ANNUAL REPORT 2018

TALLINK GRUPP AS

Beginning of the financial year	1 January 2018
End of the financial year	31 December 2018

CONTENTS

THE GROUP

Tallink Grupp AS 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 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.

MANAGEMENT REPORT

Tallink Grupp AS and its subsidiaries (the Group) carried a record number of 9 756 611 passengers in 2018, 891 passengers more than in 2017. The number of cargo units transported increased by 5.7%. The Group's revenue amounted to EUR 949.7 million (EUR 967.0 million in 2017). EBITDA was EUR 142.8 million (EUR 158.3 million, 2017) and net profit for the year EUR 40.0 million or EUR 0.06 per share (EUR 46.5 million or EUR 0.07 per share in 2017).

Number of passengers carried by the Group's ships in 2018
9.8 million

In 2018, the Group's total revenue decreased by EUR 17.3 million to EUR 949.7 million.

- Total revenue from route operations (core business segments) increased by EUR 0.7 million to EUR 883.7 million despite a EUR 7.4 million decrease in revenue from the Finland-Sweden segment, which was mainly due to the 68-day maintenance of the cruise ferry Baltic Princess.
- Other revenue streams (segment other) decreased by EUR 19.4 million to EUR 74.8 million. The largest decrease occurred in charter revenue, which dropped by EUR 10.8 million because fewer ships were chartered out. There was also lower revenue from onshore shops (in Tallinn Old Harbour area) as the price level of products sold in onshore shops in Estonia has become less competitive after recent years' excise duty increases. In addition, there was lower revenue from hotels because Tallink Pirita Spa Hotel in Tallinn ceased operations from November 2018 due to the sale of the hotel property by its owner.

The Group's revenue for 2018
EUR 949.7 million

The cargo business sustained growth in 2018. Transported cargo volumes increased by 5.7% and cargo revenues grew by 6.1% or EUR 7.1 million to EUR 124.9 million. The number of transported cargo units grew in all geographical segments, supported by positive economic developments in the Group's main markets.

In 2018, the Group's ships carried a total of 5.1 million passengers on the Estonia-Finland routes, 0.3% more than the year before, and the number of cargo units transported on the routes increased by 5.4%. On the Tallinn-Helsinki route competition increased through capacity added by competitors, which put pressure on ticket prices. However, the new shuttle vessel Megastar improved the efficiency of shuttle operations and the Group was able to improve the segment result despite a challenging competitive environment. The segment's revenue increased by EUR 1.5 million to EUR 356.0 million and the segment's result increased by EUR 2.4 million to EUR 80.3 million.

The Group's gross profit for 2018

EUR 183.8 million

The Finland-Sweden routes' revenue decreased by EUR 7.4 million to EUR 337.5 million and the segment's result decreased by EUR 2.3 million to EUR 16.2 million. The first-quarter maintenance and repair of the cruise ferry Baltic Princess affected the Finland-Sweden segment's carriage volumes and financial result. The segment's result was also weakened by a rise in bunker prices which increased fuel costs.

The Group's EBITDA for 2018

EUR 142.8 million

The Estonia-Sweden routes' revenue grew by EUR 1.7 million compared to 2017. Growth was supported by a 0.4% higher number of passengers and a 10.9% increase in the number of transported cargo units. The segment's result decreased compared to the previous year due to higher fuel costs attributable to a rise in bunker prices.

The Latvia-Sweden route's revenue increased by EUR 4.8 million compared to 2017. Growth was supported by a 7.0% higher number of passengers and a 24.5% increase in the number of transported cargo units. Positive development of the route's carriage volumes and revenue continued in 2018. However, due to higher fuel costs resulting from an increase in bunker prices, the segment result improved by only EUR 0.2 million to EUR -1.0 million.

In 2018, the Group's revenue and operating result were influenced by the following operational factors:

- The number of passengers travelling on the Group's ships increased in almost all geographical segments (Estonia-Finland, Estonia-Sweden and Latvia-Sweden).
- The number of cargo units transported on the Group's ships increased in all geographical segments.
- The first-quarter maintenance and repair of the cruise ferry Baltic Princess affected the Finland-Sweden segment's carriage volumes and financial result.
- Charter revenue decreased compared to the same period last year as fewer ships were chartered out.
- An increase in bunker prices drove up fuel costs.

