remuneration of the members of the supervisory board. **The nomination committee comprises** the secretary general of the Ministry of Finance, the secretary general of the Ministry of Economic Affairs and Communications and the chairman of the nomination committee formed by the Republic of Estonia who represent the Republic of Estonia based on the office they hold, and two representatives of small shareholders whose term of office is five years. At 31 December 2020, the nomination committee comprised the chairman Ando Leppiman (secretary general of the Ministry of Economic Affairs and Communications) and the members Veiko Tali (secretary general of the Ministry of Finance), Kaido Padar (chairman of the nomination committee formed by the Republic of Estonia), Elena Kiseleva (principal banker of transport team of European Bank for Reconstruction and Development) and Sven Kunsing (member of the management board of AS SEB Varahaldus). In connection with the resignation of the former chairman of the nomination committee Veiko Tali as the secretary general of the Ministry of Finance from 1 January 2021 and, accordingly, from the nomination committee of Tallinna Sadam, Ando Leppiman was elected as the new chairman of the nomination committee on 8 December 2020.

In 2020, the nomination committee had 10 meetings (2019: 2 meetings) in order to make proposals to the annual general meeting of 2020 regarding the election of the members of the supervisory board because the term of office of the members of the supervisory board was about to expire. During the meetings, the nomination committee approved the principles for the selection of candidates, coordinated the self-assessment of the supervisory board in office, met with the members of the supervisory board and conducted group interviews with each member of the supervisory board and potential new candidates. On 3 June 2020, the nomination committee submitted to the general meeting the proposal to re-elect all current members of the supervisory board for a new term lasting from 1 July 2020 to 30 June 2022 and to elect additional two new members, Riho Unt and Veiko Sepp. The proposal was submitted through the management board of Tallinna Sadam, The general meeting approved the proposal as submitted.

7.5 Management board

The management board is a governing body that represents and manages the day-to-day operations of Tallinna Sadam in accordance 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 controls function effectively. 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, who are appointed by the supervisory board for up to five years.

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. On 29 September 2020, the supervisory board extended the terms of office of Valdo Kalm and Marko Raid for another three-year period starting from the end of the previous term of office: from 1 March 2021 to 28 February 2024 for Valdo Kalm and from 18 April 2021 to 17 April 2024 for Marko Raid. The extension of the term of office of Margus Vihman was not yet discussed as his service contract expires on 31 October 2021.

No member of the management board is a member of the management board or the chairman of the supervisory board of another listed company. 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 7.6 of the management report.

In addition to **remuneration calculated** for 2020, the members of the management board may be eligible to a bonus for the results for 2020, which is decided by the supervisory board after the approval of the annual report for 2020. 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.

Remuneration provided to the management board

in thousands of euros	2020 tasud	2019 tasud	2019 preemia
Valdo Kalm	122.1	132.0	40.3
Marko Raid	99.9	108.0	33.0
Margus Vihman	95.5	103.2	31.5
Total	**317.5**	**343.2**	**104.8**

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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 2020 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, that is 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 the performance management system described in section 4 of the management report. The system was adopted in 2017 for both the members of the management board and employees in order to monitor the achievement of strategic goals. According to the system, every year three of the Group's main goals (revenue, EBITDA and the implementation of the most important projects) and some subsidiary goals (business volumes, business projects, changes in processes, etc.) are set and the achievement of those goals determines a person's eligibility to performance-related pay (a bonus). Usually 40% of an employee's performance-related bonus depends on the achievement of the company's overall goals (the main goals) and 60% depends on the achievement of personals goals (subsidiary goals). The supervisory board sets the goals for the management board and assesses the achievement of these goals once a year, on the approval of the annual report for the relevant year. The Group has currently no long-term bonus programmes and the short-term bonus system is not linked to the company's shares.

In the reporting period, Tallinna Sadam 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 were 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 closely associated with the members of the management board do not hold any shares in Tallinna Sadam.

VALDO KALM

Chairman of the Management Board, appointed to the board until 28 February 2024

Valdo Kalm has been the chairman of the management board of Tallinna Sadam since March 2016. Previously, he was chief executive at several telecommunication companies for over 20 years: Eesti Telefon, EMT, Eesti Telekom (currently Telia Eesti). Valdo Kalm was appointed as the chairman of the management board of Tallinna Sadam in February 2016. 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 and has been the chief financial officer since 2006. 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, that is customer relations and sales. Previously, Margus Vihman was sales director at Krimelte OÜ, regional sales director at the construction company Ruukki and regional chief executive at the construction chemicals company Henkel Makroflex. He has a degree in international business administration (MBA) from the Estonian Business School.

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7.6 Supervisory and management boards of subsidiaries and associates

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

At the end of 2020, the members of the supervisory board of **TS Shipping** were Valdo Kalm (chairman), Marko Raid and Ahti Kuningas (deputy secretary general for the Ministry of Economic Affairs and Communications). The management board of TS Shipping had one member: Ülo Eero.

At 31 December 2020, the members of the supervisory board of **TS Laevad** were Valdo Kalm (chairman), Marko Raid and Johann Peetre (expert from the transport development and investments department of the Ministry of Economic Affairs and Communications). Johann Peetre replaced Tiit Rebane (head of the legal department of the Ministry of Economic Affairs and Communications) as a member of the supervisory board on 6 February 2020. The management board of TS Laevad had three members: Guldar Kivro (acting chairman) and Ave Metsla. The position of the chairman of the board was vacant at 31 December 2020. Jaak Kaabel was the chairman of the management board until 10 September 2020, but decided not to apply for a new term on the expiry of his contract. An open competition was held for the position and in November the supervisory board of TS Laevad appointed Indrek Randveer as the new chairman of the management board, effective from 4 January 2021. Pille Kauber was a member of the management board until the expiry of her term of office on 3 January 2020. She was replaced by Ave Metsla (from 12 March 2020) who was appointed based on the results of an open competition.

At 31 December 2020, the members of the supervisory board of **Green Marine**, an associate of Tallinna Sadam, were Valdo Kalm (chairman), Marko Raid, Carl-Jüri Piht, Innar Susi and Ahti Kuningas. This composition of the supervisory board took office on 1 October 2020. Before that, the composition of the supervisory board was the same except that Andres Lukin was a member of the supervisory board instead of Carl-Jüri Piht. The management board of the associate has two members: the chairman Ain Kuusik (from 20 July 2020) and Aivar Sülla. Carl-Jüri Piht served as the chairman of the management board until 19 July 2020, when he stepped down to become a member of the supervisory board.

7.7 Cooperation of the 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.

7.8 Disclosure of information and communication

Since the listing of the Tallinna Sadam shares on the Nasdaq Tallinn Stock Exchange on 13 June 2018, Tallinna Sadam observes the rules of the stock exchange and the requirements of the EU market abuse regulation and discloses 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 and the corporate website www.ts.ee. On the website, we have made available information about the company and the governing bodies, the articles of association and the strategy, the dividend policy, the 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 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 previously been disclosed.

In 2020, there were 16 personal meetings with investors, six investor webinars and one group meeting for pension funds. We participated in two investor conferences in London and New York (online) and there were two investor days for local investors in the newly renovated building of passenger terminal D.

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

In our marketing and communication activities, we prioritise not only investor relations but also direct communication with different target and stakeholder groups as well as multidirectional information exchange and building a strong brand image, which is a key factor in successfully implementing our business strategy. As a responsible company, we respect the principles of openness, integrity and ethical conduct in our messages and marketing and communication activities.

7.9 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 2020, the fees paid or payable for services provided by audit firms totalled EUR 44 thousand (2019: EUR 62 thousand). The fees comprise fees for the financial audit of EUR 23 thousand (2019: EUR 18 thousand), the fees for the translation of our financial reports and the fees paid to Grant Thornton Baltic OÜ for the interim audit of the TWIN-PORT 3 project and appraisal of the market value of the assets of Paljassaare Harbour.

7.10 Statement of compliance with the Corporate Governance Code

Tallinna Sadam does not comply with section 6.2.2 of the Corporate Governance Code (CGC) and complies with section 1.3.3 partially:

CGC section 6.2.2 – Before entering a contract for auditing services with an auditor, the management board shall present the supervisory board with the draft contract for approval. /…/

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. The contract is signed based on the result of the procurement tender and all significant terms and conditions of the contract (including the terms for the qualification of the bidders and the evaluation of the bids, the term of the contract and the scope of the work) are agreed with the audit committee, which is a body that advises the supervisory board, before a procurement tender is announced. In accordance with the regulation of the Estonian Financial Supervision and Resolution Authority regarding the rotation of auditors of certain entities subject to public financial supervision, we organise the rotation of auditors and thus ensure the independence of the auditor.

CGC Section 1.3.3 – Issuers shall make participation in the general meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Due to COVID-19 related restrictions on public gatherings with a large number of participants, Tallinna Sadam as a responsible company organised the adoption of resolutions at its annual general meeting of 2020 without calling a meeting – the shareholders could vote electronically (remotely) during the voting period. Before the start of the voting period, all interested parties were invited to participate in an interactive webinar, where they were given an overview of the draft resolutions and the voting procedure and received answers to their questions.

CONSOLIDATED FINANCIAL STATEMENTS

Management's Confirmation and Signatures

By authorising the consolidated annual financial statements as at and for the period ended 31 December 2020 for issue, the management board confirms that the information about AS Tallinna Sadam and its subsidiaries, as set out on pages 76 to 154, 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 2021) have been properly recognised and disclosed in the consolidated financial statements; and

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

15 March 2021

VALDO KALM
Chairman of the Management Board

MARKO RAID
Member of the Management Board

MARGUS VIHMAN
Member of the Management Board

Consolidated Financial Statements

Consolidated statement of financial position

In thousands of euros	Note	31.12.2020	31.12.2019
ASSETS			
Current assets			
Cash and cash equivalents	7	26,679	35,183
Trade and other receivables	8	10,183	10,614
Inventories		360	408
Total other current assets		**37,222**	**46,205**
Non-current assets held for sale	10	114	142
Total current assets		**37,336**	**46,347**
Non-current assets			
Investments in an associate	9	1,147	1,609
Other long-term receivables	8	0	294
Property, plant and equipment	10	587,506	575,267
Intangible assets	11	2,104	2,015
Total non-current assets		**590,757**	**579,185**
Total assets		**628,093**	**625,532**

In thousands of euros	Note	31.12.2020	31.12.2019
LIABILITIES			
Current liabilities			
Loans and borrowings	16	17,266	16,266
Derivative financial instruments	17	102	243
Provisions	13	1,289	1,915
Government grants	18	1,919	193
Taxes payable	15	744	893
Trade and other payables	14	9,149	11,755
Total current liabilities		**30,469**	**31,265**
Non-current liabilities			
Loans and borrowings	16	194,314	191,580
Government grants	18	26,145	24,754
Other payables	14	1,733	915
Total non-current liabilities		**222,192**	**217,249**
Total liabilities		**252,661**	**248,514**
EQUITY			
Share capital		263,000	263,000
Share premium		44,478	44,478
Statutory capital reserve		20,262	18,520
Hedge reserve		–102	–243
Retained earnings (prior periods)		19,276	6,859
Profit for the period		28,518	44,404
Total equity	19	**375,432**	**377,018**
Total liabilities and equity		**628,093**	**625,532**

