

ANNUAL REPORT 2019

TALLINK GRUPP AS



Beginning of the financial year	1 January 2019
End of the financial year	31 December 2019

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THE GROUP

Tallink Grupp AS (“the Company”) with its subsidiaries (“the Group”) is the leading European ferry operator, which offers high quality mini-cruise and passenger transport services in the Baltic Sea region, and a leading provider of ro-ro cargo services on selected routes. The Group provides its services on seven routes between Finland and Sweden, Estonia and Finland, Estonia and Sweden, and Latvia and Sweden under the brand names of “Tallink” and “Silja Line”. The Group has a fleet of 14 vessels that include cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates three hotels in Tallinn and one in Riga. The Group’s subsidiary Tallink Duty Free is a successful international travel retail organisation with a number of shops on board, on shore and online.

STRATEGY

The Group’s vision is to be the market pioneer in Europe by offering excellence in leisure and business travel and sea transportation services.

The Group’s strategy is to:

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

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

LETTER TO SHAREHOLDERS

Dear shareholders

Despite tight competition, slowing cargo market and a high number of dockings at the beginning of the year, Tallink Grupp had nonetheless a very successful financial year in 2019. We transported a record number of passengers, achieved a net profit just short of EUR 50 million and managed to acquire the franchise rights of Burger King restaurants for the Baltics. We also made good progress with the development of the new LNG Shuttle ferry MyStar as well as with shifting our corporate culture even further towards operational efficiency, customer service and environmental and social responsibility. In addition to strengthening our core business, we started actively looking for opportunities to expand Tallink Grupp's reach by employing our existing skills and knowledge in new areas.

The prospects looked promising also in early 2020. The traffic volumes in the first two months were good, preparations for opening the first Burger King restaurants were under way and, lastly, we signed a Memorandum of Understanding with the City of Tallinn and AS Infortar for the development of an international conference and concert centre with our own port in Tallinn. However, as we are all acutely aware, the global escalation of Covid-19 into a pandemic and the resulting restrictions on movements in March 2020 have altered the operating conditions for most companies and forced us to shift our focus away from exciting growth prospects to ensuring the sustainability of our core business.

Tallink Grupp, together with many other tourism, transportation and service companies, is among those hit financially the hardest by this global health crisis and the travel and movement restrictions imposed by governments worldwide. We fully understand and respect the necessity of the restrictions in order to ensure public health and the safety of our societies. Yet the consequent economic side effects are painful nonetheless.

Uncertainty is one of the challenges of the current situation and there is much that is simply beyond our control. But I would like to assure you that we have decisively focused, and will continue to focus, on the matters that we can control and are taking decisive action to limit the impacts of this global crisis on Tallink Grupp.

To minimise the costs and losses in the face of significantly lower demand, we have temporarily scaled down our operations - some routes have been suspended and only one hotel is open. As the focus has shifted to the health of our core business, we are reducing other activities with more limited future prospects. The cutbacks will help lower our direct variable costs: cost of goods, port fees as well as fuel cost.

We are also looking to scale down on our ship operating and maintenance costs as well as other costs of sales and overheads by postponing all the non-critical investments and purchases. Of course, there cannot be any compromise on the safety and technical condition of our assets. I would hereby like to commend our business partners who have already shown initiative by reducing the costs of their services and relaxing payment terms.

On the one hand, there is less flexibility with staff costs, one of our highest costs. On the other hand, we are seeking to do everything in our power to save the jobs of our full-time employees. With many ships suspended in ports there is less work to offer. Thus, we have been negotiating with maritime labour unions in our different markets and, in agreement with them, sent our staff on paid leave where possible and on unpaid leave in some other cases. For the onshore office and support staff in Estonia, for example, the workload and remuneration, including the remuneration of the Management Board, have been reduced by 30%. Our Supervisory Board has unanimously decided to waive their remuneration for the coming months and I have personally asked for my salary to be halved for the foreseeable future. While making our own efforts to maintain jobs, we are deeply grateful for the salary compensation and other support provided by our home markets' authorities. However, above all, I would like to thank all of our more than 7000 employees for their commitment and professionalism in securing the future of our company in these hard times - we are all in this together.

The uncertainty surrounding the timing and form of a solution to the Covid-19 situation remains high. The longer it takes, the greater the impact on the economy, which in turn will affect the pace of recovery. We are not under the illusion that we will be back to business as usual in just a few months. It is likely that once the most acute crisis is over, incomes, public confidence and spending power around the globe will remain under pressure and return to the pre-crisis levels of demand will be gradual. Therefore, we are monitoring the situation carefully and evaluating the best course of action for returning to our scheduled services once the situation normalises.

Although the global nature of the situation poses its challenges, we are also actively looking for new business opportunities and revenue sources. So far, we have secured some short-term work by providing critical links for cargo flows between Estonia and Germany, Finland and Sweden, and Estonia and Finland. As the recovery of our core business may take time, we are also more active in chartering out our vessels and services.

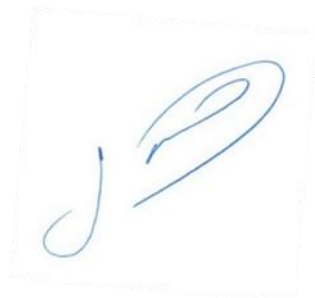
I am also grateful that our lending banks have been understanding in this situation. We have been in active discussions with our lenders on the topics of loan covenants and payment schedules. However, even with initial support measures from governments, and our own cost-cutting and cash flow management efforts, we are not going to be able to fully offset the temporary absence of the majority of our business. Thus, we will continue to evaluate and pursue options to ensure the necessary liquidity in the short term and to support recovery and growth in the next few years.

In addition to the above, we have been in active consultations with the governments of our home markets regarding the necessary support measures for mitigating economic damage, including guarantees for liquidity loans and measures aimed at lowering the risk of accruing losses during the market recovery period when borders are re-opened. I am very grateful to the Estonian government for the constructive approach and for the supplementary budget, to be approved by the parliament, which contains measures supporting the Estonian economy, the tourism sector and Tallink Grupp. In addition to the abovementioned temporary salary compensation, the measures include a new salary compensation regulation for the maritime workers of Estonian-flagged vessels - something that has been in place for a long time in all our other home markets.

I am aware that only as recently as February did we tell you that we were planning to share the profits of the successful 2019 with our shareholders and increase dividends. However, in the changed conditions and in the long-term interest of the company, our employees and shareholders, the only prudent course of action is to leave the profit distributions to the future and focus on weathering the current storm.

In summary, our current strategic focus is on managing costs and cash flows with the aim of bringing Tallink Grupp through the current global crisis to continue offering a great service and green, frequent and comfortable transportation links, both for passengers and cargo, in the northern part of the Baltic Sea. My personal promise to all our customers, employees and shareholders is – we will cruise again!

Yours sincerely,



Paavo Nõgene

Chairman of the Management Board

MANAGEMENT REPORT

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

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

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

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

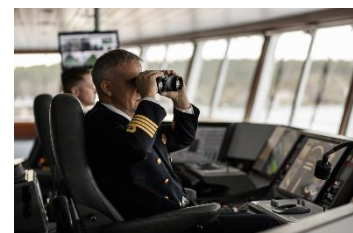
The **Finland-Sweden** routes' revenue increased by EUR 6.9 million to EUR 344.4 million. The segment result improved by EUR 10.6 million, rising to EUR 26.8 million. The positive development was supported by the absence of lengthy maintenance and repair works of the kind the cruise ferry Baltic Princess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

Number of passengers carried by the Group's ships in 2019

9.8 million

The Group's revenue for 2019

EUR 949.1 million



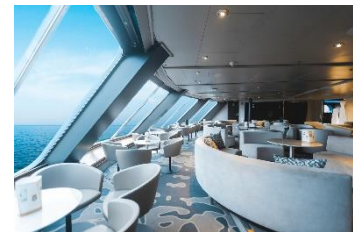
The **Estonia-Sweden** routes' revenue decreased by EUR 6.7 million to EUR 112.3 million. The routes' carriage volumes and financial result were affected by maintenance and repair works on the cruise ferry *Baltic Queen* in the first quarter of 2019.

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

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

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

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



Key figures

For the year ended 31 December	2019	2018	2017
Revenue (million euros)	949.1	949.7	967.0
Gross profit (million euros)	196.9	183.8	194.6
EBITDA ^{1 2} (million euros)	171.1	142.8	158.3
EBIT ¹ (million euros)	74.9	63.5	72.0
Net profit for the period (million euros)	49.7	40.0	46.5
Depreciation and amortisation ³ (million euros)	96.2	79.3	86.4
Capital expenditures ^{1 5} (million euros)	60.9	36.4	219.3
Weighted average number of ordinary shares outstanding	669 881 045	669 859 148	669 882 040
Earnings per share ¹	0.07	0.06	0.07
Number of passengers ¹	9 763 210	9 756 611	9 755 720
Number of cargo units ¹	379 634	384 958	364 296
Average number of employees ¹	7 270	7 430	7 406
As at 31 December	2019	2018	2017
Total assets ³ (million euros)	1 533.0	1 500.9	1 558.6
Total liabilities (million euros)	710.1	644.0	722.3
Interest-bearing liabilities ⁴ (million euros)	577.9	510.1	560.9
Net debt ¹ (million euros)	539.0	428.0	472.0
Net debt to EBITDA ¹	3.1	3.0	3.0
Total equity (million euros)	822.8	856.9	836.3
Equity ratio ¹ (%)	53.7%	57.1%	53.7%
Number of ordinary shares outstanding	669 882 040	669 865 540	669 882 040
Equity per share ¹	1.23	1.28	1.25
Ratios¹	2019	2018	2017
Gross margin (%)	20.7%	19.4%	20.1%
EBITDA margin (%)	18.0%	15.0%	16.4%
EBIT margin (%)	7.9%	6.7%	7.4%
Net profit margin (%)	5.2%	4.2%	4.8%
ROA (%)	4.8%	4.1%	4.3%
ROE (%)	6.0%	4.8%	5.6%
ROCE (%)	5.7%	5.2%	5.3%
Current ratio	0.5	0.8	0.6

¹ Alternative performance measures based on ESMA guidelines are disclosed in the “Alternative performance measures” section of the report.

² EBITDA adjusted for 2019 without the IFRS 16 adoption effect was EUR 153.7 million.

³ Please see note 14 for the IFRS 16 adoption effect on assets.

⁴ Please see note 16 for the IFRS 16 adoption effect on interest-bearing liabilities.

⁵ Does not include additions to right-of-use assets.