The Group's investments in 2018

EUR 36.4 million

Tallink Grupp AS paid a dividend of EUR 0.03 per share, in the total amount of

EUR 20.1 million

Key figures

For the year ended 31 December	2018	2017	2016
Revenue (million euros)	949.7	967.0	937.8
Gross profit (million euros)	183.8	194.6	192.6
EBITDA[1] (million euros)	142.8	158.3	149.5
EBIT[1] (million euros)	63.5	71.9	71.6
Net profit for the period (million euros)	40.0	46.5	44.1
Depreciation and amortisation (million euros)	79.3	86.4	77.9
Capital expenditures[1] (million euros)	36.4	219.3	68.9
Weighted average number of ordinary shares outstanding	669 859 148	669 882 040	669 882 040
Earnings per share[1]	0.06	0.07	0.07
Number of passengers[1]	9 756 611	9 755 720	9 457 522
Number of cargo units[1]	384 958	364 296	328 190
Average number of employees[1]	7 430	7 406	7 163
As at 31 December	**2018**	**2017**	**2016**
Total assets (million euros)	1 500.9	1 558.6	1 539.0
Total liabilities (million euros)	644.0	722.3	729.1
Interest-bearing liabilities (million euros)	510.1	560.9	558.9
Net debt[1] (million euros)	428.0	472.0	480.1
Net debt to EBITDA[1]	3.0	3.0	3.2
Total equity (million euros)	856.9	836.3	809.9
Equity ratio[1] (%)	57.1%	53.7%	52.6%
Number of ordinary shares outstanding	669 865 540	669 882 040	669 882 040
Equity per share[1]	1.28	1.25	1.21
Ratios	**2018**	**2017**	**2016**
Gross margin[1] (%)	19.4%	20.1%	20.5%
EBITDA margin[1] (%)	15.0%	16.4%	15.9%
EBIT margin[1] (%)	6.7%	7.4%	7.6%
Net profit margin[1] (%)	4.2%	4.8%	4.7%
ROA[1] (%)	4.1%	4.3%	4.6%
ROE[1] (%)	4.8%	5.6%	5.4%
ROCE[1] (%)	5.2%	5.3%	5.6%

[1] Alternative performance measures based on ESMA guidelines are disclosed in the "Alternative performance measures" section of the report.

Sales

The Group's revenue amounted to EUR 949.7 million in 2018 (967.0 million in 2017). Restaurant and shop sales on board and on shore in the total amount of EUR 524.4 million (536.7 million in 2017) contributed more than half of total revenue. Ticket sales amounted to EUR 243.8 million (242.7 million in 2017) and sales of cargo transport to EUR 124.9 million (111.7 million in 2017).

Geographically, 37.5% or EUR 356.0 million of revenue was generated by the Estonia-Finland routes and 35.5% or EUR 337.5 million by the Finland-Sweden routes. Revenue from the Estonia-Sweden routes was EUR 119.0 million or 12.5% and from the Latvia-Sweden route EUR 71.3 million or 7.5%. The share of revenue generated by other geographical segments decreased to 7.9% or EUR 74.8 million.

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

Geographical segments	**2018**	**%**	**2017**	**%**
Finland - Sweden	337 471	35.5%	344 833	35.7%
Estonia - Finland	355 995	37.5%	354 497	36.7%
Estonia - Sweden	118 991	12.5%	117 246	12.1%
Latvia - Sweden	71 292	7.5%	66 453	6.9%
Other	74 831	7.9%	94 185	9.7%
Intercompany eliminations	-8 857	-0.9%	-10 237	-1.1%
Total revenue of the Group	949 723	100.0%	966 977	100.0%

Operating segments	**2018**	**%**	**2017**	**%**
Restaurant and shop sales on-board and on mainland	524 416	55.2%	536 742	55.5%
Ticket sales	243 807	25.7%	242 748	25.1%
Sales of cargo transportation	124 852	13.1%	117 718	12.2%
Sales of accommodation	19 183	2.0%	20 810	2.2%
Income from charter of vessels	8 030	0.8%	18 802	1.9%
Other	29 435	3.1%	30 157	3.1%
Total revenue of the Group	949 723	100.0%	966 977	100.0%

Earnings

Gross profit for 2018 amounted to EUR 183.8 million (EUR 194.6 million in 2017) and EBITDA to EUR 142.8 million (EUR 158.3 million in 2017). Net profit for 2018 was EUR 40.0 million (EUR 46.5 million in 2017). Net profit per share was EUR 0.06 (EUR 0.07 in 2017).

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

- Fuel costs grew by EUR 16.6 million due to an increase in bunker prices. At the same time, the Group achieved fuel savings. Through various energy efficiency initiatives, in 2018 the ships' average fuel consumption per nautical mile decreased by 3.2%.
- Charter revenue decreased because fewer ships were chartered out compared to the previous year.
- Revenue from onshore shops (in the port area) decreased because the price level in onshore shops in Estonia has become less competitive after recent years' excise duty increases.
- Nonrecurring costs incurred and proceeds received in 2018:
  - Costs of EUR 1.5 million from the listing of shares on the Nasdaq Helsinki Stock Exchange.
  - Costs of EUR 0.9 million from the termination of the lease of an old fuel tank.
  - Other proceeds of EUR 1.0 million received under a compensation agreement with the former owner of the Superfast vessels.