Consolidated statement of profit or loss and other comprehensive income

Consolidated statement of profit or loss

In thousands of euros	Lisa	31.12.2020	31.12.2019
Revenue	3, 20	107,358	130,536
Other income	22	3,015	1,017
Operating expenses	21	–30,858	–36,669
Personnel expenses	21	-19,491	-19,867
Depreciation, amortisation and impairment	10, 11	–24,094	–23,037
Other expenses		–368	–301
Operating profit		**35,562**	**51,679**
FINANCE INCOME AND COSTS			
Finance income		36	42
Finance costs	23	–1,705	–1,797
Finance costs – net		**–1,669**	**–1,755**
Share of profit or loss of an associate accounted for under the equity method	9	–462	244
Profit before income tax		**33,431**	**50,168**
Income tax expense	19	–4,913	–5,764
Profit for the period		**28,518**	**44,404**
Attributable to:			
Owners of the Parent		28,518	44,404
Basic earnings and diluted net earnings per share (in euros)	19	0.11	0.17
Basic earnings and diluted net earnings per share – continuing operations (in euros)		0.11	0.17

Consolidated statement of other comprehensive income

In thousands of euros	Lisa	31.12.2020	31.12.2019
Profit for the period		**28,518**	**44,404**
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	141	182
Total other comprehensive income		**141**	**182**
Total comprehensive income for the period		**28,659**	**44,586**
Attributable to:			
Owners of the Parent		28,659	44,586

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Consolidated statement of cash flows

In thousands of euros	Note	2020	2019
Cash receipts from sale of goods and services		114,378	138,690
Cash receipts related to other income		94	193
Payments to suppliers		-41,354	–47,210
Payments to and on behalf of employees		–15,713	–16,892
Payments for other expenses		–376	–377
Other payments	14	-2,600	0
Income tax paid on dividends	19	–4,913	–10,985
Cash from operating activities		**49,516**	**63,419**
Purchases of property, plant and equipment	26	–35,811	–27,965
Purchases of intangible assets	26	–661	–550
Proceeds from sale of property, plant and equipment		2,863	39
Government grants received		3,561	0
Dividends received	9	0	204
Interest received		15	28
Cash used in investing activities		**–30,033**	**–28,244**
Redemption of debt securities	16	–9,000	–9,000
Proceeds from loans received	16	20,000	10,000
Repayments of loans received	16	–7,266	–6,766
Dividends paid	19	–30,008	–34,970
Interest paid	16	–1,694	–1,769
Other payments related to financing activities		–19	–50
Cash used in financing activities		**–27,987**	**–42,555**
Net cash flow		**–8,504**	**–7,380**
Cash and cash equivalents at beginning of the period	7	35,183	42,563
Change in cash and cash equivalents		–8,504	–7,380
Cash and cash equivalents at end of the period	7	26,679	35,183

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Consolidated statement of changes in equity

In thousands of euros	Note	Share capital	Share premium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity attributable to owners of the Parent
Equity at 31 December 2018		**263,000**	**44,478**	**18,520**	**–425**	**42,101**	**367,674**
Profit for the period		0	0	0	0	44,404	44,404
Other comprehensive income for the period	17, 19	0	0	0	182	0	182
Total comprehensive income for the period		**0**	**0**	**0**	**182**	**44,404**	**44,586**
Dividend declared	19	0	0	0	0	–35,242	–35,242
Total transactions with owners		**0**	**0**	**0**	**0**	**–35,242**	**–35,242**
Equity at 31 December 2019		**263,000**	**44,478**	**18,520**	**–243**	**51,263**	**377,018**
Profit for the period		0	0	0	0	28,518	28,518
Other comprehensive income for the period	17, 19	0	0	0	141	0	141
Total comprehensive income for the period		**0**	**0**	**0**	**141**	**28,518**	**28,659**
Dividend declared	19	0	0	0	0	–30,245	–30,245
Total transactions with owners		**0**	**0**	**0**	**0**	**–30,245**	**–30,245**
Increase of capital reserve		0	0	1,742	0	–1,742	0
Equity at 31 December 2020		**263,000**	**44,478**	**20,262**	**–102**	**47,794**	**375,432**

Notes to the Consolidated Financial Statements

Note 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 year ended 31 December 2020 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. Old City Harbour in the centre of Tallinn together with Old City Marina for small vessels (opened in 2010) and Saaremaa Harbour designed for receiving cruise ships provide mainly passenger harbour services. Muuga Harbour, which is Estonia's largest cargo harbour, Paldiski South Harbour and Paljassaare Harbour that serves mostly ship repair companies provide mainly cargo harbour services. The Group has ceased active operations in Paljassaare Harbour and is making preparations to exit from the harbour. In connection with this, in 2020 the Group sold a lot of assets belonging to Paljassaare Harbour.

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 12 March 2021. Under the Estonian Commercial Code, 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.

The Group's subsidiaries as at 31 December 2020 and 31 December 2019

Subsidiary	Domicile	Ownership interest (%) 2020	Ownership interest (%) 2019	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

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Note 2. Accounting policies

Basis of preparation

The Group's consolidated financial statements as at and for the year ended 31 December 2020 have 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.

Changes in accounting policies in the reporting period

Until recently, the approach in Estonia was that corporate income tax is not paid when profit is earned but when profit, e.g. a dividend is distributed. In June 2020, the IFRS Interpretations Committee decided that companies preparing IFRS financial statements have to recognised deferred income tax on their investments even if the investments are domiciled in jurisdictions where income tax is paid only when profit is distributed.

Deferred tax is recognised for temporary differences that arise between the carrying amounts of assets and liabilities and their tax bases (the tax base is the amount attributed to an asset or liability for tax purposes).

Under Estonian laws, corporate profit for the year is not subject to taxation. The obligation to pay income tax arises on the distribution of profit and is recognised as an expense (in profit or loss for the period) when the dividend is declared. Due to the nature of the taxation system, companies registered in Estonia generally have no deferred tax assets or liabilities.

The Group incurs deferred tax liabilities only in connection with investments in entities domiciled in countries where profit for the year is subject to income tax and investments in subsidiaries and associates domiciled in Estonia except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Examples of the reversal of taxable temporary differences include the distribution of a dividend, the disposal of an investment, and similar transactions.

Since the Group is able to control its subsidiaries' dividend policy and to block, where necessary, the profit distribution decisions of the associate AS Green Marine, it is able to control the timing of the reversal of the temporary differences associated with those investments.

AS Tallinna Sadam has decided not to distribute the profits of the subsidiaries and the associate AS Green Marine in the foreseeable future. Therefore, it has not recognised any deferred tax liabilities. If profit is expected to be distributed in the foreseeable future, a deferred tax liability will be recognised for the planned profit distribution, assuming that at the reporting date there are sufficient funds and equity from which profit can be distributed in the foreseeable future.

The Group measures deferred tax liabilities using tax rates that, based on the tax rates enacted at the reporting date, are expected to apply to the taxable temporary differences in the periods in which the temporary differences are expected to reverse.

The change in the interpretation of the standard does not require the Group to recognise any deferred tax liabilities associated with profit distributions because the subsidiaries and the associate are not planning to distribute dividends in the foreseeable future.

Changes taking effect in the future

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 2020 and have therefore not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 –
Interest Rate Benchmark Reform (IBOR) (Phase two)

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

Change in basis for determining cash flows

The amendments will require the Group to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform. This amendment will not result in a discontinuation of the hedge or designation of a new hedging relationship.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Disclosure

The amendments will require the Group to disclose additional information to enable users to understand the effect of the interest rate benchmark reform on its financial instruments, including information about the Group's exposure to risks arising from interest rate benchmark reform and related risk management activities.

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

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

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

The European Commission has decided to defer the endorsement indefinitely.

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

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

However, the quantitative impact of the adoption of the amendments can only be assessed in the year of their initial application as this will depend on the transfers of assets or businesses to the associate or joint venture that take place during that reporting period.

Basis of consolidation

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

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.

The profit or loss and each component of other comprehensive income are attributed to the owners of the Parent and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Parent and the 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 2020.

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.

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

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.

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 at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates at that date. Non-monetary items carried at fair value in a foreign currency are translated at the exchange rate 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 it 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 total 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. The agreements signed with cargo operators generally 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 cargo 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 fluctuate. 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 at 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 enabling connection 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.

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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 who do not buy tickets against their credit limit or prepayments made), when a prepayment is received or once a month (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 and similar services) 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 trip 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 a reporting period is deducted from the total PTPSC 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 the fair value of the financial assets and deducted from the fair value of the financial liabilities 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.

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 but 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*.

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.

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, which is 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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, have granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- 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.

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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 of 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 hedges

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 cash-in-transit service providers 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 the inventories.

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

Non-current assets held for sale

An item of property, plant and equipment or an intangible asset is classified as held for sale if the sale of the asset is highly probable within the next 12 months and it is being actively marketed for sale at a sales price reasonable in relation to its fair value.

Non-current assets held for sale are not depreciated. They are presented separately in the statement of financial position within *Non-current assets held for sale* and measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the Group’s operations, are expected to be used for more than one year and have a cost exceeding EUR 5 thousand. Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

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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 (dry-docking) is performed and recognised as a new non-physical component.

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.

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 and facilities: 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 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.

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Corporate income tax

Deferred tax is recognised for temporary differences that arise between the carrying amounts of assets and liabilities and their tax bases (the tax base is the amount attributed to an asset of liability for tax purposes).

Under Estonian laws, corporate profit for the year is not subject to taxation. The obligation to pay income tax arises on the distribution of profit and is recognised as an expense (in profit or loss for the period) when the dividend is declared. Due to the nature of the taxation system, companies registered in Estonia generally have no deferred tax assets or liabilities.

The Group incurs deferred tax liabilities only in connection with investments in entities domiciled in countries where profit for the year is subject to income tax and investments in subsidiaries and associates domiciled in Estonia except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Examples of the reversal of taxable temporary differences include the distribution of a dividend, the disposal of an investment, and similar transactions.

Since the Group is able to control its subsidiaries' dividend policy and to block, where necessary, the profit distribution decisions of the associate AS Green Marine, it is able to control the timing of the reversal of the temporary differences associated with those investments.

AS Tallinna Sadam has decided not to distribute the profits of the subsidiaries and the associate AS Green Marine in the foreseeable future. Therefore, it has not recognised any deferred tax liabilities. If profit is expected to be distributed in the foreseeable future, a deferred tax liability will be recognised for the planned profit distribution, assuming that at the reporting date there are sufficient funds and equity from which profit can be distributed in the foreseeable future.

The corporate income tax rate in Estonia is 20% (the amount of tax payable is calculated as 20/80 of the net distribution). From 2019, regular dividend distributions are subject to a lower, 14% tax rate (the amount of tax payable is calculated as 14/86 of the net distribution). Every calendar year, the lower tax rate may be applied to dividend and other profit distributions to an extent that does not exceed the three prior calendar years' average amount of dividend and other profit and equity distributions on which tax has been paid.

The maximum income tax liability which would arise if all of the unrestricted equity were distributed as dividends is disclosed in note 19 to the financial statements.

Employee benefits

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.

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 Group 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 has been recognised to meet the requirements of the Estonian Commercial Code. Each financial year, 1/20 (5%) of 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

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control and use an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control and use an identified asset, the Group applies the definition of a lease as set out in IFRS 16.

The Group as a lessee

When entering into or modifying a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability. The amount of the initial measurement of the lease liability is adjusted for any advance lease payments, any direct costs incurred and any restoration costs to be incurred (in dismantling the asset and restoring the site or the asset). Any lease incentives received are deducted from this amount.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the expiry of the lease term unless the ownership of the underlying asset transfers to the Group at the end of the lease term or the carrying amount of the right-of-use assets indicates that the Group plans to exercise the purchase option.