Sales

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

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

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

Geographical segments	2019	%	2018	%
Finland - Sweden	344 404	36.3%	337 471	35.5%
Estonia - Finland	353 978	37.3%	355 995	37.5%
Estonia - Sweden	112 271	11.8%	118 991	12.5%
Latvia - Sweden	72 535	7.6%	71 292	7.5%
Other	73 727	7.8%	74 831	7.9%
Intercompany eliminations	-7 795	-0.8%	-8 857	-0.9%
Total revenue of the Group	949 119	100.0%	949 723	100.0%

Operating segments	2019	%	2018	%
Restaurant and shop sales on-board and on mainland	536 569	56.5%	524 416	55.2%
Ticket sales	240 653	25.4%	243 807	25.7%
Sales of cargo transportation	119 078	12.5%	124 852	13.1%
Sales of accommodation ¹	16 083	1.7%	19 183	2.0%
Income from charter of vessels	8 289	0.9%	8 030	0.8%
Other	28 449	3.0%	29 435	3.1%
Total revenue of the Group	949 119	100.0%	949 723	100.0%

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

Earnings

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

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

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

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

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

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

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

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

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

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

Liquidity and cash flow

The Group's net operating cash flow for 2019 was EUR 174.6 million (EUR 156.8 million in 2018).

The Group's cash used in investing activities was EUR 60.7 million (EUR 35.7 million in 2018). A number of investments were made to upgrade the ships' restaurants, shops and cabins. Investments were also made in the development of the online booking and sales systems. In addition, in the second quarter of 2019 the Group made a prepayment of EUR 12.4 million for a new LNG shuttle vessel, MyStar.

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

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

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

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

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

Financing sources

The Group finances its operations and investments with operating cash flows, debt and equity financing and potential proceeds from the disposal of assets. At 31 December 2019, the Group's capitalisation ratio (interest-bearing liabilities as a percentage of interest-bearing liabilities and shareholders' equity) was 41.3% compared to 37.3% at 31 December 2018. The increase results from a EUR 67.7 million increase in interest-bearing liabilities and a EUR 34.1 million decrease in equity.

Loans and borrowings

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

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

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

Shareholders' equity

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

Vessels and other investments

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

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

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

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

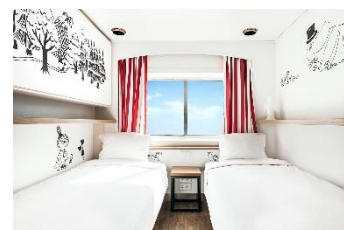
The Group's main revenue-generating assets are vessels, which account for approximately 77% of total assets. During the financial year the Group owned 14 vessels.

The Group's investments
in 2019

EUR **60.9**
million

Tallink Grupp AS paid a
dividend of EUR 0.05 per
share, in the total
amount of

EUR **33.5**
million



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

Vessel name	Vessel Type	Built/renovated	Route	Other information
Silja Europa	Cruise ferry	1993/2016	Finland-Estonia	overnight cruise
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Megastar	High-speed ro-pax	2017	Finland-Estonia	shuttle service
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Estonia	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Baltic Princess	Cruise ferry	2008	Finland-Sweden	overnight cruise
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Isabelle	Cruise ferry	1989	Sweden-Latvia	overnight cruise
Atlantic Vision	High-speed ro-pax	2002	Canada	chartered out

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

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

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

Market developments

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

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

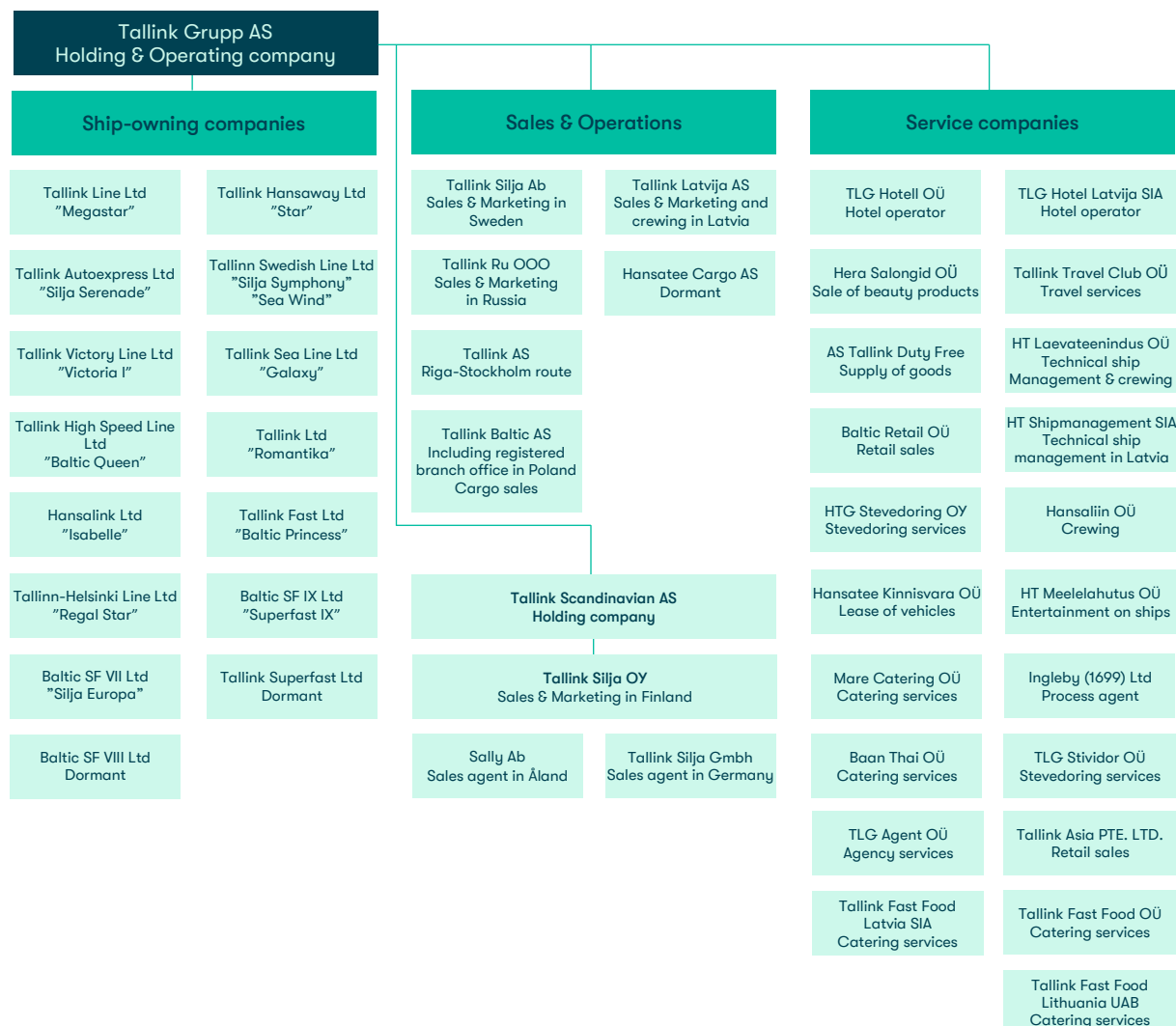
Passengers	2019	2018	Change
Finland-Sweden	2 894 494	2 845 616	1.7%
Estonia-Finland	5 115 602	5 079 861	0.7%
Estonia-Sweden	953 153	1 035 093	-7.9%
Latvia-Sweden	799 961	796 041	0.5%
Total	9 763 210	9 756 611	0.1%
Cargo units	2019	2018	Change
Finland-Sweden	78 095	74 654	4.6%
Estonia-Finland	242 142	245 867	-1.5%
Estonia-Sweden	42 845	48 427	-11.5%
Latvia-Sweden	16 552	16 010	3.4%
Total	379 634	384 958	-1.4%
Passenger vehicles	2019	2018	Change
Finland-Sweden	158 699	155 907	1.8%
Estonia-Finland	827 106	827 998	-0.1%
Estonia-Sweden	61 981	69 072	-10.3%
Latvia-Sweden	62 528	71 716	-12.8%
Total	1 110 314	1 124 693	-1.3%

The Group's market shares on routes operated in 2019 were as follows:

- The Group carried approximately 57% of passengers and 62% of ro-ro cargo on the routes between Estonia and Finland.
- The Group carried approximately 55% of passengers and 28% of ro-ro cargo on the routes between Finland and Sweden.
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.
- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm.

Group structure

At the reporting date, the Group comprised 47 companies. All subsidiaries are wholly owned by Tallink Grupp AS. The following diagram represents the Group's structure at the reporting date:



The Group also owns 34% of Tallink Takso AS

Changes in Group structure

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

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

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

Personnel

At 31 December 2019, the Group had 7 240 employees (7 242 at 31 December 2018).

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

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

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

Shares and shareholders

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

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

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

Tallink Grupp AS shares have no nominal value and the notional value of each share is EUR 0.47.

On 9 June 2015, the annual general meeting of Tallink Grupp AS approved the terms of a share option programme that allowed issuing options for up to 20 million shares. At 31 December 2019 no options had been granted under the 2015 share option programme.

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

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

4) Own shares will be paid for from assets exceeding share capital, mandatory legal reserve and share premium.

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

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

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

Ownership size	Shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	913	7.6%	33 288	0.0%
100 - 999	3 762	31.2%	1 675 501	0.3%
1 000 - 9 999	6 429	53.3%	14 576 459	2.2%
10 000 - 99 999	817	6.8%	20 090 008	3.0%
100 000 - 999 999	113	0.9%	32 780 443	4.9%
1 000 000 - 9 999 999	30	0.2%	89 600 608	13.4%
10 000 000 +	9	0.1%	511 125 733	76.3%
Total	12 073	100.0%	669 882 040	100.0%

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

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

Shareholder	Number of shares	% of share capital
Infotar AS	261 311 973	39.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
ING Luxembourg S.A. AIF Account	44 077 066	6.6%
Baltic Cruises Investment L.P.	36 931 732	5.5%
Other shareholders	219 718 039	32.8%
Total	669 882 040	100.0%

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

Residency	Shareholders	Number of shares	% of share capital
Estonia	11 822	356 244 908	53.2%
Cayman Islands	7	169 848 565	25.4%
Luxembourg	6	45 925 404	6.9%
Finland	85	36 135 506	5.4%
United States	15	27 413 897	4.1%
Germany	15	10 174 464	1.5%
Austria	4	5 085 914	0.8%
Latvia	21	4 723 724	0.7%
Lithuania	11	3 987 760	0.6%
Sweden	27	3 363 991	0.5%
Denmark	7	2 763 357	0.4%
United Kingdom	14	2 366 059	0.4%
France	3	1 012 765	0.2%
Belgium	2	402 429	0.1%
Switzerland	6	363 480	0.1%
Other	28	69 817	0.0%
Total	12 073	669 882 040	100.0%

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

Investor type	Shareholders	Number of shares	% of share capital
Principal shareholder, Infortar AS	1	261 311 973	39.0%
Institutional investors	980	359 642 685	53.7%
Private individuals	11 092	48 927 382	7.3%