The cost of goods sold at shops and restaurants, which is the largest operating cost item, amounted to EUR 217.2 million (EUR 227.8 million in 2017).

Fuel costs for 2018 amounted to EUR 102.5 million (EUR 85.9 million in 2017). Fuel costs were impacted by an increase in carriage capacity and higher fuel prices throughout the year. As a result, annual fuel costs increased by 19.3%. The Group makes continuous efforts to improve and optimize its day to day operations and lower the fleet's fuel costs.

The Group's personnel expenses amounted to EUR 218.1 million (EUR 215.2 million in 2017). The average number of employees in 2018 was 7 430 (7 406 in 2017).

Administrative expenses for the period amounted to EUR 55.5 million and sales and marketing expenses to EUR 69.3 million (EUR 53.7 million and 71.3 million respectively in 2017).

Depreciation and amortisation of the Group's assets totalled EUR 79.3 million (EUR 86.4 million in 2017). There were no impairment losses related to the Group's property, plant and equipment and intangible assets.

Net finance costs decreased by EUR 2.3 million compared to the previous year, mainly through EUR 3.9 million lower interest expenses. Total gains from exchange rate differences and the revaluation of cross currency and interest rate derivatives decreased by EUR 1.6 million.

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 2018 was EUR 156.8 million (EUR 136.2 million in 2017).

The Group's cash used in investing activities was EUR 35.7 million (EUR 86.8 million in 2017). A number of investments were made to upgrade the ships' restaurants, shops and cabins. Investments were also made in the development of the online booking and sales systems.

In 2018, the Group's loan repayments totalled EUR 190.0 million (EUR 174.4 million in 2017), including the repayment of senior unsecured bonds of NOK 900 million issued in 2013. A term loan of EUR 110.0 million was taken to partly refinance the redemption of the bond issue.

Interest payments were EUR 19.4 million (EUR 20.7 million in 2017).

At 31 December 2018, the Group's cash and cash equivalents totalled EUR 82.2 million (EUR 88.9 million at 31 December 2017). In addition, available unused overdraft credit lines amounted to EUR 75.0 million (EUR 75.0 million in 2017).

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 2018, the Group's capitalisation ratio (interest-bearing liabilities as a percentage of interest-bearing liabilities and shareholders' equity) was 37.3% compared to 40.1% at 31 December 2017. The decrease results from a EUR 50.8 million decrease in interest-bearing liabilities and a EUR 20.6 million increase in equity.

Loans and borrowings

At the end of 2018, interest-bearing liabilities totalled EUR 510.1 million, a 9.1 % decrease compared to the end of the previous financial year.

In October 2018 the Group refinanced senior unsecured bonds of NOK 900 million that were issued and listed on the Oslo Stock Exchange in October 2013. The bonds were repaid in the total amount of

EUR 120 million, of which EUR 110 million was drawn from a loan and EUR 10 million from the Group's cash reserves.

As at 31 December 2018, the Group did not have an outstanding overdraft balance and unused overdraft credit lines amounted to EUR 75.0 million.

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

Shareholders' equity

In 2018, the Group's consolidated equity increased by 2.5%, from EUR 836.3 million to EUR 856.9 million. The change in equity is mainly attributable to net profit of EUR 40.0 million and dividend payments to shareholders of EUR 20.1 million. Shareholders' equity per share was EUR 1.28. At the end of 2018, the Group's share capital amounted to EUR 361 736 302. For further information about shares, please see the "Shares and shareholders" section of this report.

Vessels and other investments

In 2018, the Group's investments amounted to EUR 36.4 million. A number of investments were made in the ships' restaurants, shops and other public areas. On the cruise ferry Silja Serenade, restaurant Bon Vivant was renovated and nightclub Starlight, restaurant Grill House and Sea Pub were built. On the cruise ferry Baltic Queen, Grande Buffet was renovated and a new Fastlane restaurant and a new Silja Land were built. On the cruise ferry Silja Europa, Theatre Europa that can seat 528 people was fully renovated.

Investments were made in the ships' technical maintenance 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 also invested in the development of its online booking and sales systems.

The Group's main revenue-generating assets are vessels, which account for approximately 80% of total assets. During the financial year the Group owned 14 vessels.