In that case, the underlying asset is depreciated over its entire estimated useful life, which is determined using the same approach that is used for similar items of property, plant and equipment that are owned. Right-of-use assets are also adjusted for impairment losses, if any. In addition, right-of-use assets are adjusted to reflect certain remeasurements of the lease liabilities.

The lease liability is initially measured at the present value of the lease payments not paid by the commencement date of the lease, using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Group generally applies the incremental borrowing rate as the discount rate.

The incremental borrowing rate is determined by reference to different sources of financing. The inputs received are adjusted to reflect the terms of the lease and the type of underlying asset, to find the incremental borrowing rate appropriate for the asset.

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

- Fixed payments (including in-substance fixed payments)
- Penalties for terminating the lease (if termination is reasonably certain)
- The exercise price of a purchase option (if the lessee is reasonably certain to exercise the option)
- Amounts expected to be payable by the lessee under residual value guarantees
- Lease payments that depend on an index or rate.

The lease liability is measured at amortised cost. It is remeasured if there is a change in future lease payments reflecting a change in the index or rate used to determine the payments, if the amounts expected to be payable under a residual value guarantee are reassessed or if the Group changes its assessment of whether it intends to exercise the option to purchase the underlying asset or the option to extend or terminate the lease. The lease liability is also remeasured to reflect changes in fixed payments (including in-substance fixed payments).

If the lease liability is remeasured due to the above reasons, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The effect of the change in the lease liability is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

The Group as a lessor

When entering into a contract that contains a lease component or modifies a lease, the Group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

For contracts under which the Group is the lessor, the Group determines at the commencement date whether the lease is an operating lease or a finance lease.

The Group assesses in each case whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If yes, the lease is classified as a finance lease. If not, the lease is classified as an operating lease. As part of this assessment, the Group also considers certain other indicators (e.g. whether the lease term is for the major part of the economic life of the underlying asset).

If the contract contains both lease and non-lease components, the Group applies the accounting policies of IFRS 15 to allocate the consideration in the contract to the components.

The Group applies the derecognition and impairment requirements of IFRS 9 to the lessor's net investment in the lease. The Group reviews regularly estimated unguaranteed residual values used in computing the lessor's gross investment in the lease.

For operating leases, the Group recognises lease payments as income in profit or loss 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 an accounting estimate.

Government grants related to assets

Government grants related to the acquisition of assets are presented in the statement of financial position by setting up the grant as deferred income (a liability), which is recognised in profit or loss on a systematic basis over the useful life of the asset. Assets acquired through government grants are initially recognised at full cost (i.e. using the gross method). Acquired assets are depreciated and the liability arising from the government grant is recognised in other income over the estimated useful life of the acquired asset.

The liabilities arising from the grants related to non-depreciable assets (e.g. land) are recognised as income when the asset is ultimately retired or sold. Repayment of a grant related to an asset is recognised by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in the statement of profit or loss to date in the absence of the grant is recognised immediately in the statement of profit or loss.

Government grants related to income

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 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. The policies for the recognition of income from government grants related to domestic ferry service are described in this note under *Sale of ferry services – government support*.

Statement of cash flows

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

Tehingud seotud osapooltega

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.

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Note 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 – Old City Harbour and 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 – Muuga Harbour, Paldiski South Harbour and 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 or loss on investments 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 investments 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 investments 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 costs (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 2020, the Group generated EUR 4,263 thousand, i.e. 4% of its revenue (2019: EUR 4,958 thousand, i.e. 4%) outside Estonia (in Canada) and 96% (2019: 96%) 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.

Information about major customers

The Group's total revenue of EUR 107,358 thousand (2019: 130,536 thousand) includes revenue of EUR 23,439 thousand (2019: EUR 23,357 thousand) attributable to its largest customer, which is reported in the Ferry segment and the segment Other. In 2020, the Group's second largest customer also contributed 10% or more to the Group's total revenue. Revenue attributable to this customer of EUR 17,195 thousand (2019: EUR 24,695 thousand) is reported in the Passenger harbours segment and the Cargo harbours segment. No other customer contributed 10% or more to the Group's total revenue for 2020 or 2019.

Segment revenues and results

In thousands of euros	2020				
	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	17,614	19,990	0	0	37,604
Cargo charges	1,439	5,358	0	0	6,797
Passenger fees	6,883	156	0	0	7,039
Sale of electricity	584	3,882	0	0	4,466
Sale of ferry services – revenue from ticket sales	0	0	10,479	0	10,479
Sale of other services	654	994	51	69	1,768
Operating lease income	1,596	9,303	674	0	11,573
Charter fees	0	0	0	9,131	9,131
Sale of ferry services – government support	0	0	18,501	0	18,501
Total segment revenue* (note 20)	**28,770**	**39,683**	**29,705**	**9,200**	**107,358**
Adjusted segment EBITDA	**15,140**	**25,377**	**14,101**	**3,805**	**58,423**
Depreciation and amortisation	-6,604	-8,913	-5,892	-2,264	-23,673
Impairment loss (note 10)	-69	-352	0	0	-421
Amortisation of government grants received (note 18)	198	573	0	0	771
Share of loss of an associate accounted for under the equity method	0	0	0	462	462
Segment operating profit	**8,665**	**16,685**	**8,209**	**2,003**	**35,562**
Finance income and costs, net					-1,669
Share of loss of an associate accounted for under the equity method					-462
Income tax expense					-4,913
Profit for the period					**28,518**

** Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 82 thousand and EUR 114 thousand for the Passenger harbours and Cargo harbours segments, respectively, which was eliminated during consolidation.*

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In thousands of euros	2019				
	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	27,581	19,139	0	0	46,720
Cargo charges	1,475	5,666	0	0	7,141
Passenger fees	16,905	169	0	0	17,074
Sale of electricity	742	4,691	0	0	5,433
Sale of ferry services - revenue from ticket sales	0	0	11,583	0	11,583
Sale of other services	1,174	1,063	45	107	2,389
Operating lease income	1,949	9,385	626	0	11,960
Charter fees	0	0	0	9,665	9,665
Sale of ferry services – government support	0	0	18,571	0	18,571
Total segment revenue* (note 20)	**49,826**	**40,113**	**30,825**	**9,772**	**130,536**
Adjusted segment EBITDA	**32,792**	**22,248**	**13,932**	**5,320**	**74,292**
Depreciation and amortisation	-6,475	-8,468	-5,643	-2,204	-22,790
Impairment loss (note 10)	-154	-93	0	0	-247
Amortisation of government grants received (note 18)	204	464	0	0	668
Share of profit of an associate accounted for under the equity method	0	0	0	-244	-244
Segment operating profit	**26,367**	**14,151**	**8,289**	**2,872**	**51,679**
Finance income and costs, net					-1,755
Share of profit of an associate accounted for under the equity method					244
Income tax expense					-5,764
Profit for the period					**44,404**

** Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 51 thousand and EUR 154 thousand for the Passenger harbours and Cargo harbours segments, respectively, which was eliminated during consolidation.*

Note 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.

The COVID-19 pandemic has affected and continues to affect the operation of financial markets. To mitigate the risks involved, we monitor our customers' payment behaviour more closely than earlier, maintain an open dialogue with banks and other potential financing providers to make sure that we can obtain credit when necessary, and observe developments in the economic environment, including changes in interest rates. We forecast and monitor the Group's cash flows in the long- and short-term perspective to make sure that the required credit limits and liquidity buffers would be available in time, before they need to be used. For further information about the impacts of the COVID-19 pandemic on the Group's performance, see section 6.3 in the management report.

Market risk

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 2020, 96.9% of receipts (2019: 97.4%) and 99.4% of payments (operating expenses, investments, finance costs, etc.) (2019: 99.5%) 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.

Price risk

At 31 December 2020 and the previous financial year end, 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.

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 2020, loans and borrowings with rates fixed through derivative transactions accounted for 7% (31 December 2019: 14%) of the portfolio. Thus, 93% 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 re-pricing dates of loans and borrowings at the end of the reporting period are as follows at page 103.

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 2020 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 1,976 thousand (31 December 2019: EUR 1,796 thousand), assuming all other variables remained constant.

In thousands of euros **At 31 December**	**2020**	**% of total**	**2019**	**% of total**
Variable rate borrowings	197,580	93.38%	179,646	86.43%
Fixed rate borrowings – remaining terms to repricing dates	14,000	6.62%	28,200	13.57%
< 6 months	2,000	0.95%	2,000	0.96%
6–12 months	2,000	0.95%	2,000	0.96%
1–5 years	10,000	4.74%	24,200	11.65%
Total loans and borrowings (note 16)	**211,580**		**207,846**	

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At 31 December 2020, the Group's maximum exposure to credit risk was EUR 33,101 thousand (31 December 2019: EUR 42,181 thousand).

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

In thousands of euros **At 31 December**	**2020**	**2019**
Current accounts and term deposits at banks with original maturities of less than 3 months (note 7)	26,651	35,159
Receivables from customers* (note 8)	6,127	6,689
Other receivables (note 8)	323	333
Total	**33,101**	**42,181**

* *Impairment allowances have been deducted from receivables from customers.*

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 73.1% (2019: 70.3%) 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).

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Trade receivables – expected credit loss matrix

In thousands of euros		Days past due				
	Not past due	0-30	31-60	61-90	>90	Total
AT 31 DECEMBER 2020						
Expected credit loss rate	0.80%	1.50%	3.00%	80.00%	100.00%	
Total trade and other receivables	5,713	460	6	6	1,636	7,820
Lifetime expected credit loss (ECL)	-46	-7	0	-4	-1,636	-1,693
						6,127
AT 31 DECEMBER 2019						
Expected credit loss rate	0.80%	1.50%	3.00%	80.00%	100.00%	
Total trade and other receivables	6,220	467	52	45	2,065	8,849
Lifetime expected credit loss (ECL)	-50	-7	-2	-36	-2,065	-2,160
						6,689

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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 receivables not credit-impaired	Credit-impaired receivables	Total
At 31 December 2018	**89**	**1,931**	**2,020**
Transfer to credit impaired	0	458	458
Amounts written off as uncollectible	0	-93	-93
Amounts recovered (previously written down/off)	0	-231	-231
Change in loss allowance due to new trade receivables	6	0	6
At 31 December 2019	**95**	**2,065**	**2,160**
Transfer to credit impaired	0	1,530	1,530
Amounts written off as uncollectible	0	-1,383	-1,383
Amounts recovered (previously written down/off)	0	-577	-577
Change in loss allowance due to new trade receivables	-37	0	-37
At 31 December 2020	**58**	**1,635**	**1,693**

** In 2020 and 2019, 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 2020, the credit risk of those financial assets had not increased significantly and therefore no additional provision was needed. At 31 December 2020, a major share of other receivables was made up of instalment plan receivables.

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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 the 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 2020, current assets exceeded current liabilities by EUR 6.9 million (31 December 2019: by EUR 15.1 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 28 January 2021 for year-end 2020 and as at 10 February 2020 for year-end 2019.