Shareholders' agreement

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

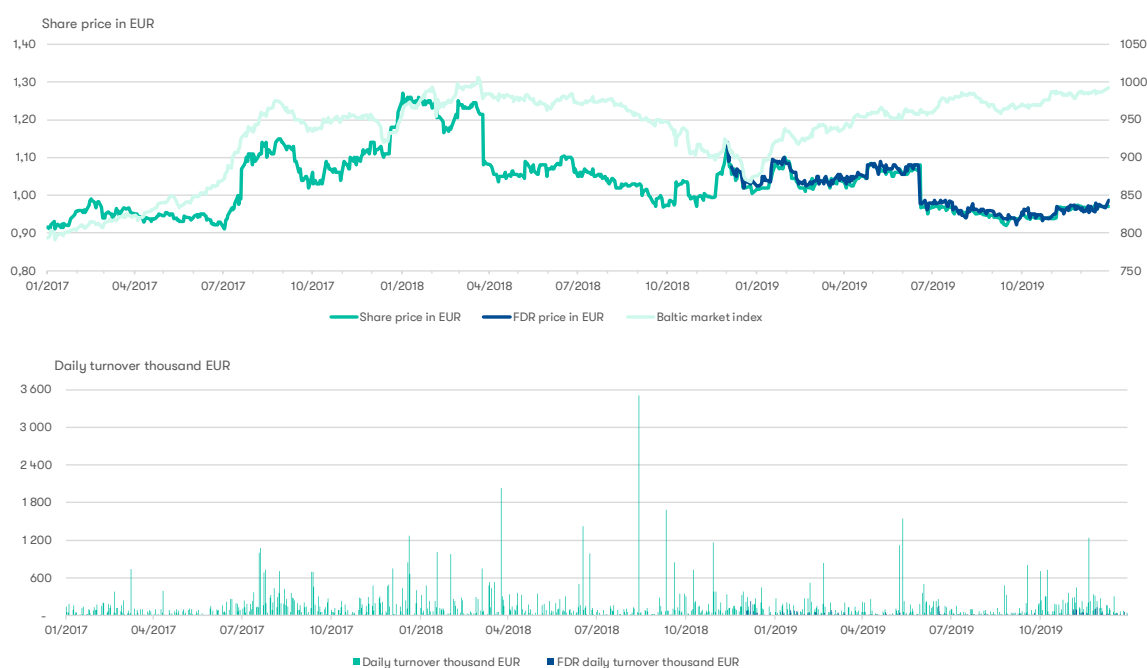
Two shareholders of Tallink Grupp AS, Baltic Cruises Holding L.P. ("BCH") and Baltic Cruises Investment L.P. ("BCI"), and another shareholder, Citigroup Venture Capital International Growth Partnership (Employee) II L.P. ("CVCI"), concluded an agreement that restricts the free transferability of Tallink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

Trading

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

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

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



Instrument	Open	Close	Daily close average	Payout	Market value, EUR million	P/E ratio
TAL1T	1.02	0.97	1.00	0.12	649.79	13.07
TALLINK FDR	1.04	0.99	1.00	0.12	660.50	13.28

Takeover bids

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

Dividends

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

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

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

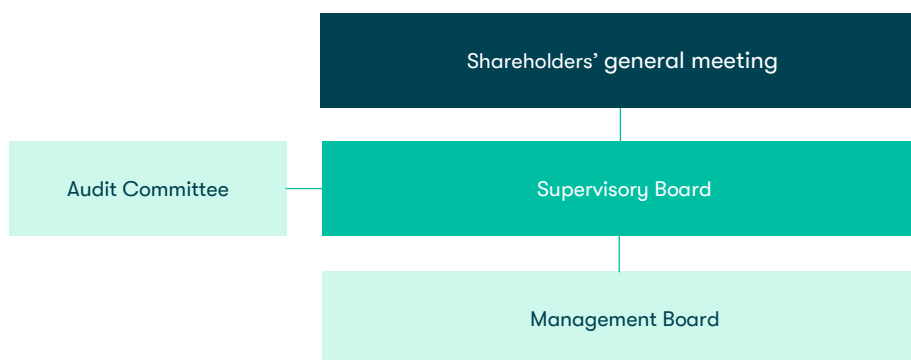
Due to a deteriorated operating environment after the reporting date and considering the Company's long-term interests, the Management Board has decided to propose to the Supervisory Board not to pay dividends from net profit for 2019.

CORPORATE GOVERNANCE REPORT

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

Organization and administration

Pursuant to the Estonian Commercial Code and the articles of association of the Company, the right of decision and the administration of the Company are divided between the shareholders represented by the shareholders' general meeting, the Supervisory Board and the Management Board. The following diagram represents the governance structure of the Group:



Shareholders' general meeting

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

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

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

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

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

In the reporting period Tallink Grupp AS held the annual general meeting on 23 May 2019. The meeting was attended by the Management Board members Mr Paavo Nõgene, Mr Lembit Kitter, Mrs Kadri Land, Mr Harri Hanschmidt and Mrs Piret Mürk-Dubout. The Supervisory Board members

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

The Supervisory Board

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

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

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

At present, the Supervisory Board has seven members: Mr Enn Pant – chairman, Mr Toivo Ninnas, Mrs Eve Pant, Mr Ain Hanschmidt, Mr Colin Douglas Clark, Mr Kalev Järvelill and Mr Raino Paron. The members of the Supervisory Board have the knowledge and experience necessary to fulfil their duties in accordance with the Corporate Governance Recommendations and legislation.

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

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

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

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

Name	Shares
Enn Pant	5 838 713
Toivo Ninnas	119 200
Eve Pant	710 000
Ain Hanschmidt	1 800 000
Raino Paron	0
Colin Douglas Clark	0
Kalev Järvelill	0

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

Name	Expiration of term
Enn Pant	13 June 2020
Toivo Ninnas	18 September 2022
Eve Pant	18 September 2022
Ain Hanschmidt	18 September 2022
Raino Paron	18 September 2022
Colin Douglas Clark	18 September 2022
Kalev Järvelill	12 June 2021

The Management Board

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

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

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

At present, the Management Board has five members: Mr Paavo Nõgene – chairman, Mr Lembit Kitter, Mrs Kadri Land, Mr Harri Hanschmidt and Mrs Piret Mürk-Dubout. Mr Paavo Nõgene is responsible for leading the Board and general and strategic management of the Group, additionally he is responsible for daily operations, internal audit, data protection and hotel operations. Mr Lembit Kitter is responsible for the Group's finance, restaurant & bar operations, customer service, and internal control. Mrs Kadri Land is responsible for cargo operations, technical management, safety and security, human resources and regional offices. Mr Harri Hanschmidt is responsible for IT,

operational and business development, investor relations, EU funds and new strategic projects. Mrs Piret Mürk-Dubout is responsible for the Group's sales & marketing, retail operations, onboard services and corporate social responsibility.

The Supervisory Board has concluded service agreements with the members of the Management Board. In 2019, the remuneration of the members of the Group's Management Board was EUR 2.9 million in total.

The remuneration of the Management Board is determined by the Supervisory Board according to the CGR. The Supervisory Board has adopted the principles of remuneration of the management of Tallink Grupp AS. According to the document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to six-months' remuneration that are paid when the Group earns a profit and when they meet their individual performance criteria. On 20 November 2018, the Supervisory Board adopted renewed principles of remuneration of the management of Tallink Grupp AS. According to the updated document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to 12-months' remuneration depending on the size of dividends. The remuneration is paid when the Group earns a profit and when the shareholders' general meeting decides to pay dividends from the profit of the previous financial year. The pay and benefits of individual Board members are not disclosed as the Group believes that such detailed information is insignificant for investors and is outweighed by the possible harm and discomfort to the members of the Management Board from the disclosure of sensitive personal information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

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

The direct shareholdings of the members of the Management Board at the end of the 2019 financial year were the following:

Name	Shares
Paavo Nõgene	75 000
Lembit Kitter	0
Kadri Land	74 792
Harri Hanschmidt	12 648
Piret Mürk-Dubout	0

Authority of the members of the management board to issue and acquire shares

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

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

The Management Board does not have the right to issue the Company's shares.

Disclosure of information

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

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

Financial reporting and auditing

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

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

The notice of the shareholders' general meeting includes information on the auditor candidate. The Company observes the auditors' rotation requirement.

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

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

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

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

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

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

The audit fee and the auditor's responsibilities are fixed in an agreement which is concluded by the Management Board. According to the agreement, the fee to be paid to the auditor is not subject to

disclosure and is treated as confidential. In the notice of the annual general meeting, the Group publishes the information required by the Commercial Code, which does not include the audit fee.

Audit committee

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

At present, the Audit Committee has four members: Mr Meelis Asi – chairman, Mr Ain Hanschmidt, Ms Mare Puusaag and Mr Luke Staniczek.

Substantial shareholders

Shareholder	Number of shares	% of share capital
Infotrar AS	261 311 973	39.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
ING Luxembourg S.A. AIF Account	44 077 066	6.6%

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

Key management personnel

Supervisory board

Mr Enn Pant (born 1965) - Chairman of the Supervisory Board since 2015

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

Mr Toivo Ninnas (born 1940) - Member of the Supervisory Board since 1997

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

Ms Eve Pant (born 1968) - Member of the Supervisory Board since 1997

- Member of the Management Board of Infotrar AS
- Graduated from the Tallinn School of Economics, Estonia, in 1992

Mr Ain Hanschmidt (born 1961) - Member of the Supervisory Board since 2005, also from 1997 to 2000

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

Mr Colin Douglas Clark (born 1974) - Member of the Supervisory Board since 2013

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

Mr Kalev Järvelill (born 1965) - Member of the Supervisory Board since 2007

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

Mr Raino Paron (born 1965) - Member of the Supervisory Board since September 2019

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

Management board

Mr Paavo Nõgene (born 1980) – Chairman of the Management Board since May 2018

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

Mr Lembit Kitter (born 1953) - Member of the Management Board since 2006

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

Mrs Kadri Land (born 1964) – Member of the Management Board since February 2019

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

Mr Harri Hanschmidt (born 1982) – Member of the Management Board since February 2019

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

Mrs Piret Mürk-Dubout (born 1970) – Member of the Management Board since April 2019

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

Safety and security

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

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

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

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

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

Environmental and corporate social responsibility

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

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

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

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

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

Selection of international certificates held by Group companies and ships:

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

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

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

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

A more detailed overview of the environmental and social responsibility policies and activities is provided in the Group's Yearbook.