The vessel types and operations at the end of the financial year are described in the table below:

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

At 31 December 2018 the book value of the ships amounted to EUR 1 215 million (EUR 1 269 million at the end of 2017). 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 2018 was 9.8 million. The total number of cargo units carried exceeded 385 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in 2018 and 2017 by route.

Passengers	2018	2017	Change
Finland-Sweden	2 845 616	2 918 850	-2.5%
Estonia-Finland	5 079 861	5 062 635	0.3%
Estonia-Sweden	1 035 093	1 030 490	0.4%
Latvia-Sweden	796 041	743 745	7.0%
Total	9 756 611	9 755 720	0.0%

Cargo units	2018	2017	Change
Finland-Sweden	74 654	74 409	0.3%
Estonia-Finland	245 867	233 381	5.4%
Estonia-Sweden	48 427	43 648	10.9%
Latvia-Sweden	16 010	12 858	24.5%
Total	384 958	364 296	5.7%

Passenger vehicles	2018	2017	Change
Finland-Sweden	155 907	161 909	-3.7%
Estonia-Finland	827 998	827 576	0.1%
Estonia-Sweden	69 072	72 239	-4.4%
Latvia-Sweden	71 716	72 599	-1.2%
Total	1 124 693	1 134 323	-0.8%

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

- The Group carried approximately 57% of passengers and 64% of ro-ro cargo on the routes between Estonia and Finland.
- The Group carried approximately 54% of passengers and 27% 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 46 companies. All subsidiaries are wholly owned by Tallink Grupp AS. The following diagram represents the Group's structure at the reporting date:

Tallink Grupp AS
Holding & Operating company

Ship-owning companies

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

Sales & Operations

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

Service companies

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

The Group also owns 34% of Tallink Takso AS.

Personnel

At 31 December 2018, the Group had 7 242 employees (7 311 at 31 December 2017).

As at 31 December	2018	2017	Change
Onshore total	1 630	1 602	1.7%
Estonia	934	869	7.5%
Finland	444	472	-5.9%
Sweden	165	173	-4.6%
Latvia	69	71	-2.8%
Russia	12	11	9.1%
Germany	6	6	0.0%
Onboard	5 108	5 093	0.3%
Hotel[1]	504	616	-18.2%
Total	7 242	7 311	-0.9%

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

In 2018, staff costs in the cost of sales amounted to EUR 160.6 million (EUR 160.1 million in 2017). Staff costs related to administrative staff and sales & marketing staff were EUR 24.8 million and EUR 32.7 million respectively (EUR 23.1 million and EUR 32.1 million respectively in 2017).

Shares and shareholders

At 31 December 2018 Tallink Grupp AS had a total of 669 882 040 (31 December 2017: 669 882 040) shares issued and fully paid.

The shares of Tallink Grupp AS are 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 listed as Finnish Depository Receipts (FDRs) on the Nasdaq Helsinki Stock Exchange, where the FDRs are traded under the ticker symbol TALLINK. The FDRs carry one vote each and are marked with an ISIN code FI4000349378.

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

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

On 9 June 2015, the annual general meeting of Tallink Grupp AS approved the terms of a share option programme that allowed issuing options for up to 20 million shares. At 31 December 2018 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. At 31 December 2018, the Company held 16 500 treasury shares, which have been sold after the reporting period.

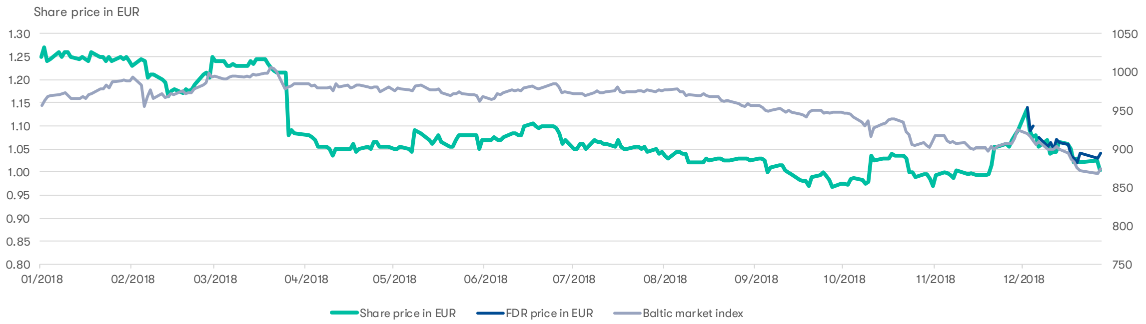
The Supervisory Board is authorised to increase share capital by EUR 25 000 000 to up to EUR 386 736 302 within three years after 1 January 2017. The Management Board of Tallink Grupp AS has not been granted the right to issue new shares.