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

Liquidity analysis

In thousands of euros	Loans outstanding*	Debt securities issued**	Trade and other payables	Derivative instruments	Total
AT 31 DECEMBER 2020					
< 6 months	3,506	408	9,058	32	13,004
6–12 months	5,170	9,394	0	71	14,635
1–5 years	43,982	38,869	0	108	82,959
> 5 years	12,388	105,385	0	0	117,773
Total	**65,046**	**154,056**	**9,058**	**211**	**228,371**
AT 31 DECEMBER 2019					
< 6 months	3,495	318	11,998	42	15,853
6–12 months	4,046	9,502	0	81	13,629
1–5 years	28,145	39,720	0	221	68,086
> 5 years	15,899	115,706	0	0	131,605
Total	**51,585**	**165,246**	**11,998**	**344**	**229,173**

* *Including principal outstanding of EUR 62,330 thousand (2019: EUR 49,596 thousand) and estimated total future interest payments of EUR 2,716 thousand (2019: EUR 1,989 thousand).*

** *Including principal outstanding of EUR 149,250 thousand (2019: EUR 158,250 thousand) and estimated total future interest payments of EUR 4,806 thousand (2019: EUR 6,996 thousand).*

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Note 5. Significant accounting estimates and judgements

RThe 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 assessment of 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 2020, 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 2020, the carrying amount of the Group's property, plant and equipment was EUR 587,506 thousand; depreciation for the year amounted to EUR 23,094 thousand. At 31 December 2019, the respective figures were EUR 575,267 thousand and EUR 22,266 thousand (note 10). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 2,309 thousand (2019: EUR 2,226 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 the 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 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 as items of property, plant and equipment and has classified the revenue received from the state as revenue from government grants.

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Note 6. Financial instruments

Financial instruments by category

Financial assets

In thousands of euros At 31 December	2020	2019
Financial assets carried at amortised cost	*35,586*	*44,515*
Cash and cash equivalents (note 7)	26,679	35,183
Trade and other receivables – financial assets (note 8)	8,907	9,332
Total financial assets	**35,586**	**44,515**

Financial liabilities

In thousands of euros At 31 December	2020	2019
Financial liabilities carried at amortised cost	*218,486*	*217,670*
Trade and other payables – financial liabilities (note 14)	6,906	9,824
Loans and borrowings (note 16)	211,580	207,846
Liabilities at fair value	*102*	*243*
Derivatives (note 17)	102	243
Total financial liabilities	**218,588**	**217,913**

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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 2020, 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 2020 and 31 December 2019 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.

Credit quality of financial assets

The credit quality of financial assets which are neither past due nor impaired is 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 **At 31 December**	**2020**	**2019**
Aa2	26,530	22,597
Baa1	121	12,562
Total amount reported in cash and cash equivalents	**26,651**	**35,159**

* *The remaining portion of the balance of Cash and cash equivalents (EUR 28 thousand at 31 December 2020 and EUR 24 thousand at 31 December 2019) not included in the table above consists of cash on hand and in transit, i.e. funds that cash-in-transit service providers and other payment intermediaries have not yet transferred to the Group's current accounts.*

Note 7. Cash and cash equivalents

In thousands of euros **At 31 December**	**2020**	**2019**
Cash on hand	12	13
Cash at banks	26,651	25,159
Short-term deposits	0	10,000
Cash in transit	16	11
Total cash and cash equivalents (notes 4 and 6)	**26,679**	**35,183**

All balances included in cash and cash equivalents are denominated in euros (as at 31 December 2020 and 31 December 2019).

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

Note 8. Trade and other receivables

In thousands of euros At 31 December	2020	2019
FINANCIAL ASSETS		
Receivables from customers (note 4)	7,820	8,849
Incl. from contracts with customers	5,358	6,936
Allowance for credit losses (note 4)	-1,693	-2,160
Incl. from contracts with customers	-257	-1,324
Government grants receivable (note 18)	2,487	2,287
Receivables from an associate (note 24)	15	36
Other receivables (note 4)	278	320
Total financial assets (note 6)	**8,907**	**9,332**
Incl. receivables for non-current assets	55	143
NON-FINANCIAL ASSETS		
Prepaid taxes (note 15)	744	1,093
Other prepayments	487	470
Other receivables (note 4)	45	13
Total non-financial assets	**1,276**	**1,576**
Total trade and other receivables	**10,183**	**10,908**
Of which current receivables	10,183	10,614
non-current receivables	0	294

Note 9. Investments 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 2020 and 31 December 2019) 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 entity.

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

The Group's investments in the associate are accounted for using the equity method in these consolidated financial statements.

Changes in investments in an associate

In thousands of euros **At 31 December**	**2020**	**2019**
Carrying amount at beginning of period	1,609	1,569
Share of profit or loss under the equity method	-462	244
Dividends paid	0	-204
Carrying amount at end of period	**1,147**	**1,609**

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Associate AS Green Marine

In thousands of euros **At 31 December**	**2020**	**2019**
Current assets	518	1,335
Non-current assets	4,101	3,974
Current liabilities	798	915
Non-current liabilities	1,572	1,240
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	3	543
Current loans and borrowings	383	300
Non-current loans and borrowings	1,572	1,240

In thousands of euros	**2020**	**2019**
Revenue	2,906	5,279
Profit or loss from continuing operations	-856	500
Profit or loss for the period	-856	500
Total comprehensive income for the period	**-856**	**500**
The above profit or loss for the period includes the following:		
Depreciation and amortisation	547	345
Interest expense	41	23
Income tax expense	0	88

In thousands of euros **At 31 December**	**2020**	**2019**
Net assets of the associate	2,249	3,154
The Group’s ownership interest in the associate, %	51%	51%
Carrying amount of the Group’s investments in the associate	1,147	1,609

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

Note 10. Property, plant and equipment

In thousands of euros	Land and building	Plant and equipment	Other items of property, plant and equipment	Assets under construction*	Pre-payments	Total
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**
Movements in 2019						
Purchases and reconstruction (note 26)	128	2,236	747	20,385	5,473	28,969
Disposal at carrying amount	0	0	-12	0	0	-12
Depreciation charge	-11,370	-10,402	-494	0	0	-22,266
Impairment losses	-233	-14	0	0	0	-247
Transferred to non-current assets held for sale at carrying amount*	-128	-14	0	0	0	-142
Reclassified at carrying amount	15,848	2,403	83	-18,334	0	0
At 31 December 2019						
Cost	614,182	240,253	7,399	7,699	5,504	875,037
Accumulated depreciation and impairment losses	-216,471	-78,121	-5,177	0	0	-299,769
Carrying amount at 31 December 2019	**397,711**	**162,132**	**2,221**	**7,699**	**5,504**	**575,267**
Movements in 2020						
Purchases and reconstruction (note 26)	327	2,174	1,377	32,592	0	36,470
Disposal at carrying amount	-591	-40	0	0	0	-631
Depreciation charge	-11,599	-10,857	-638	0	0	-23,094
Impairment losses	-237	-184	0	0	0	-421
Transferred to non-current assets held for sale at carrying amount	-74	0	0	0	0	-74
Other adjustments	0	0	0	0	-11	-11
Reclassified at carrying amount	14,529	5,612	89	-14,737	-5,493	0
At 31 December 2020						
Cost	627,291	246,929	8,614	25,554	0	908,388
Accumulated depreciation and impairment losses	-227,225	-88,092	-5,565	0	0	-320,882
Carrying amount at 31 December 2020	**400,066**	**158,837**	**3,049**	**25,554**	**0**	**587,506**

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*At 31 December 2020, assets under construction of EUR 25,554 thousand included the following major items:

- Construction of the cruise terminal and promenade of EUR 10,573 thousand
- Construction of automated mooring systems of EUR 7,562 thousand
- Construction of a footbridge of EUR 3,648 thousand
- Design and construction of a multi-storey car park of EUR 3,482 thousand.

*At 31 December 2019, assets under construction of EUR 7,699 thousand included the following major items:

- Construction of on-shore power supply systems for ferries of EUR 2,562 thousand
- Dredging works in the approach canal and harbour waters of EUR 1,039 thousand
- Construction of an extension to passenger terminal D of EUR 1,026 thousand
- Design and construction of the Pikksilma promenade of EUR 1,006 thousand.

The Group's assets have not been pledged.

At 31 December 2020, the carrying amount of fully depreciated items still in use was EUR 30,825 thousand, at 31 December 2019 EUR 29,524 thousand.

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 the 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 2020, the Group recognised write-downs of EUR 310 thousand and write-offs of EUR 111 thousand in impairment losses within *Depreciation, amortisation and impairment* in the statement of profit or loss, including:

- Write-down of facilities (infrastructure assets) of EUR 138 thousand
- Write-down of measuring equipment of EUR 172 thousand
- Write-off of buildings of EUR 34 thousand
- Write-off of facilities (infrastructure assets) of EUR 65 thousand
- Write-off of other equipment of EUR 12 thousand.

According to the segment information provided in note 3, the assets that were written down or off belonged to the Passenger harbours segment (EUR 69 thousand) and the Cargo harbours segment (EUR 352 thousand).

In 2019, the Group recognised write-downs of EUR 50 thousand and write-offs of EUR 197 thousand in impairment losses within Depreciation, amortisation and impairment in the statement of profit or loss, including:

- Write-down of a property of EUR 50 thousand
- Write-off of buildings of EUR 14 thousand
- Write-off of a connecting covered walkway of EUR 91 thousand
- Write-off of other facilities (infrastructure assets) of EUR 78 thousand
- Write-off of other equipment of EUR 14 thousand.

According to the segment information provided in note 3, the assets that were written down or off belonged to the Passenger harbours segment (EUR 154 thousand) and the Cargo harbours segment (EUR 93 thousand).

Note 11. Intangible assets

In thousands of euros	Computer software	Internally developed software under construction	Total
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**
Movements in 2019			
Purchases and upgrades (note 26)	194	321	515
Amortisation charge	-524	0	-524
At 31 December 2019			
Cost	4,486	321	4,807
Accumulated amortisation and impairment losses	-2,793	0	-2,793
Carrying amount at 31 December 2019	**1,694**	**321**	**2,015**
Movements in 2020			
Purchases and upgrades (note 26)	274	394	668
Amortisation charge	-579	0	-579
Reclassification from assets under construction	574	-574	0
At 31 December 2020			
Cost	5,296	141	5,437
Accumulated amortisation and impairment losses	-3,333	0	-3,333
Carrying amount at 31 December 2020	**1,963**	**141**	**2,104**

Note 12. Leases

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

In thousands of euros **At 31 December**	**2020**	**2019**
Land	44,989	42,320
Incl. with the right of superficies	*36,590*	*36,537*
Buildings	9,124	7,698
Plant and equipment	18	21
Other items of property, plant and equipment	498	642
Total carrying amount of property, plant and equipment leased out under operating leases	**54,629**	**50,681**

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

In thousands of euros	**2020**	**2019**
Buildings	522	509
Plant and equipment	3	3
Other items of property, plant and equipment	143	144
Total depreciation charge on property, plant and equipment leased out under operating leases	**668**	**656**

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

In thousands of euros	**2020**	**2019**
Land	7,923	7,867
Buildings	2,782	3,254
Plant and equipment	760	709
Other items of property, plant and equipment	108	130
Total rental income from property, plant and equipment leased out under operating leases (note 20)	**11,573**	**11,960**

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

In thousands of euros At 31 December	2020	2019
< 1 years	9,857	9,856
1–2 years	9,739	9,307
2–3 years	9,736	9,530
3–4 years	9,574	9,335
4–5 years	9,376	9,111
> 5 years	325,382	332,585
Total rental income in subsequent periods under non-cancellable operating lease contracts	**373,664**	**379,724**

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 contract entered into. 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 the 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 the 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 the 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).

Note 13. Provisions

In thousands of euros	2020	2019
Provision for bonuses		
At beginning of year	**1,229**	**1,440**
Recognised	1,045	1,233
Reversed	-9	-121
Used	-1,265	-1,323
At end of year	**1,000**	**1,229**
Other provisions		
At beginning of period	**686**	**517**
Recognised	0	169
Reversed	-397	0
At end of period	**289**	**686**
Total provisions	**1,289**	**1,915**

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 decided after the annual reports of relevant companies for the year ended 31 December 2020 have been approved.