Economic environment

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

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

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

The cooler economic environment, and the situation with trade and cargo transportation in particular, weighed on the Group's core operations. Revenues from core shipping operations slipped

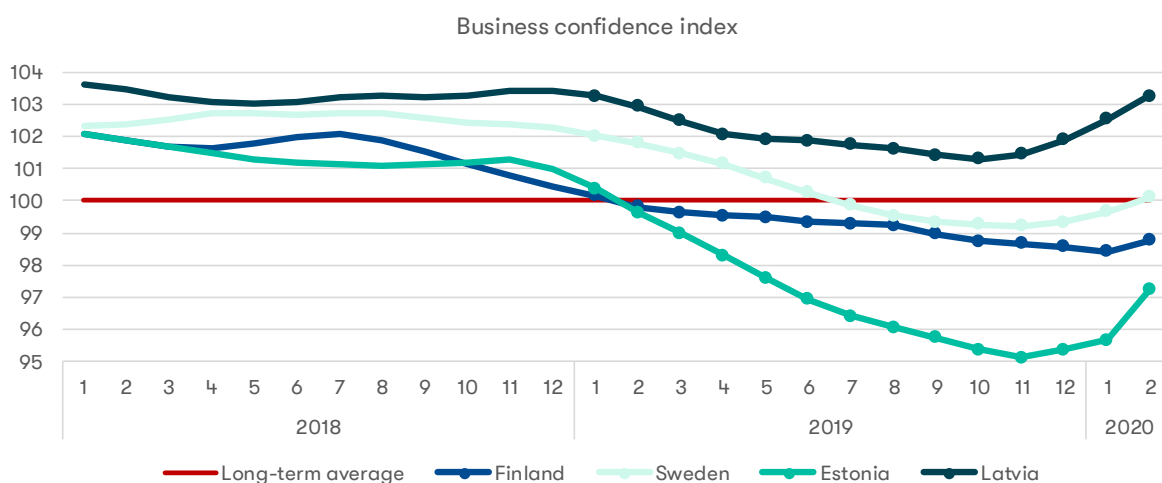
by 0.1% in 2019 with cargo revenues down by 4.6%. The weak confidence of Finnish and Swedish consumers in 2019 is reflected in passenger operations revenue, which grew by 0.7%, falling short of the GDP growth rates in the respective markets. The more buoyant confidence of the Estonian and Latvian consumers,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

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

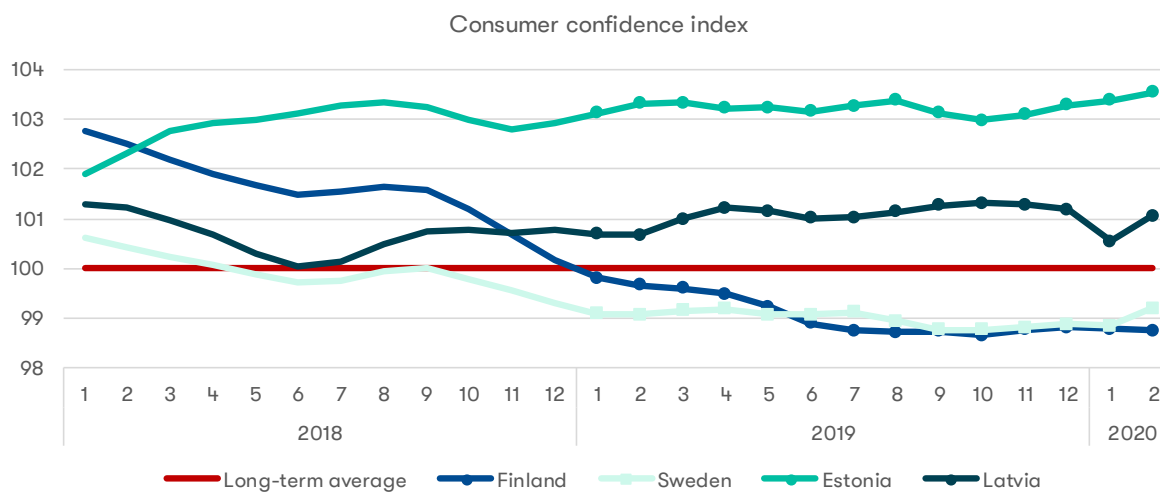
The average fuel prices were notably lower in 2019 than in the previous year. Combined with the effect from fuel price-fixing agreements with suppliers, the effective fuel prices remained, on average, 10% lower relative to 2018. The global fuel prices are expected to remain volatile due to uncertainties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

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

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



Source: <https://data.oecd.org/leadind/business-confidence-index-bci.htm#indicator-chart>



Source: <https://data.oecd.org/leadind/business-confidence-index-bci.htm#indicator-chart>

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

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

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

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

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

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

Events after the reporting period and outlook

Coronavirus disease Covid-19

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

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

Changes concerning workload and remuneration of personnel

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

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

Fuel price risk management

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

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

Increase of overdraft limit

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

Ship dockings

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

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

Developments with the new shuttle vessel MyStar

In the first quarter of 2020, another prepayment of EUR 12.4 million was made for a new shuttle vessel, MyStar.

The physical production process of MyStar started on 6 April 2020 in Rauma shipyard in Finland.

Changes in the Group structure

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

Earnings

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

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

Research and development projects

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

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

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


Risks

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

- Covid-19 situation and developments
- Accidents, disasters
- Macroeconomic developments
- Changes in laws and regulations
- Relations with trade unions
- Increase in the fuel prices and interest rates
- Market and customer behaviour

MANAGEMENT BOARD'S CONFIRMATION

The Management Board confirms that to the best of their knowledge the management report of Tallink Grupp AS for the 2019 financial year presents a true and fair view of significant events and their impact on the Group's results and financial position and includes an overview of the main risks and uncertainties.



Paavo Nõgene
Chairman of the Management Board



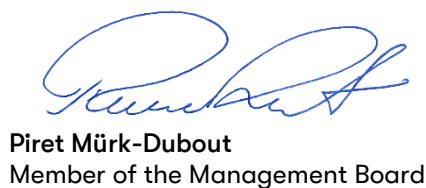
Lembit Kitter
Member of the Management Board



Kadri Land
Member of the Management Board



Harri Hanschmidt
Member of the Management Board



Piret Mürk-Dubout
Member of the Management Board




Tallinn, 14 April 2020

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December, in thousands of EUR	2019	2018
Revenue (Note 4)	949 119	949 723
Cost of sales (Note 5)	-752 234	-765 892
Gross profit	196 885	183 831
Sales and marketing expenses (Note 5)	-67 727	-69 315
Administrative expenses (Note 5)	-56 555	-55 223
Impairment loss on receivables (Note 23)	-228	-272
Other operating income	2 599	4 633
Other operating expenses	-106	-153
Result from operating activities	74 868	63 501
Finance income (Note 5)	995	8 631
Finance costs (Note 5)	-18 674	-27 552
Share of loss/profit of equity-accounted investees (Note 12)	-4	4
Profit before income tax	57 185	44 584
Income tax (Note 6)	-7 467	-4 535
Net profit	49 718	40 049
Net profit attributable to equity holders of the Parent	49 718	40 049
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translating foreign operations	161	267
Other comprehensive income	161	267
Total comprehensive income	49 879	40 316
Total comprehensive income attributable to equity holders of the Parent	49 879	40 316
Basic and diluted earnings per share (in EUR, Note 7)	0,074	0,060

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Consolidated statement of financial position

As at 31 December, in thousands of EUR

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

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Consolidated statement of cash flows

For the year ended 31 December, in thousands of EUR

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

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Consolidated statement of changes in equity

In thousands of EUR	Share capital	Share premium	Translation reserve	Ships re-valuation reserve	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2018	361 736	662	269	41 552	27 670	-17	425 044	856 916	856 916
Initial application of IFRS 16	0	0	0	0	0	0	-3 590	-3 590	-3 590
Adjusted balance as at 1 January 2019	361 736	662	269	41 552	27 670	-17	421 454	853 326	853 326
Net profit for 2019	0	0	0	0	0	0	49 718	49 718	49 718
Other comprehensive income for 2019									
Exchange differences on translating foreign operations	0	0	161	0	0	0	0	161	161
Total comprehensive income for 2019	0	0	161	0	0	0	49 718	49 879	49 879
Transactions with owners of the Company recognised directly in equity									
Transfer from profit for 2018	0	0	0	0	2 003	0	-2 003	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	-33 494	-33 494	-33 494
Share-based payment transactions	0	1	0	0	0	17	0	18	18
Reduction of share capital	-46 892	0	0	0	0	0	0	-46 892	-46 892
Total transactions with owners of the Company, recognised directly in equity	-46 892	1	0	-2 047	2 003	17	-33 450	-80 368	-80 368
As at 31 December 2019	314 844	663	430	39 505	29 673	0	437 722	822 837	822 837

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In thousands of EUR	Share capital	Share premium	Translation reserve	Ships re-valuation reserve	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2017	361 736	639	2	43 599	25 345	0	404 958	836 279	836 279
Initial application of IFRS 9 and IFRS 15	0	0	0	0	0	0	411	411	411
Adjusted balance as at 1 January 2018	361 736	639	2	43 599	25 345	0	405 369	836 690	836 690
Net profit for 2018	0	0	0	0	0	0	40 049	40 049	40 049
Other comprehensive income for 2018									
Exchange differences on translating foreign operations	0	0	267	0	0	0	0	267	267
Total comprehensive income for 2018	0	0	267	0	0	0	40 049	40 316	40 316
Transactions with owners of the Company recognised directly in equity									
Transfer from profit for 2017	0	0	0	0	2 325	0	-2 325	0	0
Transfer from revaluation reserve	0	0	0	-2 047	0	0	2 047	0	0
Dividends	0	0	0	0	0	0	-20 096	-20 096	-20 096
Share-based payment transactions	0	23	0	0	0	-17	0	6	6
Total transactions with owners of the Company, recognised directly in equity	0	23	0	-2 047	2 325	-17	-20 374	-20 090	-20 090
As at 31 December 2018	361 736	662	269	41 552	27 670	-17	425 044	856 916	856 916

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Corporate information

The consolidated financial statements of Tallink Grupp AS (the “Parent”) and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2019 were authorised for issue by the Management Board on 14 April 2020.

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

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

The principal activities of the Group are related to marine transportation in the Baltic Sea (passenger and cargo transportation). Further information on the Group’s principal activities is presented in Note 4 Segment information. At 31 December 2019 the Group employed 7 240 people (7 242 at 31 December 2018).

Note 2 Basis of preparation

2.1. Statement of compliance

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

2.2. Basis of measurement


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

- derivative financial instruments are measured at fair value (Note 23)
- equity securities are measured at fair value (Note 13)
- investment property is measured at fair value
- ships are measured at revalued amounts (Note 14)
- deferred income (Club One points) (Note 18)

2.3. Changes in accounting policies

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019.

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Changes in significant accounting policies

The Group applied IFRS 16 initially on 1 January 2019.

IFRS 16 Leases

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

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

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

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

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

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

Definition of a lease

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


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

The Group as a lessee

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

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

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

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- used hindsight when determining the lease term.

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

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

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

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

The Group as a lessor

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

Effective standards and interpretations

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses must be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

Amendments to IFRIC 23 did not have a material impact on the Group's financial statements.

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

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2019 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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

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

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

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

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

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

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

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

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

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


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

The European Commission decided to defer the endorsement indefinitely.

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

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

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

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Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020

These amendments are not yet endorsed by the EU.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

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

Other changes

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

2.4. Functional and presentation currency

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

2.5. Use of estimates and judgements

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

Judgements

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

Lease term

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


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

Assumptions and estimation uncertainty

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

Fair value of ships

For the purpose of revaluation, the Group determined the fair value of its ships as at 31 December 2019. The fair value of ships depends on many factors, including the year of construction, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance).

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In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Management is of the opinion that as at 31 December 2019 the carrying value of ships as a group did not materially differ from their fair value. Therefore, no revaluation was performed as at 31 December 2019. Further details are given in Note 3.4 and Note 14.

Determination of the useful lives of property, plant and equipment and intangible assets

Management has estimated the useful lives and residual values of property, plant and equipment and intangible assets, taking into consideration the volumes of business activities, historical experience in this area and future outlook.