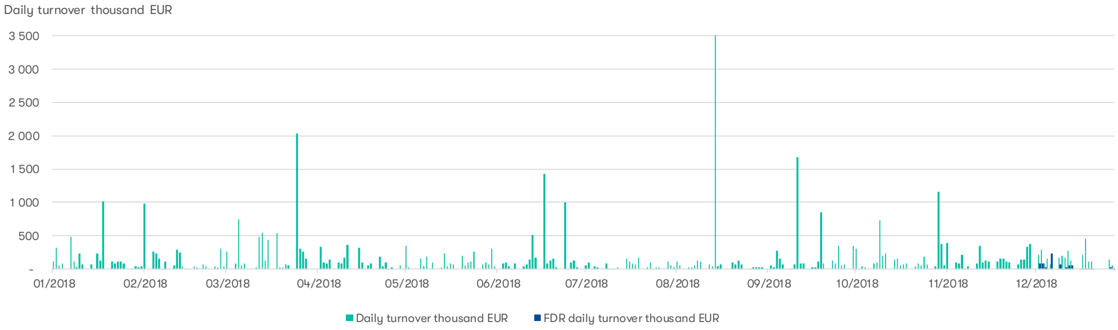
Trading

During 2018, 39 903 048 Tallink Grupp AS shares were traded on the Nasdaq Tallinn Stock Exchange. The highest daily average share price on the Nasdaq Tallinn Stock Exchange was EUR 1.26 and the lowest daily average share price was EUR 0.97. The average daily turnover of Tallink Grupp AS shares on the Nasdaq Tallinn Stock Exchange was EUR 171.5 thousand.

In 2018, 610 385 Tallink Grupp AS FDRs were traded on the Nasdaq Helsinki Stock Exchange. The highest daily average price was EUR 1.12 and the lowest daily average price was EUR 1.022. The average daily turnover of Tallink Grupp AS FDRs on the Nasdaq Helsinki Stock Exchange was EUR 40.9 thousand.

The following charts give an overview of the performance of the share price, FDR price, turnover developments and the Baltic market index from 1 January 2018 to 31 December 2018. Tallink Grupp AS's market capitalisation at the end of 2018 was EUR 679.93 million.





The following table presents the share price, the FRD price and distributions to shareholders in 2018:

Instrument	Open	Close	Daily close average	Payout
TAL1T	1.25	1.015	1.09	0.03
TALLINK FDR	1.14	1.04	1.06	-

* TAL1T figures are presented for the period from 1 January 2018 to 31 December 2018. TALLINK FDR figures are presented for the period from 3 December 2018 to 31 December 2018.

The table below presents the breakdown of share capital by ownership size at 31 December 2018:

Ownership size	Shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	769	6.9%	28 515	0.0%
100 - 999	3 445	30.9%	1 564 590	0.2%
1 000 - 9 999	6 013	53.9%	13 273 097	2.0%
10 000 - 99 999	782	7.0%	20 218 965	3.0%
100 000 - 999 999	93	0.8%	26 166 302	3.9%
1 000 000 - 9 999 999	36	0.3%	112 161 874	16.7%
10 000 000 +	8	0.1%	496 468 697	74.1%
Total	11 146	100.0%	669 882 040	100.0%

The table below presents the residency of the shareholders of the Group at 31 December 2018:

Residency	Shareholders	Number of shares	% of share capital
Estonia	10 933	347 772 440	51.9%
Cayman Islands	7	174 261 946	26.0%
Luxembourg	11	58 507 594	8.7%
Finland	66	36 414 438	5.4%
United States	14	28 245 431	4.2%
Belgium	2	4 692 629	0.7%
Lithuania	16	4 224 774	0.6%
Latvia	16	3 771 929	0.6%
United Kingdom	10	3 609 185	0.5%
Austria	4	3 152 611	0.5%
Sweden	23	2 905 173	0.4%
France	3	1 356 755	0.2%
Denmark	5	722 144	0.1%
Switzerland	3	127 125	0.0%
Russia	6	38 145	0.0%
Netherlands	4	20 500	0.0%
Singapore	1	13 909	0.0%
Ireland	3	13 333	0.0%
Germany	8	9 717	0.0%
Turkey	2	8 270	0.0%
Hong Kong	1	3 572	0.0%
China	1	2 835	0.0%
Italy	1	2 190	0.0%
Botswana	1	1 440	0.0%
Albania	1	1 288	0.0%
Malta	1	1 000	0.0%
Seychelles	1	805	0.0%
Thailand	1	762	0.0%
Canada	1	100	0.0%
Total	11 146	669 882 040	100%