Other provisions

Other provisions at 31 December 2020 include expected costs of EUR 61 thousand (31 December 2019: EUR 459 thousand) related to various ongoing court cases.

In connection with the obligation to pay compensation to members of the management board of AS Tallinna Sadam under the non-compete clauses of their service contracts, a provision of EUR 228 thousand has been recognised (31 December 2019: EUR 228 thousand).

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Note 14. Trade and other payables

In thousands of euros At 31 December	2020	2019
Financial liabilities		
Trade payables	5,764	5,281
Interest payable (note 16)	388	405
Payables to an associate (note 24)	78	127
Other payables*	676	4,011
Total financial liabilities (note 6)	**6,906**	**9,824**
Incl. liabilities for property, plant and equipment (note 26)	*2,758*	*2,162*
liabilities for intangible assets (note 26)	*33*	*26*
Non-financial liabilities		
Payables to employees	1,233	1,092
Accrued taxes payable on remuneration	621	596
Payables related to contracts with customers	925	946
Advances for goods and services	414	212
Other payables	783	0
Total non-financial liabilities	**3,976**	**2,846**
Total trade and other payables	**10,882**	**12,670**
Of which current liabilities	*9,149*	*11,755*
non-current liabilities	*1,733*	*915*

* *At 31 December 2019, other payables included a liability related to the sale of assets of EUR 2,600 thousand and a liability related to overpayments of EUR 1,284 thousand received from a customer, which were settled in the reporting period.*

Note 15. Taxes payable

In thousands of euros At 31 December	2020	2019
Personal income tax	241	266
Corporate income tax	10	33
Pollution charge	8	6
Social security tax	434	512
Unemployment insurance contributions	26	28
Funded pension contributions	18	18
Excise duties	7	30
Total taxes payable	**744**	**893**

At 31 December 2020, the Group's prepaid taxes amounted to EUR 744 thousand (31 December 2019: EUR 1,093 thousand). Prepaid taxes are disclosed in note 8.

At 31 December 2020 and 31 December 2019 the Group had no deferred tax assets or liabilities. At 31 December 2020, temporary differences associated with the Group's investments in subsidiaries and associates totalled EUR 27,851 thousand (31 December 2019: EUR 21,257 thousand) and the related deferred tax liability amounted to EUR 5,362 thousand (31 December 2019: EUR 3,959 thousand).

Since the Group is able to control the timing of the reversal of the temporary differences, it has not recognised the deferred tax liability.

For further information about deferred tax, see the section Corporate income tax in note 2.

Note 16. Loans and borrowings

In thousands of euros At 31 December	2020	2019
Current portion		
Loan liabilities	8,266	7,266
Debt securities	9,000	9,000
Total current portion	**17,266**	**16,266**
Non-current portion		
Loan liabilities	54,064	42,330
Debt securities	140,250	149,250
Total non-current portion	**194,314**	**191,580**
Total loans and borrowings (note 6)	**211,580**	**207,846**

Issue and redemption of debt securities

At 31 December 2020, AS Tallinna Sadam had two debt security (bond) issues with final maturities in 2026 and 2027. The bonds 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 Group has met all obligations set out in the terms of the bonds, including those which relate to complying with covenants, providing information and meeting the requirements set to financial ratios.

In 2020, principal payments of EUR 9,000 thousand (2019: EUR 9,000 thousand) were made in accordance with the payment schedules.

At 31 December 2020, the weighted average interest rate of the bonds was 0.54% (31 December 2019: 0.63%). The interest rate risk of bonds issued has not been hedged with interest rate swaps.

Loans

All loan agreements are denominated in euros and have floating interest rates (the base rate is 6-month Euribor). At 31 December 2020, the weighted average interest rate on drawn loans was 0.89% (31 December 2019: 0.68%). Considering the effect of derivative transactions used to hedge interest rate risk, at 31 December 2020 the average interest rate of loans was 1.24% (31 December 2019: 1.37%).

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

Principal repayments made in 2020 amounted to EUR 7,266 thousand (2019: EUR 6,766 thousand). In the second quarter of 2020 a loan agreement was signed with SEB Pank on an amount of EUR 20 million. The first portion of EUR 10 million was drawn down in July 2020 and the second portion, also EUR 10 million, was drawn down in October 2020. The base interest rate of the loan is 6-month Euribor and the purpose of the loan is to finance capital investments in Old City Harbour and Muuga Harbour. Taking into account the repayment term of the new loan, the final maturities of outstanding loan liabilities fall in the period 2024 to 2029.

Contractual maturities of loans and borrowings

In thousands of euros **At 31 December**	**2020**	**2019**
< 6 months	3,383	3,383
6–12 months	13,883	12,883
1–5 years	78,064	63,064
> 5 years	116,250	128,516
Total loans and borrowings (note 4)	**211,580**	**207,846**

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Carrying amounts and fair values of loans and borrowings*

In thousands of euros At 31 December	2020	2019
Carrying amount		
Debt securities	149,250	158,250
Loan liabilities	62,330	49,596
Total carrying amount	**211,580**	**207,846**
Fair value		
Debt securities	145,145	153,755
Loan liabilities	61,763	39,112
Total fair value	**206,908**	**192,867**

** Due to inputs used, all measurements of fair value 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.

At 31 December 2020, the fair value of financial liabilities calculated using the discounted cash flow method was 2.2% lower than their carrying amount (31 December 2019: 7.2% lower). The Group's loan agreements and bonds set certain limits to the Group's consolidated financial indicators. At 31 December 2020 and 31 December 2019 the Group was in compliance with all the financial covenants.

Reconciliation of liabilities arising from financing activities

In thousands of euros	1 January 2020	Cash flows from financing activities	Non-cash changes: Interest expense (note 23)	Non-cash changes: Fair value adjustments (note 17)	31 December 2020
Loan liabilities	49,596	12,734	0	0	62,330
Debt securities	158,250	-9,000	0	0	149,250
Derivatives (note 17)	243	0	0	-141	102
Interest payable (note 14)	405	-1,694	1,677	0	388
Total	**208,494**	**2,040**	**1,677**	**-141**	**212,070**

In thousands of euros	1 January 2019	Cash flows from financing activities	Non-cash changes: Interest expense (note 23)	Non-cash changes: Fair value adjustments (note 17)	31 December 2019
Loan liabilities	46,362	3,234	0	0	49,596
Debt securities	167,250	-9,000	0	0	158,250
Derivatives (note 17)	425	0	0	-182	243
Interest payable (note 14)	446	-1,769	1,728	0	405
Total	**214,483**	**-7,535**	**1,728**	**-182**	**208,494**

Note 17. Derivative instruments

In thousands of euros	2020	2019
Notional amount at 31 December	14,000	28,200
Fair value at beginning of period (liability) (note 16)	**-338**	**-524**
Incl. market value of derivative	*-243*	*-425*
interest payable	*-95*	*-99*
Change in derivative's market value (notes 16 and 19)	141	182
Change in interest payable	49	4
Fair value at end of period (liability) (note 16)	**-148**	**-338**
Incl. market value of derivative (note 6)	*-102*	*-243*
interest payable	*-46*	*-95*

At 31 December 2020, the notional amount of interest rate swaps entered into by AS Tallinna Sadam to hedge the interest rate risk of its long-term loans was EUR 14,000 thousand (31 December 2019: EUR 28,200 thousand). All terms, conditions and maturities of the interest rate swap instruments follow the repayment schedule of the hedged loans and the interest rate swap instruments are designated as hedging instruments under cash flow hedging relationships.

At 31 December 2020, AS Tallinna Sadam had one interest rate swap to hedge the interest rate risk of one long-term loan with a maturity of 7 years and the remaining maturity of 0.5 years. The floating interest rate to be swapped by the derivative instrument is 6-month Euribor. The fair value of the derivative instrument is based on the quote of the relevant transaction party (bank). The payments related to the derivative instrument are made in euros.

The effectiveness of the derivative instrument 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 2020, the underlying amount of the hedging instrument equalled the outstanding balance of the hedged instrument and the amortisation schedule of the instrument was 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 the hedged item and the 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 2020, the weighted average fixed interest rate of derivatives was 0.64% (31 December 2019: 0.57%); 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.

Note 18. Government grants

Non-current government grant liabilities

In thousands of euros **At 31 December**	**2020**	**2019**
Cohesion Fund	20,669	21,105
“Extension of the eastern part of Muuga Harbour” (2006–2011)	*16,410*	*16,625*
“Connecting the eastern part and the Industrial Park of Muuga Harbour” (2010–2014)	*4,259*	*4,480*
TEN-T	5,400	3,560
"The Baltic Sea hub and spokes project” (2010–2013)	*4*	*7*
TWIN-PORT (2012-2015)	*953*	*1,021*
TWIN-PORT 2 (2014-2018)	*2,240*	*2,340*
TWIN-PORT 3 (2018-2023)	*1,174*	*192*
TWIN-PORT 4 (2020-2023)	*446*	*0*
Dredging works at Paldiski South Harbour (2019–2020)	*583*	*0*
State budget of the Republic of Estonia	76	89
“Grant for small ports” (2010)	*54*	*60*
“Atmospheric air protection programme” (2011–2013)	*22*	*29*
Total non-current government grant liabilities	**26,145**	**24,754**
Incl. non-depreciable assets	*13,902*	*13,902*

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Recognised as income

In thousands of euros	2020	2019
Grants related to assets	771	668
Grants related to income	18,425	18,712
Total recognised as income	**19,196**	**19,380**
Incl. Revenue from other sources (note 20)	*18,501*	*18,571*
Other income (note 22)	*695*	*809*

Short-term deferred government grant income

In thousands of euros **At 31 December**	2020	2019
TEN-T	1,600	0
Other foreign aid	83	0
State budget of the Republic of Estonia	236	193
Total short-term deferred government grant income	**1,919**	**193**

TEN-T programme "Motorways of the Sea"

TWIN-PORT 2 (2014-2020)

TWIN-PORT 2 is a follow-up project to TWIN-PORT. In 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 has invested in the development of various infrastructure assets in Old City Harbour.

In 2020, investments amounted to EUR 6,468 thousand and no expenses were incurred (2019: investments amounted to EUR 2,481 thousand and expenses amounted to EUR 29 thousand).

Short-term project receivables amounted to EUR 2,079 thousand at 31 December 2020 and 31 December 2019. The grant amount is related to investments of 2017–2019, which at 31 December 2020 had not yet been paid.

In 2018, a request was submitted to the European Commission for extending the project by two years. The new end date of the project was 31 December 2020. The project was extended because in the preparatory phase there arose unforeseeable circumstances that deferred several activities both in Old City Harbour in Tallinn and the Helsinki West Harbour. The last project activities in Old City Harbour will be completed in 2021 and the costs incurred in that period will not eligible for the project funding.

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 scheduled to be completed on 31 December 2023. The participants in the project are AS Tallinna Sadam, the Port of Helsinki, the City of Helsinki and three ferry operators (Tallink, Viking Line and Eckerö Line). AS Tallinna Sadam is the coordinating partner of the project. The purpose of the project is to build onshore power supply systems (OPS) in both ports and on 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 Old City Harbour will be upgraded and in Helsinki, new street lanes will be built, 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 the harbour area.

In 2020, investments amounted to EUR 4,064 thousand and expenses amounted to EUR 99 thousand (2019: EUR 7,099 thousand and EUR 127 thousand, respectively).

In 2020, support of EUR 1,770 thousand was received. At 31 December 2020, the balance of deferred grant income was EUR 552 thousand (31 December 2019: EUR nil).