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

Management's estimates of the useful lives of the Group's property, plant and equipment and the Group's intangible assets are disclosed in Notes 3.4 and 3.5, respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 amounted to EUR 11 066 thousand (31 December 2018: EUR 11 066 thousand). Further details are given in Note 15.

Deferred tax

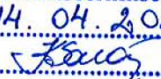
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax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

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

Customer loyalty programme

Customer loyalty programme (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

The Group recognises the credits that it awards to customers as a separate performance obligation, which is deferred at the date of the initial sale. The credits are recognised based on the relative stand-alone selling price allocation method. See also Note 18.

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Note 3 Significant accounting policies

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

3.1. Basis of consolidation

Business combinations

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

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

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

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

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

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

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

Subsidiaries

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

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Investments in equity-accounted investees

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

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

Transactions eliminated on consolidation

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

3.2. Foreign currency


Foreign currency transactions

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

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

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

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

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Foreign operations

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

The income and expenses of foreign operations are translated to euros at exchange rates at the dates of the transactions.

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

3.3. Financial instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial assets

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

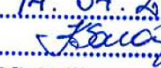
- amortised cost;
- FVOCI – debt investment;
- FVOCI – equity investment; or
- FVTPL.

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

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

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

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

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Financial assets – Subsequent measurement and gains and losses

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

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

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

Derecognition

Financial assets

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

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

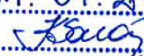
Financial liabilities

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

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

Offsetting

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

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Share capital

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

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and presented in the reserve for treasury shares.

When treasury shares are subsequently sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3.4. Property, plant and equipment

Recognition and measurement

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

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

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

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

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


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

Subsequent costs

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

Depreciation

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

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

- buildings 5 to 50 years
- plant and equipment 3 to 10 years
- ships 17 to 40 years
- other equipment 2 to 5 years

Land is not depreciated.

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

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

- ships 17 to 40 years
- capitalised dry-docking expenses 2 to 5 years

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

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

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

3.5. Intangible assets

Goodwill

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


Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Research and development costs

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

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

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Trademark

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

Other intangible assets

Other intangible assets (the licences and development costs of IT programs, acquired customer contracts) are initially recognised at cost.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed in the year in which the expenditure is incurred.

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

Subsequent expenditure

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

Amortisation

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

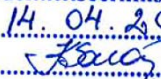
- trademarks 20 years
- other intangible assets 5 to 10 years

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

3.6. Investment property

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

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

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3.7. Inventories

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

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

3.8. Borrowing costs

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

3.9. Impairment

Financial assets

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

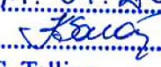
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate.

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

Non-financial assets

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

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10. Employee benefits

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

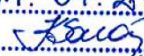
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage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

3.11. Provisions

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

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

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

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3.12. Leases

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

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

The Group as a lessee

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

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

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


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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

The Group as a lessor

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

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

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

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

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

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

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

3.13. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer. The following provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods – sales in restaurants and shops

Revenue is recognised when the goods are delivered and have been accepted by customers at their locations, i.e. at the retail stores, bars and restaurants, generally for cash or by card payment.

Ticket sale and sale of cargo transport

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

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Sales of hotel accommodation

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

Revenue from travel packages

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

Charter income

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

In these financial statements the term 'charter' refers to 'lease' as defined in IFRS 16.

Customer loyalty programme

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

3.14. Government grants

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

3.15. Finance income and finance costs

Finance income comprises interest income on funds invested (including equity instruments), dividend income, gains on the disposal of equity instruments, and gains on derivative instruments that are recognised in profit or loss.

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

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

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group

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estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

3.16. Income tax

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

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

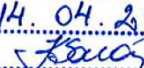
With the exception of Group companies domiciled in Estonia and Latvia, deferred tax is recognised providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for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

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

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

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

According to the approach in Latvia, deferred income on investments made in subsidiaries, associates and joint ventures must also be recognised when these investments have been made in such countries (e.g. Estonia and Latvia) where corporate income tax is payable on distributable profits unless the group is able to control the timing of the reversal of temporary differences and their

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reversal in the near future is not probable. According to the approach currently used in Estonia, the deferred income tax liability is not recognised in this case.

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

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

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

Group companies in Estonia

According to the Estonian Income Tax Act, for Group companies registered in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax of 14% or 20% (calculated as 14/86 or 20/80 of the net dividends to be paid in 2019). The potential tax liability from the distribution of the entire retained earnings as dividends is not recorded in the statement of financial position for Estonian group companies. The amount of the potential tax liability from the distribution of dividends depends on the time, amount and sources of the dividend distribution.

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

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

Income tax from the payment of dividends is recorded as income tax expense in the period in which the dividends are declared. The maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 20.

Group companies in Cyprus

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

Other foreign Group companies and permanent establishments

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

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

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According to tax law changes that came into force from 1 January 2018, in Latvia the profits of companies derived in 2018 and subsequent periods are taxed similarly to Estonia at the moment of distribution with corporate income tax at a rate of 20% (at 20/80 of the net amount).

3.17. Earnings per share

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

3.18. Segment reporting

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

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

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


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

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

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

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

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

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

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

3.19. Determination of fair values

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

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

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

Ships (Level 3)

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

Intangible assets (Level 3)

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

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

Investment property (Level 3)

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

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

Non-derivative financial liabilities (Levels 1 and 2)

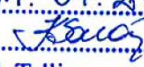
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting

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date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

3.20. Separate financial statements of the Parent

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate primary financial statements (i.e. statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, collectively referred to as primary financial statements) of the Parent. The separate primary financial statements of Tallink Grupp AS are disclosed in Note 25 Primary Financial Statements of the Parent. These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries which are stated at cost in the separate primary financial statements of the Parent.


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Note 4 Segment information

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

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

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 December 2019 and 31 December 2018.


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Geographical segments – by the location of assets

For the year ended 31 December, in thousands of EUR	Estonia-Finland routes	Estonia-Sweden routes	Latvia-Sweden route	Finland-Sweden routes	Other	Intersegment elimination	Total
2019							
Sales to external customers	353 977	112 271	72 535	344 404	65 932	0	949 119
Intersegment sales	0	0	0	0	7 795	-7 795	0
Revenue	353 977	112 271	72 535	344 404	73 727	-7 795	949 119
Segment result	80 435	4 724	606	26 771	16 622	0	129 158
Unallocated expenses							-54 290
Net financial items							-17 679
Share of loss of equity-accounted investees							-4
Profit before income tax							57 185
Income tax							-7 467
Net profit for the period							49 718
Segment's assets	425 129	267 695	118 042	493 764	146 778	-490	1 450 918
Unallocated assets							82 045
Assets							1 532 963
Segment's liabilities	62 108	24 022	9 932	75 157	87 737	-490	258 466
Unallocated liabilities							451 660
Liabilities							710 126
Capital expenditures							
Segment's property, plant and equipment	7 306	10 606	4 153	18 073	1 958	0	42 096
Unallocated property, plant and equipment							13 815
Segment's intangible assets	2	27	20	0	139	0	188
Unallocated intangible assets							4 805
Depreciation	17 649	12 086	8 163	28 698	16 409	0	83 005
Unallocated depreciation							6 351
Amortisation	731	153	45	517	229	0	1 675
Unallocated amortisation							5 218

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For the year ended 31 December, in thousands of EUR	Estonia-Finland routes	Estonia-Sweden routes	Latvia-Sweden route	Finland-Sweden routes	Other	Intersegment elimination	Total
2018							
Sales to external customers	355 995	118 991	71 291	337 471	65 975	0	949 723
Intersegment sales	0	0	0	0	8 857	-8 857	0
Revenue	355 995	118 991	71 291	337 471	74 832	-8 857	949 723
Segment result	80 317	5 844	-982	16 182	13 155	0	114 516
Unallocated expenses							-51 015
Net financial items							-18 921
Share of profit of equity-accounted investees							4
Profit before income tax							44 584
Income tax							-4 535
Net profit for the period							40 049
Segment's assets	435 618	270 254	121 419	512 641	75 535	-591	1 414 876
Unallocated assets							86 028
Assets							1 500 904
Segment's liabilities	30 003	10 984	8 858	68 446	7 916	-591	125 616
Unallocated liabilities							518 372
Liabilities							643 988
Capital expenditures							
Segment's property, plant and equipment	4 078	3 265	869	23 980	1 285	0	33 477
Unallocated property, plant and equipment							2 352
Segment's intangible assets	20	20	0	2	2	0	44
Unallocated intangible assets							3 179
Depreciation	18 067	11 761	7 833	27 782	5 475	0	70 918
Unallocated depreciation							2 411
Amortisation	628	140	54	405	207	0	1 434
Unallocated amortisation							4 517

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Revenue by service

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

Contract balances

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

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

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

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Note 5 Operating expenses and financial items

Cost of sales

For the year ended 31 December, in thousands of EUR	2019	2018
Cost of goods sold	-221 139	-217 429
Port & stevedoring costs	-103 469	-104 772
Fuel costs	-89 614	-102 473
Staff costs	-163 148	-160 608
Ships' operating expenses	-72 698	-75 657
Depreciation and amortisation (Notes 14, 15)	-82 710	-70 917
Cost of travel package sales	-10 684	-11 001
Other costs	-8 772	-23 035
Total cost of sales	-752 234	-765 892

Sales and marketing expenses

For the year ended 31 December, in thousands of EUR	2019	2018
Advertising expenses	-30 350	-32 372
Staff costs	-31 612	-32 652
Depreciation and amortisation (Notes 14, 15)	-1 970	-1 435
Other costs	-3 795	-2 856
Total sales and marketing expenses	-67 727	-69 315


Administrative expenses

For the year ended 31 December, in thousands of EUR	2019	2018
Staff costs	-28 748	-24 849
Depreciation and amortisation (Notes 14, 15)	-11 569	-6 927
Other costs	-16 238	-23 447
Total administrative expenses	-56 555	-55 223

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

For the year ended 31 December, in thousands of EUR	2019	2018
Wages and salaries	-195 829	-189 816
Government grants	36 724	35 807
Social security costs	-59 490	-58 797
Staff training costs	-1 577	-1 772
Other staff costs	-3 336	-3 531
Total staff costs	-223 508	-218 109

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

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

For the year ended 31 December	2019	2018
Employees under employment contract	6 939	7 018
Employees under service contract	326	408
Members of the Management Board	5	4
Total average number of employees	7 270	7 430

Finance income and finance costs recognised in profit or loss


For the year ended 31 December, in thousands of EUR	2019	2018
Net foreign exchange gain	76	0
Income on foreign exchange derivatives	0	4 854
Income on interest rate swaps	918	3 770
Income from other financial assets	1	7
Total finance income	995	8 631
Net foreign exchange loss	0	-4 170
Interest expense on financial liabilities measured at amortised cost	-15 308	-19 813
Expenses on interest rate swaps	-1 029	-3 569
Interest expense on lease liabilities related to right-of-use assets	-2 337	0
Total finance costs	-18 674	-27 552
Net finance costs	-17 679	-18 921

Note 6 Income tax

Income tax contains current income tax and deferred income tax.