At 31 December 2018, 6.7% of the Group's shares were held by individuals. The table below presents the investors of the Group by investor type at 31 December 2018:

Investor type	Shareholders	Number of shares	% of share capital
Principal shareholder, Infortar AS	1	261 311 973	39.0%
Institutional investors	939	363 364 994	54.2%
Private individuals	10 206	45 205 073	6.7%

The table below presents the largest shareholders of the Group at 31 December 2018:

Shareholder	Number of shares	% of share capital
Infortar AS	261 311 973	39.0%
Baltic Cruises Holding L.P.	107 843 230	16.1%
Baltic Cruises Investment L.P.	36 931 732	5.5%
ING Luxembourg S.A. AIF Account	24 829 806	3.7%
Other shareholders	238 965 299	35.7%
Total	669 882 040	100.0%

Shareholders' agreement

Major shareholders of the Group entered into a shareholders' agreement in August 2006. The agreement was amended in December 2012. The main terms of the agreement are available on the Group's website. The agreement sets forth among other terms that the parties of the agreement and each shareholder of Tallink will remain independent in their decisions and will not be restricted by the agreement or otherwise, directly or indirectly, to exercise their voting 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.

Takeover bids

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

Dividends

The Group's strong expansion and growth have been achieved thanks to significant investments in 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 June 2018 the annual general meeting decided to pay a dividend of EUR 0.03 per share from net profit for 2017. The total dividend of EUR 20.1 million was paid out on 5 July 2018.

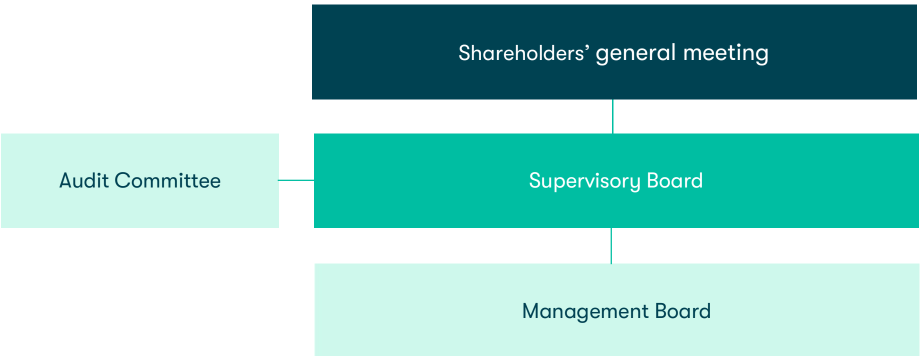
To the shareholders' annual general meeting in 2019 the Management Board will propose a dividend of EUR 0.05 per share from net profit for 2018. In addition, to improve the Company's capital structure the Supervisory Board of Tallink Grupp AS has proposed to the Management Board to prepare a proposal for the 2019 shareholders' annual general meeting to reduce the Company's share capital by EUR 0.07 per share.

CORPORATE GOVERNANCE REPORT

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

Organization and administration

Pursuant to the Estonian Commercial Code and the articles of association of Tallink Grupp AS (the Company), the right of decision and the administration of the Company are divided between the shareholders represented by the shareholders' general meeting, the Supervisory Board and the Management Board. 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 12 June 2018. The meeting was attended by the Management Board members Janek Stalmeister, Andres Hunt and

Lembit Kitter. The Supervisory Board members present were Mr. Enn Pant, Mr. Toivo Ninnas, Mr. Kustaa Äimä, Mr. Ain Hanschmidt, Mr. Colin Douglas Clark, Ms. Eve Pant and Mr. Kalev Järvelill. The meeting was also attended by the Company's auditor. The chairman of the meeting was Mr. Raino Paron. The meeting was held in Estonian. The attending shareholders represented 539 237 450 votes, i.e. 80.5% of all votes. The resolutions adopted were: approval of the annual report, distribution of profits, extension of the term of office of a member of the Supervisory Board and appointment of an auditor.

The supervisory board

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

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

The Supervisory Board is responsible for supervising 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, Ms. Eve Pant, Mr. Ain Hanschmidt, Mr. Lauri Kustaa Äimä, Mr. Colin Douglas Clark and Mr. Kalev Järvelill. The members of the Supervisory Board have the knowledge and experience necessary to fulfil their duties 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 seven times in 2018 and one decision was 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.

The direct shareholdings of the members of the Supervisory Board at the end of 2018 were the following:

Name	Shares
Enn Pant	3 951 913
Toivo Ninnas	119 200
Eve Pant	603 500
Ain Hanschmidt	1 800 000
Lauri Kustaa Äimä	237 000
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	17 September 2019
Eve Pant	17 September 2019
Ain Hanschmidt	17 September 2019
Lauri Kustaa Äimä	17 September 2019
Colin Douglas Clark	17 September 2019
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, 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 areas such as 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.