TWIN-PORT 4 (2020-2023)

TWIN-PORT 4 is the fourth follow-up project in the series. The purpose of the project is to improve the convenience of the maritime connection between Tallinn and Helsinki by developing the infrastructure of the ports on both shores of the Gulf of Finland. The participants in the project are AS Tallinna Sadam and the Port of Helsinki.

Compared to previous ones, the project includes a new feature: investments in the development of the Muuga-Vuosaari shipping route in order to divert a significant share of the heavy goods vehicles traffic between Estonia and Finland from the city centres of the two capitals to the Muuga and Vuosaari harbours, respectively. One berth in both harbours will be supplied with a second level ramp for more efficient servicing of ro-ro traffic and at Muuga the first level ramp of the same berth will be fully reconstructed.

In addition, at Old City Harbour in Tallinn one of the passenger gangways from the terminal to the ferry and the area in front of terminal D along with all underground utility networks will be reconstructed. The Port of Helsinki will supply one berth in its city-centre harbours with onshore power supply systems and one berth with automooring systems. The coordinating partner of the project is also AS Tallinna Sadam.

In 2020, investments amounted to EUR 1,509 thousand and support received amounted to EUR 1,500 thousand. At 31 December 2020, the balance of deferred grant income was EUR 1,047 thousand.

Dredging works in the approach canal and waters of Paldiski South Harbour (2019–2020)

The purpose of the project was to increase the depth of the fairway and harbour basin of Paldiski South Harbour by 1 meter so that the minimum depth would be 15.5 metres in place of the previous 14.5 metres. The length of the dredged canal is approx. 1,800 metres. Also, the width of the canal has increased from 120 metres to 180 metres. With the works completed, the harbour will be able to receive large cargo carriers and tankers (60-70 thousand GT). The use of larger vessels for cargo transport allows transporting the same quantity of cargo with fewer vessel calls and thereby to reduce CO_2 emissions per unit of cargo. Moreover, if the canal is deeper, navigation to the port is safer.

Investments made in 2020 amounted to EUR 2,035 thousand and expenses amounted to EUR 54 thousand (2019: EUR 1,033 thousand and EUR nil, respectively) .

Short-term project receivables amounted to EUR 409 thousand at 31 December 2020 (31 December 2019: EUR nil).

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 the Transport 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 the tariff rates fixed in the contract and the ticket sales revenue recognised in the same period.

In 2020, support was calculated in the amount of EUR 18,501 thousand (2019: EUR 18,571 thousand) and received in the amount of EUR 18,544 thousand (2019: EUR 18,590 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).

At 31 December 2020, the Group had short-term deferred income of EUR 236 thousand related to public transport support provided from the state budget (31 December 2019: EUR 193 thousand).

Other foreign aid – INTERREG Baltic Sea Region programme

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

The project was 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 were 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 Old City Harbour cruise terminal was prepared and surveys for developing ecological solutions feasible for a cruise terminal in the northern climate were carried out. The surveys provided valuable inputs for the design of a new cruise terminal and the solutions for its technological systems. The construction of the cruise terminal began at the end of 2019 and it will be completed in 2021.

At 31 December 2020, the balance of deferred grant income was EUR 84 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 co-operation between the Estonian construction sector and research institutions and to increase the international competitiveness of companies belonging to the Digital Construction Cluster.

AS Tallinna Sadam is a real estate owner, developer and manager and thus its 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 2020, support of EUR 8 thousand was received (2019: EUR 1 thousand). In 2020, expenses incurred in the project amounted to EUR 13 thousand. In 2019, no expenses were incurred.

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Note 19. Equity

Share capital

At 31 December 2020 and 31 December 2019, AS Tallinna Sadam had 263,000,000 registered 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 retail investors. The par value of a share is EUR 1.

The maximum number of ordinary shares stipulated in the Articles of Association of AS Tallinna Sadam is 664,000,000 (2019: also 664,000,000). At 31 December 2020 and at 31 December 2019 all shares issued had been fully paid for.

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 2019.

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%.

Earnings per share

	2020	2019
Weighted average number of shares	263,000,000	263,000,000
Consolidated profit for the period (in thousands of euros)	28,518	44,404
Basic and diluted earnings per share (in euros)*	0.11	0.17
Weighted average number of ordinary shares	**263,000,000**	**263,000,000**

* *In the years ended 31 December 2020 and 31 December 2019 there were no dilutive instruments outstanding.*

Capital management

In thousands of euros **At 31 December**	**2020**	**2019**
Loans and borrowings	211,580	207,846
Cash and cash equivalents	-26,679	-35,183
Net debt	**184,901**	**172,663**

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Equity to assets ratio

In thousands of euros At 31 December	2020	2019
Total equity	375,432	377,018
Total assets	628,093	625,532
Equity to assets ratio	**60%**	**60%**

At 31 December 2020, the Group's equity to assets ratio, i.e. the ratio of total equity to total assets was 60%. The ratio did not change compared to 2019.

Unrestricted equity

At 31 December 2020, the Group's unrestricted equity amounted to EUR 46,785 thousand (31 December 2019: EUR 49,521 thousand). According to the Estonian Commercial Code, shareholders will not be paid dividends if the company's net assets which have been 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 2020 and 31 December 2019, 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 was in compliance with 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 profit is to be transferred to the statutory capital reserve until the reserve reaches the amount required by the articles of association. After that profit transfers to the capital reserve will be discontinued.

The capital reserve was increased by 1,742 thousand in 2020 (2019: capital reserve was not increased).

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).

Hedge reserve

In thousands of euros	2020	2019
Hedge reserve at beginning of period	**-243**	**-425**
Change in market value of the derivative (net) (note 17)	141	182
Hedge reserve at end of period	**-102**	**-243**

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Dividends

Based on the resolution of the general meeting that convened on 29 June 2020, the Group paid in 2020 a dividend of EUR 0.115 per share, i.e. EUR 30,245 thousand in total for 2019. The list of shareholders entitled to receive the dividend was determined on 13 July 2020 (the ex-dividend date: 10 July 2020) and the dividend was paid out to the shareholders on 20 July 2020 (through Nasdaq CSD).

In thousands of euros	2020	2019
Dividend declared in the reporting period	30,245	35,242
Dividend distributed in the reporting period	30,008	34,970
Income tax withheld on dividends in the reporting period	237	272
Dividend per share (in euros)	0.12	0.13

Income tax on dividends

In thousands of euros	2020	2019
Tasumata tulumaks dividendidelt	0	4,949
Dividendidelt arvestatud tulumaks Eesti Vabariigis	4,913	5,764
Dividendidelt tasutud tulumaks Eesti Vabariigis	-5,150	-10,985
sh kinnipeetud tulumaks dividendidelt	*-237*	*-272*
Sh tasutud rahas	-4,913	-10,985
tasaarvestatud käibemaksuga	*-237*	*0*

The Group’s unrestricted equity as at 31 December 2020 amounted to EUR 46,785 thousand (2019: EUR 49,521 thousand). The maximum possible income tax liability which would arise if all of the unrestricted equity were distributed as dividends is EUR 6,550 thousand (2019: EUR 7,100 thousand).

At 31 December 2020, the tax rate used to calculate the maximum possible tax liability for 2021 was 14% (calculated as 14/86 of the net distribution and applied to the maximum possible dividend in an amount equal to one third of profit distributed and taxed in 2018, 2019 and 2020).

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Note 20. Revenue

In thousands of euros	2020	2019
Revenue from contracts with customers		
Vessel dues	37,604	46,720
Cargo charges	6,797	7,141
Passenger fees	7,039	17,074
Sale of electricity	4,466	5,433
Sale of ferry services – ticket sales	10,479	11,583
Sale of other services	1,768	2,389
Total revenue from contracts with customers	**68,153**	**90,340**
Revenue from other sources		
Rental income from operating leases (note 12)	11,573	11,960
Charter fees	9,131	9,665
Sale of ferry services - government support (note 18)	18,501	18,571
Total revenue from other sources	**39,205**	**40,196**
Total revenue (note 3)	**107,358**	**130,536**

In 2020, revenue from services provided in Estonia and Canada amounted to EUR 103,095 thousand and EUR 4,263 thousand (including charter fees of EUR 4,194 thousand), respectively. In 2019, revenue from services provided in Estonia and Canada amounted to EUR 125,578 thousand and EUR 4,958 thousand (including charter fees of EUR 4,854 thousand), respectively.

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 2020 amounted to EUR 892 thousand (31 December 2019: EUR 913 thousand).

Revenue for 2020 includes connection fees of EUR 44 thousand (2019: EUR 43 thousand).

Management expects that the transaction price allocated to unsatisfied performance obligations will be recognised as revenue over the next 7-29 years (the average remaining useful life of the investments made to enable connection) on a straight-line basis.

Note 21. Operating expenses

In thousands of euros	2020	2019
Fuel, oil and energy costs	8,440	11,388
Technical maintenance and repair of non-current assets	5,142	7,022
Services purchased for infrastructure	2,875	2,780
Tax expenses	2,738	2,762
Incl. land tax	*2,688*	*2,709*
Consultation and development expenses	647	757
Incl. research and development expenses	*254*	*347*
Services purchased	4,410	5,523
Incl. mooring service	*1,034*	*1,035*
reception of ship-generated waste	*893*	*2,351*
port dues	*2,418*	*2,091*
Purchase and maintenance of insignificant assets	1,733	1,269
Advertising expenses	229	349
Lease expenses	562	566
Expenses on short-term leases	12	581
Insurance expenses	767	809
Other operating expenses	3,303	2,863
Incl. expenses from credit-impaired financial assets	*931*	*233*
Total operating expenses	**30,858**	**36,669**

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Personnel expenses

In thousands of euros	2020	2019
Wages and salaries	14,681	14,965
Social security charges	4,810	4,902
Total personnel expenses	**19,491**	**19,867**
Incl. short-term benefits of members of management and supervisory boards of Group companies	*768*	*856*
social security charges on members of management and supervisory boards of Group companies	*253*	*283*
Total expenses on members of management and supervisory boards of Group companies	**1,021**	**1,139**

Under contracts in force at 31 December 2020, 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 85.8 thousand in 2020 and EUR 85.8 thousand in 2019). Also, in return for observing the non-compete clause, AS Tallinna Sadam has an obligation to pay management board members monthly compensation in an amount equal to 50% of their remuneration (EUR 171.6 thousand in 2020 and EUR 171.6 thousand in 2019) during 12 months after the expiry of the contract.

Under contracts in force at 31 December 2020, 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 57.0 thousand in 2020 and EUR 67.5 thousand in 2019).