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

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

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Income tax expense

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

For the year ended 31 December, in thousands of EUR	2019	2018
Latvian subsidiaries	-3	-3
Finnish subsidiaries	-150	-169
German subsidiary	-4	-1
Estonian subsidiaries and Parent company	-8 050	-3 562
Current period tax expense	-8 207	-3 735
Swedish subsidiaries	-625	-407
Finnish subsidiaries	1 365	-377
German subsidiaries	0	-16
Deferred tax expense	740	-800
Total tax expense	-7 467	-4 535

Reconciliation of the effective tax rate

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

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following

As at 31 December, in thousands of EUR	Assets 2019	Liabilities 2019	Assets 2018	Liabilities 2018
Tax loss carry-forward ¹	22 458	0	22 302	0
Intangible assets	0	-3 784	0	-4 368
Tax assets / liabilities	22 458	-3 784	22 302	-4 368
Offset of assets and liabilities	-3 784	3 784	-4 368	4 368
Tax assets	18 674	0	17 934	0

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

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amounted to EUR 126 819 thousand as at 31 December 2019 (EUR 134 180 thousand as at 31 December 2018).

The Group has recognised deferred tax assets to the extent that the losses carried forward will be offset against projected future taxable profits. According to the Group's estimations, the Finnish subsidiary will be profitable from 2020 onwards (2018: from 2021 onwards). The estimations are based on the business plan of the Finnish operations. The change in the assumption of the first profitable year of the Finnish subsidiary is related to the application of effective cost control measures. The revenue growth rate of the Finnish operations for the years 2020-2029 used in the calculations was 2-2.5% and the growth rate used for the cost increase was 0.5-2% (as at 31 December 2018, the revenue growth rate for the years 2019-2028 of the Finnish operations used in the calculations was 2-2.5% and the growth rate used for the cost increase was 0.5-2%).

The sensitivity of the value of recognised deferred tax assets to the main assumptions of the projected future taxable profits is as follows: 1) +/- 1 percentage point change in the average revenue growth rate for the years 2020-2029 would change the value of recognised tax assets by EUR +12 388 thousand / EUR -2 132 thousand, respectively; 2) +/- 1 percentage point change in average costs' growth rate for the years 2020-2029 would change the value of recognised tax assets by EUR -1 109 thousand / EUR +12 099 thousand, respectively.

Movements in deferred tax balances


As at 31 December, in thousands of EUR	Balance as at 31 December 2019	Recognised in profit in 2019	Balance as at 31 December 2018
Tax loss carry-forward	22 458	156	22 302
Intangible assets	-3 784	584	-4 368
Net deferred tax (asset)/liability	18 674	740	17 934

Note 7 Earnings per share (EPS)

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

As at 31 December, in thousands	2019	2018
Shares issued	669 882	669 882
Treasury shares	0	-17
Shares outstanding	669 882	669 866

For the year ended 31 December, in thousands of EUR	2019	2018
Weighted average number of ordinary shares outstanding (in thousands)	669 881	669 859
Net profit attributable to equity holders of the Parent	49 718	40 049
EPS (EUR)	0.074	0.060

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Note 8 Cash and cash equivalents

As at 31 December, in thousands of EUR	2019	2018
Cash at bank and in hand	38 877	82 175
Total cash and cash equivalents	38 877	82 175

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

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

Note 9 Trade and other receivables

As at 31 December, in thousands of EUR	2019	2018
Trade receivables	24 067	30 386
Allowance for doubtful receivables	-594	-436
Government grants receivable	9 285	9 322
Receivables from related parties	211	33
Other receivables	4 637	4 500
Total trade and other receivables	37 606	43 805

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

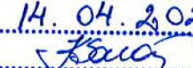
The Group's exposure to the credit and currency risks of receivables (excluding government grants receivable) is disclosed in Note 23. Additional information about government grants is disclosed in Note 5.

Note 10 Prepayments

As at 31 December in thousands of EUR	2019	2018
Prepaid expenses	5 654	5 313
Tax prepayments	1 151	771
Total prepayments	6 805	6 084

As at 31 December in thousands of EUR	2019	2018
Tax prepayments		
VAT	806	541
Other prepayments	345	230
Total tax prepayments	1 151	771

The balance of prepaid expenses includes mostly prepayments for insurance.

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Note 11 Inventories

As at 31 December, in thousands of EUR	2019	2018
Raw materials (mostly fuel)	3 382	3 615
Goods for sale	33 873	32 126
Total inventories	37 255	35 741

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

Fuel price risk

The Group is exposed to fuel price risk as part of the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of fuel price increases. At 31 December 2019 (as well as at 31 December 2018) there were no derivative contracts for fuel outstanding. For more information, see Note 23.

Note 12 Investments in equity-accounted investees

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

In thousands of EUR	2019	2018
Investments at the beginning of financial year	407	403
Share of profit/loss of equity-accounted investee	-4	4
Investments at the end of financial year	403	407

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

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

In thousands of EUR	Revenues	Expenses	Profit	Equity
For the year ended 31 December 2019	4 068	4 072	-4	1 185
For the year ended 31 December 2018	4 242	4 228	14	1 198

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Note 13 Other financial assets and prepayments

As at 31 December, in thousands of EUR	2019	2018
Equity securities	167	167
Other receivables	151	153
Prepaid expenses	1 301	0
Total other financial assets	1 619	320

Note 14 Property, plant and equipment

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

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Right-of-use assets distribution according to PPE classes

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

Revaluation of ships

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

Valuation technique	Significant unobservable inputs
Market comparison technique, cost approach: independent appraisers consider both approaches. They scan the market and look at second-hand sales of similar ships and analyse general demand for the particular ship in various parts of the world. Also, they look at the construction cost of the ship less reasonable depreciation and the construction prices of similar new ships today.	Sales prices of similar ships Level of demand for particular ships Construction prices of ships Maintenance and repair programme of ships

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

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

As at 31 December 2019	In thousands of EUR
Cost	1 771 452
Accumulated depreciation	-637 423
Net carrying amount	1 134 029

As at 31 December 2018	In thousands of EUR
Cost	1 755 015
Accumulated depreciation	-581 272
Net carrying amount	1 173 743

Due to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as at 31 December 2019 by EUR 2 047 thousand (2018: EUR 2 047 thousand) and retained earnings were increased by the same amount.

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

Change in useful life of vessels


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

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

Contractual commitments

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

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

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Note 15 Intangible assets

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


Intangible asset classes

¹ Goodwill in the amount of EUR 11 066 thousand is related to the Estonia-Finland routes segment. In the impairment test of goodwill related to the Estonia-Finland routes, the recoverable amount was identified based on value in use. Management calculated value in use using the results and margins achieved in 2019, a revenue growth rate of 0% p.a. (2018: 0%) and a discount rate of 4% (2018: 6%). Five-year cash flow to perpetuity value was used. There was no need to recognise an impairment loss.

² A trademark of EUR 58 288 thousand was recognised in connection with the acquisition of Silja OY Ab in 2006. The fair value of the trademark at the acquisition date was determined using the relief from royalty method. As at 31 December 2019 the remaining amortisation period of the trademark was 6.5 years.

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

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

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Note 16 Interest-bearing loans and borrowings

As at 31 December 2019, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Lease liabilities	2020-2021	72	232	304
Lease liabilities related to right-of-use assets ¹	2020-2030	14 175	87 402	101 577
Long-term bank loans	2020-2029	74 951	401 048	475 999
Total borrowings		89 198	488 682	577 880

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

¹ Lease liabilities related to the adoption of IFRS 16.

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

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

As at 31 December 2019 Tallink Grupp AS had given guarantees to Nordea Bank Plc and Danske Bank A/S for loans of EUR 162 239 thousand (2018: EUR 192 792 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc and Swedbank AS for the loans granted to Tallink Grupp AS. As at 31 December 2019 the book value of the loan was EUR 313 760 thousand (31 December 2018: EUR 316 915 thousand). Primary securities for the loans are the ships belonging to the overseas subsidiaries and a pledge of the shares in these subsidiaries.

The Group has issued counter guarantees to the commercial banks that have issued guarantees to several governmental authorities in favour of Group entities required to perform the Group's daily operations. As at 31 December 2019 the total amount of the guarantees was EUR 8 057 thousand (2018: EUR 8 057 thousand). The guarantees issued are not recognised in the statement of financial position as, according to historical experience and management's estimations, none of them is expected to turn into an actual liability.

In the loan agreements signed with banks, the Group has agreed to comply with financial covenants related to ensuring certain equity, liquidity and other ratios. During the financial year 2019 (as well as in 2018) the Group complied with all financial covenants.

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Reconciliation of liabilities arising from financing activities

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

In thousands of EUR	Long-term bank loans	Unsecured bonds	Lease liabilities	Right-of-use assets liabilities	Derivatives	Reserves	Retained earnings	Total
Balance as at 31 December 2017	469 331	91 288	287	0	34 398	68 946	404 958	1 069 208
Changes from financing cash flows								
Proceeds from loans	110 000	0	0	0	0	0	0	110 000
Repayment of loans	-69 666	0	0	0	0	0	0	-69 666
Repayment of bonds	0	-120 303	0	0	0	0	0	-120 303
Payments for settlement of derivatives	0	0	0	0	-3 569	0	0	-3 569
Payment of finance lease liabilities	0	0	-108	0	0	0	0	-108
Interest paid	0	0	0	0	0	0	-19 440	-19 440
Payment of transaction costs related to loans	-1 113	0	0	0	0	0	0	-1 113
Dividends paid	0	0	0	0	0	0	-20 096	-20 096
Reduction of share capital	0	0	0	0	0	0	-1	-1
Income tax on dividends paid	0	0	0	0	0	0	-3 562	-3 562
Total changes from financing cash flows	39 221	-120 303	-108	0	-3 569	0	-43 099	-127 858
The effect of changes in foreign exchange rates	0	28 838	-9	0	-24 856	267	0	4 240
Changes in fair value	0	0	0	0	-5 055	0	0	-5 055
Liability-related changes								
New finance leases	0	0	370	0	0	0	0	370
Transfer from retained earnings	0	0	0	0	0	2 325	-2 325	0
Transfer from revaluation reserve	0	0	0	0	0	-2 047	2 047	0
Termination of old finance leases	0	0	-112	0	0	0	0	-112
Amortisation of capitalised borrowing costs	1 155	177	0	0	0	0	0	1 332
Treasury shares	0	0	0	0	0	-17	0	-17
Reduction of share capital	0	0	0	0	0	0	1	1
Income tax on dividends paid	0	0	0	0	0	0	3 562	3 562
Interest paid	0	0	0	0	0	0	19 440	19 440
Total liability-related changes	1 155	177	258	0	0	261	22 725	24 576
Total equity-related changes	0	0	0	0	0	0	40 460	40 460
Balance as at 31 December 2018	509 707	0	428	0	918	69 474	425 044	1 005 571

Note 17 Trade and other payables

As at 31 December, in thousands of EUR	2019	2018
Trade payables	42 316	43 824
Other payables	2 751	4 533
Payables to employees	25 393	25 258
Interest payable	2 174	2 418
Tax liabilities	20 120	19 221
Other accruals	6 172	5 428
Total trade and other payables	98 926	100 682

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

As at 31 December, in thousands of EUR	2019	2018
Salary-related taxes	15 072	13 771
Excise duties	1 799	2 000
VAT	3 248	3 449
Other taxes	1	1
Total tax liabilities	20 120	19 221

Note 18 Deferred income

The Group measures the liability for outstanding Club One points in combination with the value of its services and the averages of the Club One points used to redeem the services, taking into account the pattern of use of the points by the customers and the expiry rates of the points. The calculations are performed for each segment and the deferred income is recognised based on the relative stand-alone selling price allocation method.