On 31 December 2018, the Management Board consisted of four members: Mr. Paavo Nõgene, the Chairman of the Management Board, Mr. Andres Hunt, Mr. Janek Stalmeister, and Mr. Lembit Kitter. In February 2019, Mr. Janek Stalmeister was recalled from the Management Board following his resignation. The mandate of Mr. Janek Stalmeister ended on 2 February 2019. In the same month, Mr. Andres Hunt was recalled from the Management Board following his resignation. The mandate of Mr. Andres Hunt ended on 26 February 2019.

The Supervisory Board has concluded service agreements with the members of the Management Board. In 2018 the remuneration of the members of the Group's Management Board was EUR 1.1 million in total.

The remuneration of the Management Board is determined by the Supervisory Board according to the CGR. The Supervisory Board has adopted the principles of remuneration of the management of Tallink Grupp AS. According to the document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to six-months' remuneration that are paid when the Group earns a profit and when they meet their individual performance criteria. 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 2018 financial year were the following:

Name	Shares
Paavo Nõgene	0
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. The information shared at the meetings is limited to data already disclosed. The Company has published the times and locations of significant meetings with investors. The presentations made to investors are available on the Company's website. However, the Group does not meet the recommendation to publish the time and location of each individual meeting with investors and to allow all shareholders to participate in these events as it would be impractical and technically difficult to arrange (CGR 5.6).

Financial reporting and auditing

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

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

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

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 2018 were audited by KPMG Baltics OÜ. In addition to audit services, in 2018 KPMG Baltics OÜ provided to the Group with a limited assurance engagement in respect of the packaging report, tax advice and advisory services regarding financial vendor due diligence and the Nasdaq Helsinki Stock Exchange listing prospectus summary documentation, and other matters 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 that does not include the auditor's fee. During 2018, the auditor provided the Group with tax advice and some other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

Audit committee

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

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

Substantial shareholders

Shareholder	Number of shares	% of share capital
Infortar AS	261 311 973	39.01%
Baltic Cruises Holding L.P.	107 843 230	16.10%
Baltic Cruises Investment L.P.	36 931 732	5.51%

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

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
- Member of the Supervisory Board of AS Infortar
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated from the Faculty of Economics, 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

- 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

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

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

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

Mr. Lauri Kustaa Äimä (born 1971) - Member of the Supervisory Board since 2002

- Managing Director of KJK Capital Oy
- Chairman of the Management Board, KJK Management SA, KJK Fund SICAV-SIF and Amber Trust II SCA
- Chairman of the Board of Directors, KJK Fund II SICAV-SIF
- Vice-chairman of the Management Board, Amber Trust SCA
- Supervisory Board and Board member of several companies including AS Premia Foods, Kovinoplastika Loz d.d., AS Toode, AS Baltika, AS Riga Dzirnavnieks and AB Baltic Mill
- Holds a Master's degree in Economics from the University of Helsinki, Finland, 1997

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

- Managing Director and Head of Central & Eastern Europe, Middle East and Africa for The Rohatyn Group
- Formerly a Partner of CVCI Private Equity, from 2003 to 2013 until the merger of CVCI with The Rohatyn Group in December 2013
- Director of the Supervisory Board of Prestige
- Worked from year 2000 in Citigroup Inc.'s leading emerging markets projects financing team
- Worked for 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 AS Infortar
- Member of the Management Board of Tallink Grupp AS from 1998 to 2006
- General Director of the Estonian Tax Board from 1995 to 1998
- Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995
- Graduated from the Faculty of Economics, the University of Tartu, Estonia, in 1993

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 in 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 the Chairwoman of the Supervisory Board of Tallink Silja AB
- Member of the Management Board of the Swedish Maritime Employers' Association and a 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 in 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 she 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 standard to guarantee that the operations of the ships and onshore organization prevent accidents, loss of human lives and environmental damage caused to the marine environment. The Safety Management System is audited by Lloyds Register and the Estonian, Swedish, Latvian, and Finnish Maritime Administrations, and Recognized Organizations duly authorized by Administrations.

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

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

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

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

The Group's vessels are maintained and operated in accordance with the MARPOL convention (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 minimize waste generation.