Number of employees

	2020	2019
People working under employment contracts	465	492
People working under contracts for services excluding self-employed people	9	14
Members of legal person's management or control bodies	7	7
Total	**481**	**513**

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Note 22. Other income

In thousands of euros	2020	2019
Gain on sale of non-current assets*	2,140	25
Penalties, interest on arrears*	164	137
Income from government grants (note 18)	695	809
Other income	16	46
Total other income	**3,015**	**1,017**

* *Gain on sale of non-current assets in 2020 includes gain on the sale of assets classified as held for sale of EUR 1,584 thousand (2019: EUR nil).*

Note 23. Finance costs

In thousands of euros	2020	2019
Interest expense on loans and borrowings:		
Interest expense on loans (note 16)	*410*	*316*
Interest expense on debt securities (note 16)	*1,091*	*1,147*
Interest expense on derivatives (note 16)	*176*	*265*
Total interest expense on loans and borrowings	**1,677**	**1,728**
Foreign exchange loss	10	18
Other finance costs	18	51
Total finance costs	**1,705**	**1,797**

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Note 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	2020	2019
Transactions with an associate		
Revenue	164	238
Operating expenses	1,004	2,426
Transactions with companies over which members of supervisory and management boards of group companies have significant influence		
Operating expenses	9	15
Other expenses	22	22
Transactions with government agencies and companies of which the state has control		
Revenue	24,110	24,117
Other income	66	10
Operating expenses	6,772	7,747
Other expenses	57	15
Purchase of property, plant and equipment	64	2,579

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In thousands of euros **At 31 December**	**2020**	**2019**
Trade receivables from and payables to an associate		
Receivables (note 8)	15	36
Payables (note 14)	78	127
Trade receivables from and payables to companies over which members of supervisory and management boards of group companies have significant influence		
Receivables	2	4
Payables	1	1
Trade receivables from and payables to government agencies and companies of which the state has control		
Receivables	245	412
Payables	1,331	1,202

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 over which members of the supervisory and management boards of group companies have significant influence is based on the declarations presented in respect of the related parties.

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Note 25. Commitments

At 31 December 2020, the Group's contractual commitments related to purchases of property, plant and equipment, repairs, and research and development expenditures totalled EUR 9,448 thousand (31 December 2019: EUR 19,810 thousand).

Note 26. Non-cash investing activities

Purchases of property, plant and equipment

In thousands of euros	2020	2019
Purchases of property, plant and equipment	**-35,811**	**-27,965**
Offsetting	-63	-58
Paid for previous period	2,162	1,216
Trade payables outstanding at end of period (note 14)	-2,758	-2,162
Total adjustments	**-659**	**-1,004**
Purchases and reconstruction (note 10)	**36,470**	**28,969**

Purchases of intangible assets

In thousands of euros	2020	2019
Purchases of intangible assets	**-661**	**-550**
Offsetting	0	-4
Paid for previous period	26	65
Trade payables outstanding at end of period (note 14)	-33	-26
Total adjustments	**-7**	**35**
Purchases and upgrades (note 11)	**668**	**515**

Note 27. Contingent liabilities

The 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 the expiry of the contract, AS Tallinna Sadam has an obligation to compensate the cost of the constructions built by the lessee or the 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 the expiry of the contracts exists. Based on the above, the value of those obligations could not be estimated reliably at the reporting date.

In June 2019, the court accepted a statement of claim for damages of EUR 23.8 million in total filed against Group companies OÜ TS Laevad and OÜ TS Shipping in relation to alleged unjustified use of confidential information in a public tender to provide public passenger transport service on the Saaremaa and Hiiumaa routes. The statement of claim is identical to the one filed by the same plaintiffs in a previous civil case which was dismissed by Harju County Court on 8 March 2019 because the plaintiffs did not provide security of EUR 14,000 in total ordered by the court for covering the estimated costs of the proceedings. The Group challenged the claim and defends itself in the action. The management board believes that the claim is not substantiated and according to the assessment of legal advisers 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. On 19 January 2021, Harju County Court decided that the statement of claim is to be denied and procedural expenses are to be borne by the customer. The decision has not entered into force because the customer has filed an appeal against it.

At the end of 2019, the customer filed an application to the Competition Authority, requesting the initiation of supervision proceedings in connection with the same claim to establish whether the Group had violated the Competition Act. The supervision proceedings by the Competition Authority are still ongoing.

The management board believes that the claim is not substantiated and according to the assessment of legal advisers 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.

Note 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, in connection with suspected 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. By the order of Harju County Court dated 19 November 2018, the civil action was included in the criminal proceedings against the above persons. On 28 October 2020, Harju County Court issued an order terminating the criminal proceedings concerning Allan Kiil in connection with his terminal illness and rejected the application to involve Allan Kiil as a civil defendant and/or a third party. On 17 December 2020, Tallinn Circuit Court issued an order by which it partially annulled the order of Harju County Court of 28 October 2020 and granted the application filed by the victims, AS Tallinna Sadam and TS Laevad OÜ, to involve Allan Kiil in the criminal proceedings as a civil defendant, required that the proceedings in the civil action lawsuit of the victims, AS Tallinna Sadam and TS Laevad OÜ, against Allan Kiil be continued, did not amend the action securing measure applied by the order of Harju County Court of 5 March 2020, and maintained the seizure of the property of Allan Kiil. The order has not yet entered into force. At the date of release of these financial statements, court hearings in the criminal matter are ongoing and the court case concerning the other accused persons continues. Based on information available at the reporting date, the management board believes that the above events will not have a material adverse impact on the Group's financial performance or financial position. However, they may continue to cause significant damage to the Group's reputation.

Note 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 financial statements as defined in IAS 27. The primary financial statements of the Parent have been prepared using the same accounting policies as were applied on preparing the consolidated financial statements, except that investments in subsidiaries and associates are measured at cost.

Statement of financial position

In thousands of euros	31 December 2020	31 December 2019
ASSETS		
Current assets		
Cash and cash equivalents	12,970	18,607
Trade and other receivables	17,474	18,665
Inventories	0	6
Total other current assets	**30,444**	**37,278**
Non-current assets held for sale	114	142
Total current assets	**30,558**	**37,420**
Non-current assets		
Investments in subsidiaries	8,774	8,774
Investments in an associate	132	132
Other long-term receivables	96,326	113,874
Property, plant and equipment	457,669	439,272
Intangible assets	1,389	1,270
Total non-current assets	**564,290**	**563,322**
Total assets	**594,848**	**600,742**

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In thousands of euros	31 December 2020	31 December 2019
LIABILITIES		
Current liabilities		
Loans and borrowings	17,266	16,266
Derivative financial instruments	102	243
Provisions	1,147	1,755
Government grants	1,683	0
Taxes payable	399	555
Trade and other payables	7,090	9,772
Total current liabilities	27,687	28,591
Non-current liabilities		
Loans and borrowings	194,314	191,580
Government grants	26,145	24,754
Other payables	1,733	916
Total non-current liabilities	222,192	217,250
Total liabilities	249,879	245,841
EQUITY		
Share capital	263,000	263,000
Share premium	44,478	44,478
Statutory capital reserve	20,262	18,520
Hedge reserve	-102	-243
Accumulated losses (prior periods)	-2,841	-5,694
Profit for the period	20,172	34,840
Total equity	344,969	354,901
Total liabilities and equity	594,848	600,742

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Statement of profit or loss and other comprehensive income

Statement of profit or loss

In thousands of euros	31 December 2020	31 December 2019
Revenue	69,003	90,384
Other income	2,997	971
Operating expenses	-20,179	-24,250
Personnel expenses	-10,252	-11,167
Depreciation, amortisation and impairment	-15,938	-15,189
Other expenses	-282	-232
Operating profit	**25,349**	**40,517**
FINANCE INCOME AND COSTS		
Finance income	1,432	1,822
Finance costs	-1,696	-1,735
Finance costs – net	**-264**	**87**
Profit before income tax	**25,085**	**40,604**
Income tax expense	-4,913	-5,764
Profit for the period	**20,172**	**34,840**

Statement of other comprehensive income

In thousands of euros	31 December 2020	31 December 2019
Profit for the period	**20,172**	**34,840**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gain on hedging instruments in cash flow hedges	141	182
Total other comprehensive income	**141**	**182**
Total comprehensive income for the period	**20,313**	**35,022**

Statement of cash flows

In thousands of euros	31 December 2020	31 December 2019
Cash receipts from sale of goods and services	73,588	96,236
Cash receipts related to other income	94	193
Payments to suppliers	-27,878	-31,813
Payments to and on behalf of employees	-7,049	-8,522
Payments for other expenses	-235	-205
Other payments	-2,600	0
Income tax paid on dividends	-4,913	-10,985
Cash from operating activities	**31,007**	**44,904**
Purchases of property, plant and equipment	-34,007	-25,346
Purchases of intangible assets	-454	-451
Proceeds from sale of property, plant and equipment	2,863	39
Government grants received	3,561	0
Repayment of loans provided	17,944	8,289
Dividends received	0	204
Interest received	1,436	1,629
Cash used in investing activities	**-8,657**	**-15,636**
Redemption of debt securities	-9,000	-9,000
Proceeds from loans received	20,000	10,000
Repayments of loans received	-7,266	-6,766
Dividends paid	-30,008	-34,970
Interest paid	-1,694	-1,769
Other payments related to financing activities	-19	-5
Cash used in financing activities	**-27,987**	**-42,510**
Net cash flow	**-5,637**	**-13,242**
Cash and cash equivalents at beginning of the period	18,607	31,849
Change in cash and cash equivalents	-5,637	-13,242
Cash and cash equivalents at end of the period	12,970	18,607

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 2019	**263,000**	**44,478**	**18,520**	**-243**	**29,146**	**354,901**
Profit for the period	0	0	0	0	20,172	20,172
Other comprehensive income for the period	0	0	0	141	0	141
Total comprehensive income for the period	**0**	**0**	**0**	**141**	**20,172**	**20,313**
Dividend declared	0	0	0	0	-30,245	-30,245
Total transactions with owners	**0**	**0**	**0**	**0**	**-30,245**	**-30,245**
Increase of capital reserve	0		1,742	0	-1,742	0
Equity at 31 December 2020	**263,000**	**44,478**	**20,262**	**-102**	**17,331**	**344,969**
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	32,466	32,466
Adjusted unconsolidated equity at 31 December 2020	**263,000**	**44,478**	**20,262**	**-102**	**47,794**	**375,432**
Equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**-425**	**29,548**	**355,121**
Profit for the period	0	0	0	0	34,840	34,840
Other comprehensive income for the period	0	0	0	182	0	182
Total comprehensive income for the period	**0**	**0**	**0**	**182**	**34,840**	**35,022**
Dividend declared	0	0	0	0	-35,242	-35,242
Total transactions with owners	**0**	**0**	**0**	**0**	**-35,242**	**-35,242**
Equity at 31 December 2019	**263,000**	**44,478**	**18,520**	**-243**	**29,146**	**354,901**
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	24,120	24,120
Adjusted unconsolidated equity at 31 December 2019	**263,000**	**44,478**	**18,520**	**-243**	**51,263**	**377,018**

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

Note 30. Events after the reporting period

OÜ TS Shipping, a subsidiary of AS Tallinna Sadam, won the public tender organised by the Estonian Transport Administration for the delivery of icebreaking service and ensuring navigation in the Gulf of Finland during the period 20 December 2022 to 20 April 2032. Similarly to the previous 10-year charter agreement, the multifunctional icebreaker Botnica will deliver icebreaking service in Estonia's coastal waters annually from 20 December to 20 April. The contract will be signed in the near future in accordance with the terms and conditions of the tender and the offer made.

The total estimated contract price is EUR 54.2 million, that is EUR 5.4 million per year. Starting from the season of 2025/2026, the contractual fee may be indexed to the Estonian consumer price index, but the annual change, if any, may not exceed 3%. The contractual fee is fixed, that is the Transport Administration will pay for all charter days, regardless of whether or not the icebreaker is used for icebreaking. Compared to the previous 10-year icebreaking contract, there is a new requirement to provide a replacement vessel for delivering the service within 10 days should Botnica, the vessel specified in the contract, be out of commission. We will mitigate this risk, among other things, by improving the reliability of Botnica's critical systems.

On 1 March 2021, AS Tallink Grupp, the operator of several international ferry routes and a major and long-term customer of the Group, filed of claim of EUR 15.4 million against AS Tallinna Sadam with Harju County Court. In the statement of claim, AS Tallink Grupp is claiming back part of allegedly excessive port dues paid to the Group for services provided in Old City Harbour in the period 2017–2019. According to AS Tallink Grupp, AS Tallinna Sadam has established excessively high port dues at Old City Harbour, allegedly abusing its dominant position in the market.