As at 31 December, in thousands of EUR	2019	2018
Club One points	11 250	11 303
Prepaid revenue	22 064	20 810
Total deferred income	33 314	32 113

Note 19 Share capital and reserves

As at 31 December, in thousands	2019	2018
The number of shares issued and fully paid	669 882	669 882
Total number of shares	669 882	669 882

As at 31 December, in thousands of EUR	2019	2018
Share capital (authorised and registered)	314 844	361 736
Total share capital	314 844	361 736
Share premium	663	662
Total share premium	663	662

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

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

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

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

Reserves

As at 31 December, in thousands of EUR	2019	2018
Translation reserve	430	269
Ships' revaluation reserve	39 505	41 552
Mandatory legal reserve	29 673	27 670
Reserve for treasury shares	0	-17
Total reserves	69 608	69 474

Translation reserve

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

Ships' revaluation reserve

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

Mandatory legal reserve

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

Reserve for treasury shares

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

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Dividends

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

Note 20 Contingencies and commitments

Key Management Personnel's termination benefits

The members of the Management Board are entitled to termination benefits if their service agreement is terminated by the Group's Supervisory Board. At 31 December 2019 the maximum amount of such benefits was EUR 882 thousand (EUR 2 394 thousand in 2018) (see Note 21).

Income tax on dividends

The Group's retained earnings as at 31 December 2019 were EUR 437 722 thousand (2018: EUR 425 044 thousand). As at 31 December 2019, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 87 544 thousand (2018: EUR 85 009 thousand). The maximum income tax liability has been calculated using the income tax rate effective for dividends on the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as at 31 December 2019 (2018: 31 December 2018).

Leases

The Group as the lessee

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

Minimum lease payments are as follows:

As at 31 December, in thousands of EUR	2019	2018
< 1 year	18 313	16 746
1-5 years	70 422	65 102
> 5 years	29 487	36 325
Total minimum lease payments	118 222	118 173

Right-of-use assets

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

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

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Amounts recognised in profit or loss

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

For the year ended 31 December 2018	In thousands of EUR
Lease expense	-19 781
Contingent lease expense	-1 053
Operating lease expenses under IAS 17	-20 834

The Group as the lessor

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

Minimum non-cancellable charter payments are as follows:

As at 31 December, in thousands of EUR	2019	2018
< 1 year	8 773	7 018
Total minimum charter payments	8 773	7 018

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

Note 21 Related party disclosures

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

Companies controlled by the Key Management Personnel

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

Associated companies

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

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

For the year ended 31 December 2019, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Companies controlled by the Key Management Personnel	950	24 093	211	1 833
Associated companies	1	187	0	20
Total	951	24 280	211	1 853

For the year ended 31 December 2018, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Companies controlled by the Key Management Personnel	949	25 029	33	1 942
Associated companies	6	241	0	24
Total	955	25 270	33	1 966

The following goods and services were purchased from related parties:

For the year ended 31 December, in thousand of EUR	2019	2018
Leases	14 922	14 987
Fuel	6 727	7 489
Other goods and services	2 631	2 794
Total goods and services	24 280	25 270

Key Management Personnel's compensation

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

The members of the Management Board are entitled to termination benefits if their service agreement is terminated by the Group's Supervisory Board. At 31 December 2019 the maximum amount of such benefits was EUR 882 thousand (EUR 2 394 thousand in 2018).

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

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Note 22 Group entities

Group entities	Interest as at 31 December 2019	Interest as at 31 December 2018	Country of incorporation	Parent company
Baan Thai OÜ	100%	100%	Estonia	Tallink Grupp AS
Baltic Retail OÜ	100%	100%	Estonia	Tallink Grupp AS
Hansaliin OÜ	100%	100%	Estonia	Tallink Grupp AS
Hansatee Cargo AS	100%	100%	Estonia	Tallink Grupp AS
Hansatee Kinnisvara OÜ	100%	100%	Estonia	Tallink Grupp AS
Hera Salongid OÜ	100%	100%	Estonia	TLG Hotell OÜ
HT Laevateenindus OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Meelelahutus OÜ	100%	100%	Estonia	Tallink Grupp AS
Mare Catering OÜ	100%	100%	Estonia	Tallink Grupp AS
Tallink AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Baltic AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Duty Free AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Fast Food OÜ	100%	-	Estonia	Tallink Grupp AS
Tallink Scandinavian AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Travel Club OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Agent OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Hotell OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Stividor OÜ	100%	100%	Estonia	Tallink Grupp AS
Baltic SF IX Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VII Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VIII Ltd	100%	100%	Cyprus	Tallink Grupp AS
Hansalink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Autoexpress Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Fast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Hansaway Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink High Speed Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Sea Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Superfast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Victory Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn - Helsinki Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Stockholm Line Ltd	-	100%	Cyprus	Tallink Grupp AS
Tallinn Swedish Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Vana Tallinn Line Ltd	-	100%	Cyprus	Tallink Grupp AS
HTG Stevedoring OY	100%	100%	Finland	Tallink Grupp AS
Tallink Finland OY	-	100%	Finland	Tallink Grupp AS
Tallink Silja OY	100%	100%	Finland	Tallink Scandinavian AS
Sally AB	100%	100%	Finland	Tallink Silja OY
Tallink Silja GMBH	100%	100%	Germany	Tallink Silja OY
Tallink Latvija AS	100%	100%	Latvia	Tallink Grupp AS
HT Shipmanagement SIA	100%	100%	Latvia	HT Laevateenindus OÜ
TLG Hotell Latvija SIA	100%	100%	Latvia	TLG Hotell OÜ
Tallink Fast Food Latvia SIA	100%	-	Latvia	Tallink Fast Food OÜ
Tallink Fast Food Lithuania UAB	100%	-	Lithuania	Tallink Fast Food OÜ
Tallink-Ru OOO	100%	100%	Russia	Tallink Grupp AS
Tallink Asia Pte. Ltd	100%	-	Singapore	Tallink Grupp AS
Tallink Silja AB	100%	100%	Sweden	Tallink Grupp AS
Ingleby (1699) Ltd.	100%	100%	UK	Tallink Grupp AS

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Note 23 Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

Credit risk


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

Maximum credit risk was as follows:

As at 31 December, in thousands of EUR	2019	2018
Cash and cash equivalents (Note 8)	38 877	82 175
Trade and other receivables (Notes 9, 13)	28 472	34 636
Total	67 349	116 811

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

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

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

In thousands of EUR	2019	2018
Balance at 1 January	436	698
Amounts written off	-57	-523
Impairment loss recognised	228	272
Reversal of prior period impairment loss	-13	-11
Balance at 31 December	594	436

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

Liquidity risk

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

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

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

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

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In thousands of EUR, 2019	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Lease liabilities	-72	-232	0	0	-304
Lease liabilities related to right-of-use assets	-14 175	-13 935	-36 613	-36 854	-101 577
Trade and other payables	-72 634	0	0	0	-72 634
Secured bank loan repayments	-76 083	-175 083	-159 750	-69 000	-479 917
Interest payments ¹	-10 169	-8 429	-11 830	-4 049	-34 476
Total	-173 133	-197 679	-208 193	-109 903	-688 908

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

¹ Expected, based on the interest rates and interest rate forward curves

² Net cash flow, expected, based on the interest rates and interest rate forward curves

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

Market risk

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

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

Foreign exchange rate risk

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

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

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

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

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

A 10 percent strengthening of the euro against the following currencies at the end of the financial year would have increased (decreased) profit or loss and equity by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2018.

As at 31 December, in thousands of EUR	2019 Profit or loss	2018 Profit or loss
USD	17	19
SEK	670	-46
NOK	2	1
Other	19	3

Interest rate risk

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

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

As at 31 December, in thousands of EUR	2019	2018
Fixed rate financial liabilities	144 890	160 213
Variable rate financial liabilities	331 413	350 840
Total	476 303	511 053

A change of 10 basis points in the interest rates of interest-bearing financial instruments at the reporting date would have increased (decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2018.

In thousands of EUR	2019	2018
10 basis point increase	-331	-326
10 basis point decrease	331	326

Fair values of financial instruments

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

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

Hedging activities

All derivative financial instruments are recognised as assets or liabilities. They are stated at fair value regardless of their purpose. Many transactions constitute economic hedges but do not qualify for hedge accounting under IFRS 9. Changes in the fair value of these derivative financial instruments are recognised directly in profit or loss: fair value changes on forward exchange contracts and currency options are recorded in exchange gains and losses and those on interest rate swaps and interest rate options in interest income and expense.

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

As at 31 December, in thousands of EUR	Hierarchy	Maturity	2019 Notional amount	2019 Fair value	2018 Notional amount	2018 Fair value
Interest rate swap	Level 3	2019	0	0	100 000	-918
Total derivatives with negative value				0		-918

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Capital management

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

The Group has made significant investments in recent years where strong shareholders' equity has been a major supporting factor for the investments. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

At the annual general meeting held on 8 February 2011, management introduced the strategic target of reaching the optimal debt level which would allow the Group to start paying dividends. In management's opinion, a comfortable level for the Group's equity ratio is between 40% and 50% and for the net debt to EBITDA ratio an indicator below 5. As at 31 December 2019 the Group's equity ratio was 53.7% and the net debt to EBITDA ratio was 3.1 (2018: 57.1% and 3.0, respectively).

The Group may purchase its own shares from the market; the timing of these purchases may depend on market prices, the Group's liquidity position and business outlook. Additionally, legal factors may limit the timing of such decisions. Repurchased shares are intended to be cancelled. Currently the Group does not have a defined share buyback plan.

Note 24 Subsequent events

Changes in the Group structure

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

Prepayments for new shuttle vessel MyStar

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

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

Coronavirus disease Covid-19

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

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

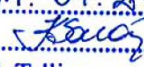
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KPMG, Tallinn

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

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

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


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

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Note 25 Primary financial statements of the Parent


Statement of comprehensive income

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

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Statement of financial position

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

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Statement of cash flows

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

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Statement of changes in equity

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

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

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STATEMENT BY THE MANAGEMENT BOARD

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

The Management Board confirms that:

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



Paavo Nõgene
Chairman of the Management Board



Lembit Kitter
Member of the Management Board



Kadri Land
Member of the Management Board



Harri Hanschmidt
Member of the Management Board



Piret Mürk-Dubout
Member of the Management Board



Tallinn, 14 April 2020



Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallink Grupp AS and its subsidiaries (collectively, the Group) as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the consolidated financial statements of the Group, which comprise:

- the consolidated statement of financial position as at 31 December 2019,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Emphasis of Matter

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

Independence

We are independent of the Group in accordance with the ethical requirements of the Auditor's Activities Act of the Republic of Estonia and with the ethical requirements of the ethics standards for professional



accountants as set in the same act, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

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

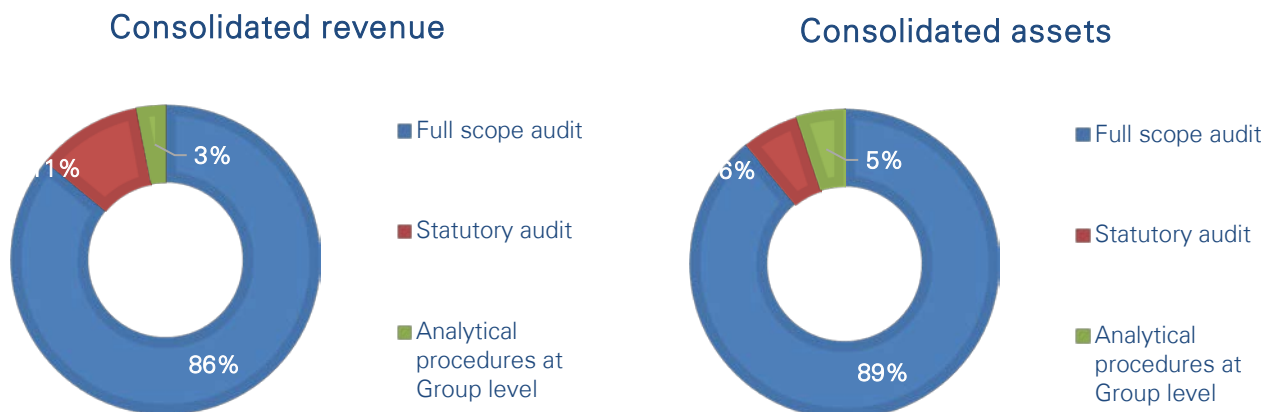
We, as group auditors, determined 15 of the Group's 46 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink Ltd, Tallink Fast Ltd, Tallink Victory Line Ltd, Tallink Autoexpress Ltd, Tallink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

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

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

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

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



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

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



Key Audit Matters

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

Fair value of ships	
Refer to Note 14 to the consolidated financial statements for further information.	
The key audit matter	How the matter was addressed in our audit
<p>The Group's property, plant and equipment include ships, which are measured at revalued amounts (i.e. fair value less depreciation charged subsequent to the date of the revaluation). The carrying value of the Group's ships as at 31 December 2019 was EUR 1 173 534 thousand.</p> <p>The fair value of ships depends on many factors, including changes in the fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. In order to assess the fair value of the ships, the Group's management used independent appraisers.</p> <p>We have identified the carrying value of ships as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's ships as well the depreciation charge for the current year and future years.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the methodologies used by the external appraisers to estimate the fair values of the ships; • evaluating the independent external appraisers' competence, capabilities and objectivity; • evaluating the historical accuracy of the Group's assessment of the fair values of the ships by comparing them to transaction prices in prior years; • testing the adequacy of the capitalized expenditures of the ships; • analysing the estimates of useful lives and residual values and comparing them to published estimates of other international ship operators; and • assessing the adequacy of the consolidated financial statement disclosures.



Recognition of deferred tax assets

Refer to Note 6 to the consolidated financial statements for further information.

The key audit matter

As at 31 December 2019 the Group has recognised deferred tax assets of EUR 22 458 thousand for deductible temporary differences and unused tax losses that it believes are recoverable.

The recoverability of recognised deferred tax assets is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses (before the latter expire).

We have determined this to be a key audit matter, due to the inherent uncertainty of forecasting the amount and timing of future taxable profits and the reversal of temporary differences.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- evaluating the Group's process to prepare the deferred tax calculation, including the Group's budgeting procedures upon which the forecasts are based;
- using our own tax specialists to evaluate the tax strategies the Group expects will enable the successful recovery of the recognised deferred tax assets;
- assessing the accuracy of forecast future taxable profits by evaluating the historical forecasting accuracy and comparing the assumptions, such as projected growth rates, with our own expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during our audit, including where applicable their consistency with business plans; and
- evaluating the adequacy of the consolidated financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements



Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 23 May 2019 to audit the financial statements of Tallink Grupp AS for the year ended 31 December 2019. Our total uninterrupted period of engagement is 13 years, covering the periods ending 31 August 2007 to 31 December 2019.

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

Tallinn, 14 April 2020

Eero Kaup
Certified Public Accountant, Licence No 459

Priit Heinaste
Certified Public Accountant, Licence No 666

KPMG Baltics OÜ
Licence No 17

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ALTERNATIVE PERFORMANCE MEASURES

Tallink Grupp AS presents certain performance measures as key figures, which in accordance with the “Alternative Performance Measures” guidance by the European Securities and Markets Authority (ESMA) are not accounting measures of historical financial performance, financial position and cash flows, defined or specified in IFRS, but which are instead non-financial measures and alternative performance measures (APMs).

The non-financial measures and APMs provide the management, investors, securities analysts and other parties with significant additional information related to the Group’s results of operations, financial position or cash flows and are often used by analysts, investors and other parties.

The non-financial measures and APMs should not be considered in isolation or as a substitute to the measures under IFRS. The APMs are unaudited.

Calculation formulas of alternative performance measures

EBITDA: result from operating activities before net financial items, share of profit of equity-accounted investees, taxes, depreciation and amortisation

EBIT: result from operating activities

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

Equity ratio: total equity / total assets

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

Gross margin: gross profit / net sales

EBITDA margin: EBITDA / net sales

EBIT margin: EBIT / net sales

Net profit margin: net profit / net sales

Capital expenditure: additions to property, plant and equipment – additions to right-of-use assets + additions to intangible assets

ROA: earnings before net financial items, taxes 12 months trailing / average total assets

ROE: net profit 12 months trailing / average shareholders’ equity

ROCE: earnings before net financial items, taxes 12 months trailing / (total assets – current liabilities (average for the period))

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

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

Current ratio: current assets / current liabilities

Reconciliations of certain alternative performance measures

In thousands of EUR	2019	2018	2017
Depreciation	89 356	73 329	80 224
Amortisation	6 893	5 951	6 147
Depreciation and amortisation	96 249	79 280	86 371
Result from operating activities	74 868	63 501	71 958
Depreciation and amortisation	96 249	79 280	86 371
EBITDA	171 117	142 781	158 329
EBITDA	171 117	142 781	158 329
IFRS 16 adoption effect	-17 378	0	0
EBITDA adjusted	153 739	142 781	158 329
Additions to property, plant and equipment	55 911	33 184	214 334
Additions to intangible assets	4 993	3 223	4 920
Capital expenditures	60 904	36 407	219 254
Net profit	49 718	40 049	46 496
Weighted average number of shares outstanding	669 881 045	669 859 148	669 882 040
Earnings per share (EUR)	0,074	0,060	0,069
Liabilities under finance lease	304	428	287
Lease liabilities related to right-of-use assets	101 577	0	0
Unsecured bonds	0	0	91 288
Long-term bank loans	475 999	509 707	469 331
Interest-bearing liabilities	577 880	510 135	560 906
Total equity	822 837	856 916	836 279
Total assets	1 532 963	1 500 904	1 558 597
Equity ratio	53,7%	57,1%	53,7%
Equity attributable to equity holders of the Parent	822 837	856 916	836 279
Number of ordinary shares outstanding	669 882 040	669 865 540	669 882 040
Shareholders' equity per share (EUR)	1,23	1,28	1,25
Gross profit	196 885	183 831	194 605
Net sales	949 119	949 723	966 977
Gross margin (%)	20,7%	19,4%	20,1%
EBITDA	171 117	142 781	158 329
Net sales	949 119	949 723	966 977
EBITDA margin	18,0%	15,0%	16,4%
EBITDA adjusted	153 739	142 781	158 329
Net sales	949 119	949 723	966 977
EBITDA margin adjusted	16,2%	15,0%	16,4%
EBIT	74 868	63 501	71 958
Net sales	949 119	949 723	966 977
EBIT margin	7,9%	6,7%	7,4%
Net profit	49 718	40 049	46 496
Net sales	949 119	949 723	966 977
Net profit margin	5,2%	4,2%	4,8%

In thousands of EUR	2019	2018	2017
Result from operating activities 12-months trailing	74 868	63 501	71 958
Total assets 31 March	1 572 259	1 531 619	1 730 199
Total assets 30 June	1 609 873	1 554 542	1 739 028
Total assets 30 September	1 564 197	1 534 786	1 714 505
Total assets 31 December	1 532 963	1 500 904	1 558 597
Average assets	1 556 039	1 536 090	1 656 268
ROA	4.8%	4.1%	4.3%
Net profit 12-months trailing	49 718	40 049	46 496
Total equity 31 December (previous year)	856 916	836 279	809 866
Total equity 31 March	828 255	817 056	789 396
Total equity 30 June	809 907	812 701	787 374
Total equity 30 September	817 658	858 705	835 174
Total equity 31 December	822 837	856 916	836 279
Average equity	827 115	836 332	811 618
ROE	6.0%	4.8%	5.6%
Result from operating activities 12-months trailing	74 868	63 501	71 958
Total assets 31 December (previous year)	1 500 904	1 558 597	1 539 009
Total assets 31 March	1 572 259	1 531 619	1 730 199
Total assets 30 June	1 609 873	1 554 542	1 739 028
Total assets 30 September	1 564 197	1 534 786	1 714 505
Total assets 31 December	1 532 963	1 500 904	1 558 597
Current liabilities 31 December (previous year)	212 489	316 662	243 991
Current liabilities 31 March	240 074	327 805	299 899
Current liabilities 30 June	303 996	367 624	335 025
Current liabilities 30 September	276 139	322 785	288 067
Current liabilities 31 December	221 444	212 489	316 662
Total assets - current liabilities 31 December (previous year)	1 288 415	1 241 935	1 295 018
Total assets - current liabilities 31 March	1 332 185	1 203 814	1 430 300
Total assets - current liabilities 30 June	1 305 877	1 186 918	1 404 003
Total assets - current liabilities 30 September	1 288 058	1 212 001	1 426 438
Total assets - current liabilities 31 December	1 311 519	1 288 415	1 241 935
Average assets - current liabilities	1 305 211	1 226 617	1 359 539
ROCE	5.7%	5.2%	5.3%
Interest-bearing liabilities	577 880	510 135	560 906
Cash and cash equivalents	38 877	82 175	88 911
Net debt	539 003	427 960	471 995
Net debt	539 003	427 960	471 995
Depreciation	89 356	73 329	80 224
Amortisation	6 893	5 951	6 147
Depreciation and amortisation	96 249	79 280	86 371
EBITDA	171 117	142 781	158 329
Net debt to EBITDA	3.1	3.0	3.0
Current assets	120 610	167 851	181 487
Current liabilities	221 444	212 489	316 662
Current ratio	0.5	0.8	0.6

CONTACT INFORMATION

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