The Group considers the claim submitted by AS Tallink Grupp for compensation of allegedly unfair port dues to be baseless. AS Tallinna Sadam has a long-term and transparent pricing policy. The port dues for ferries have been at the same level since 2016 and have not been indexed despite a rise in consumer prices. Nor has the Group made any special deals with any ferry operators at prices outside the official price list. AS Tallinna Sadam intends to contest the claim and to defend itself in the case. Management believes that the claim is not substantiated and therefore the Group has not recognised a provision for it.

Note 31. Unbundling of activities based on the electricity market act

Accounting policies

These 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, the 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
The items are 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

In thousands of euros			Sale of electricity		Provision of electrical distribution network service		Other operations	
At 31 December	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
ASSETS								
Current assets								
Cash and cash equivalents	26,679	35,183	0	0	0	0	26,679	35,183
Trade and other receivables	10,183	10,614	191	173	370	360	9,622	10,081
Inventories	360	408	0	0	0	0	360	408
Non-current assets held for sale	114	142	0	0	0	0	114	142
Total current assets	**37,336**	**46,347**	**191**	**173**	**370**	**360**	**36,775**	**45,814**
Non-current assets								
Investments in associates	1,147	1,609	0	0	0	0	1,147	1,609
Other long-term receivables	0	294	0	0	0	0	0	294
Property, plant and equipment	587,506	575,267	0	0	16,023	15,741	571,483	559,526
Intangible assets	2,104	2,015	0	0	0	0	2,104	2,015
Total non-current assets	**590,757**	**579,185**	**0**	**0**	**16,023**	**15,741**	**574,734**	**563,444**
Total assets	**628,093**	**625,532**	**191**	**173**	**16,393**	**16,101**	**611,509**	**609,258**

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In thousands of euros			Sale of electricity		Provision of electrical distribution network service		Other operations	
At 31 December	2020	2019	2020	2019	2020	2019	2020	2019
LIABILITIES								
Current liabilities								
Loans and borrowings	17,266	16,266	0	0	0	0	17,266	16,266
Derivative financial instruments	102	243	0	0	0	0	102	243
Provisions	1,289	1,915	0	0	46	68	1,243	1,847
Government grants	1,919	193	0	0	0	0	1,919	193
Taxes payable	744	893	0	0	27	66	717	827
Trade and other payables	9,149	11,755	344	372	242	252	8,563	11,131
Total current liabilities	**30,469**	**31,265**	**344**	**372**	**315**	**386**	**29,810**	**30,507**
Non-current liabilities								
Loans and borrowings	194,314	191,580	0	0	0	0	194,314	191,580
Government grants	26,145	24,754	0	0	1,288	1,111	24,857	23,643
Other payables	1,733	915	0	0	884	913	849	2
Total non-current liabilities	**222,192**	**217,249**	**0**	**0**	**2,172**	**2,024**	**220,020**	**215,225**
Total liabilities	**252,661**	**248,514**	**344**	**372**	**2,487**	**2,410**	**249,830**	**245,732**
EQUITY								
Share capital	263,000	263,000	0	0	0	0	0	0
Share premium	44,478	44,478	0	0	0	0	0	0
Statutory capital reserve	20,262	18,520	0	0	0	0	0	0
Hedge reserve	-102	-243	0	0	0	0	0	0
Retained earnings (prior periods)	19,276	6,859	0	0	0	0	0	0
Profit/loss for the period	28,518	44,404	-4	-53	222	487	28,300	43,970
Total equity	**375,432**	**377,018**	**-153**	**-34**	**13,906**	**13,841**	**361,679**	**373,848**
Total liabilities and equity	**628,093**	**625,532**	**191**	**173**	**16,393**	**16,101**	**611,509**	**609,258**

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Statement of profit or loss

In thousands of euros			Sale of electricity		Provision of electrical distribution network service		Other operations	
	2020	2019	2020	2019	2020	2019	2019	2019
Revenue	107,358	130,536	1,198	1,894	3,268	3,637	102,892	125,005
Other income	3,015	1,017	0	0	48	42	2,967	975
Operating expenses	-30,858	-36,669	-1,112	-1,835	-1,719	-1,948	-28,027	-32,886
Personnel expenses	-19,491	-19,867	-83	-108	-438	-482	-18,970	-19,277
Depreciation, amortisation and impairment	-24,094	-23,037	-7	-4	-937	-762	-23,150	-22,271
Other expenses	-368	-301	0	0	0	0	-368	-301
Operating profit/loss	**35,562**	**51,679**	**-4**	**-53**	**222**	**487**	**35,344**	**51,245**
FINANCE INCOME AND COSTS								
Finance income	36	42	0	0	0	0	36	42
Finance costs	-1,705	-1,797	0	0	0	0	-1,705	-1,797
Finance costs - net	**-1,669**	**-1,755**	**0**	**0**	**0**	**0**	**-1,669**	**-1,755**
Share of profit/loss of an associate accounted for under the equity method	-462	244	0	0	0	0	-462	244
Profit/loss before income tax	**33,431**	**50,168**	**-4**	**-53**	**222**	**487**	**33,213**	**49,734**
Income tax expense	-4,913	-5,764	0	0	0	0	-4,913	-5,764
Profit/loss for the period	**28,518**	**44,404**	**-4**	**-53**	**222**	**487**	**28,300**	**43,970**

The figures presented for 2019 have been adjusted compared to the report for 2019 due to the reallocation of expenses.

Independent Auditors' Report

KPMG

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 2020, 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 76 to 154. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020,
- 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) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's 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 Code of Ethics for Professional Accountants (Estonia) (including Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

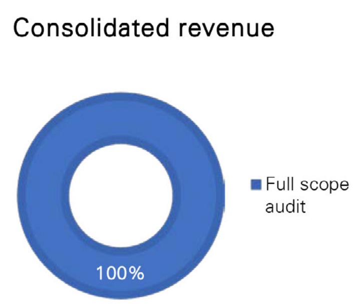
Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the Group audit. In this respect, we have determined the type of work to be performed for Group entities based on the size and/or the risk characteristics of the Group entities.

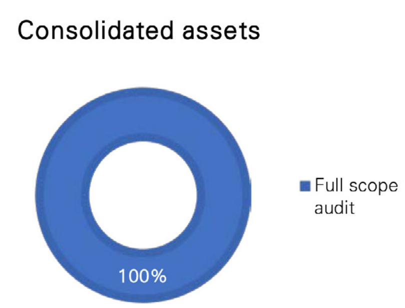
Of the Group's 3 components, we determined 2 components to be significant Group entities and we subjected those components to a full scope audit. These components were AS Tallinna Sadam and OÜ TS Laevad.

For the insignificant component, we used for the Group's audit the audit evidence obtained during the audit of the annual report based on local regulations.

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 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.

Accurate recognition and value of property, plant and equipment (PPE)

Additional information is provided in notes 2 Accounting policies, 5 Significant accounting estimates and judgments and 10 Property, plant and equipment to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
AS Tallinna Sadam owns the largest cargo and passenger port complex in Estonia, passenger ferries and a multifunctional icebreaker. As a result, property, plant and equipment with the carrying amount of EUR 587.5 million account for the largest share of the Group's assets as at 31 December 2020. The Group is exposed to significant risks, the realization of which might significantly reduce the value of its assets. Identifying indications of impairment and impairment testing are complex procedures that involve use of significant estimates and assumptions. Given the amount of the Group's property, plant and equipment, impairment losses might have a material effect on the financial statements . The useful lives of items of property, plant and equipment are also based on management's estimates of the time during which items of property plant and equipment or their significant parts will be employed to generate economic benefits. The estimates are based on historical experience and take into account the physical condition of the assets. Because of the size of the balance of property, plant and equipment, the large volume of transactions and the uncertainty associated with management's estimates, auditing property, plant and equipment requires a significant amount of audit time and resources. Due to the above circumstances, we identified accurate recognition and value of property, plant and equipment as key audit matters.	Our audit procedures in this area included, but were not limited to, the following: • We assessed whether the Group's accounting policies for property, plant and equipment are in accordance with IFRS. • Based on the additions to property, plant and equipment during the year, we selected a sample and tested the correctness of the recognition of acquisitions of property, plant and equipment, reconciling the additions recorded on the statement of financial position with the underlying contracts and invoices. • For property, plant and equipment under construction, we verified the planned completion date and implementation date and checked whether or not assets under construction include items already in use. • We checked whether depreciation of items of property, plant and equipment has commenced on time. • We analysed whether the useful lives assigned to property, plant and equipment are in line with the Group's historical experience and general industry practice. • We clarified whether significant parts of items of property, plant and equipment which have been assigned different useful lives are accounted for separately . • In order to clarify indications of impairment of assets, we made inquiries of the management board to determine whether any indications of impairment of the recoverable amount of the assets have been identified. In addition, we compared budgets with actual financial results and analysed whether there are business lines where the Group's profits are lower than budgeted.

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 of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Compliance with Electricity Market Act

In note 31 to the consolidated financial statements, the Group has described the principles and made the disclosures required by section 17 of the Electricity Market Act. In our opinion, the data presented in note 31 to the consolidated financial statements is, in all material respects, in conformity with the accounting policies presented in note 31 to the consolidated financial statements.

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files Tallinna_Sadam_2020-12-31_ENG.zip prepared by AS Tallinna Sadam.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

- the selection and application of appropriate iXBRL tags using judgement where necessary;
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

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Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
- obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the tagging process when the assessment of the risks of material misstatement includes an expectation that such internal controls are operating effectively or procedures other than testing controls cannot alone provide sufficient appropriate evidence;
- reconciling the tagged data with the audited consolidated financial statements of the Group dated 31 December 2020;
- evaluating the completeness of the Company's tagging of the consolidated financial statements;
- evaluating the appropriateness of the Company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- and evaluating the use of anchoring in relation to the extension elements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements included in the annual financial report of AS Tallinna Sadam identified as Tallinna_Sadam_2020-12-31_ENG.zip for the year ended 31 December 2020 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

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 3 years, covering the periods ending 31 December 2018 to 31 December 2020.

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 Company with the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

KPMG

Tallinn, 15 March 2021

/signature/	/signature/
Andris Jegers	Mari-Leen Sandre
Certified Public Accountant, Licence No 171	Certified Public Accountant, Licence No 701

KPMG Baltics OÜ
Licence No 17

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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 2020, which consists of the management report and the financial statements, and the accompanying independent auditors' report.

25 March 2021

AARE TARK

AHTI KUNINGAS

MAARIKA HONKONEN

URMAS KAARLEP

ÜLLAR JAAKSOO

RAIGO UUKKIVI

RIHO HUNT

VEIKO SEPP

Profit allocation proposal

At 31 December 2020, the Group's retained earnings amounted to EUR 47,794,087, including profit for the period of EUR 28,518,457. 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 profit from 2021, the management board proposes that the Group allocate a dividend of EUR 20,251,000. The expected dividend per share is EUR 0.077.

Based on section 332 of the Commercial Code of Estonia, the management board proposes that the profit for the year ended 31 December 2020 be allocated as follows:

Dividend distribution	EUR 20,251,000
Transfer to statutory capital reserve	EUR 1,008,654
Transfer to retained earnings	EUR 7,258,803

VALDO KALM
Chairman of the Management Board

MARKO RAID
Member of the Management Board

MARGUS VIHMAN
Member of the Management Board