The Group participates in an EU funded project TWIN PORT 3, carried out between 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. In the framework of the project, the Group will install battery packs on its shuttle vessel Megastar, which will be charged during the trip and enable the vessel to enter the port by using only electric power. In relation to the on-shore power supply systems being installed in Tallinn Old City Harbour and Helsinki West Terminal, the Group's cruise ferries will also be installed with shore power reception technology in order to make it possible to turn off the diesel engines while in port to assure a silent, vibration and exhaust free loading and unloading service for passengers and vehicles as well as 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:

- 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 considers Finland, Sweden, Estonia and Latvia its home markets as these are the countries to and from which its shipping routes are operated. In terms of exposure to economic conditions, the Group is exposed the most to developments in Finland as nearly half of the passengers originate from that country. Exposure is also high to economic developments in Estonia (19% of total passengers in 2018) and Sweden (11%). The number of passengers from Latvia accounted for 5% of total passengers in 2018 while the remaining 19% came from the rest of the world, mainly Europe.

According to the latest OECD data, in 2018 the economies of the Group's home markets performed similarly to 2017 with only Estonia experiencing a somewhat lower GDP growth rate. Trade, as a component of GDP remained healthy in all home markets which was also reflected in the 5.7% growth in the volume of cargo units carried by the Group in 2018.

While in 2016 and 2017 revenue growth in the Group's core operations was comparable to the general economic situation in the home markets, the 0.1% core revenue growth in 2018 clearly lagged behind the pace of the economies in the region. In addition to company and sector specific factors, such as the competitive situation and an elevated comparative base from the introduction of Megastar in 2017, this can also be attributed to business environment factors such as recent years' changes in Estonian excise tax policies and a decline in Finnish and Swedish consumer confidence in the second half of the year.

The labour situation remained challenging as the unemployment rate remained low at 5.8% in Estonia and decreased in all the other home markets. Yet, on the flip side, this supports the consumer purchasing power in the region. Inflation, which in Estonia and Latvia exceeds the European Central Bank's price stability target, adds further pressure on the employment situation.

Business confidence, which according to the OECD data had been growing across all the home markets since mid-to-late 2016, peaked in the first half of 2018 and has been in decline in Finland and Sweden since the second half of 2018 (fairly sharply in Finland, more moderately in Sweden). There has also been a relatively sharp decline in Estonian business confidence since late 2018. The decline on all three markets has continued into the first months of 2019. Business confidence in Latvia has been the highest of the Group's home markets and has fluctuated within a stable range since peaking at the end of 2017.

Throughout 2018 consumer confidence in Finland and Sweden was in a pronounced decline which has continued into 2019. Consumer confidence in Latvia showed some volatility in 2018 but without a clear trend. On a more positive note the confidence of Estonian consumers increased throughout 2018. Furthermore, the early 2019 Estonian consumer confidence indicator was the recent years' highest across all the home markets.

In the coming years, the economies of the home markets are expected to continue growing, but at much more moderate rates than over the last couple of years. The outlook for the labour markets is expected to remain challenging with the general expectation towards further declines in the unemployment rates and some further growth in inflation. Yet, the decreasing unemployment combined with still favourable interest rates should support disposable income and thereby contribute to growing consumer purchasing power in the foreseeable future.

Key risks to the economic environment in all of the home markets have to do with uncertainties from increasing protectionist tendencies (including a potential trade war between China and the US, the UK's withdrawal from the EU) and potential deferral of investments leading to decreasing trade for all of open economies around the Baltic Sea. Also, the global fuel prices are expected to remain volatile due to uncertainties in the global economy and politics.

Outlook

The Group maintains a consistent focus on developing the product offering to attract more passengers and increase revenue from retail sales. The ship renovation programme extends over several years and the Group will continue to refurbish the shops, restaurants and cabins in selected ships to develop and improve the total product offering to its customers.

New ship order

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 estimated cost of the project is approximately 250 million euros and the new vessel will be built at the Rauma shipyard in Finland. The delivery of the vessel is expected in January 2022.

Fuel price risk management

In December 2018, it was agreed with the main fuel supplier to fix the price of approximately 40% of the total fuel purchasing volume for the period from February to December 2019.

Ship dockings

The modernisation of the Group's fleet continues in 2019 and in the first half there will be the scheduled dockings of seven vessels: Regal Star, Baltic Queen, Star, Silja Symphony, Galaxy, Victoria I and Isabelle.

Investments are made in the ships' technical maintenance, upgrades to public areas and a number of energy efficiency projects: electrical high voltage shore connections, HVAC systems, heat recovery systems and battery packs for hybrid solution. The planned service breaks of seven vessels will total 126 days in 2019.

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).

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 the results.

The Group is looking for innovative ways to upgrade its ships and passenger area technology to improve its overall performance through modern solutions. Collaboration with Tallinn University of Technology (TalTech) was started to develop a Smart Car Deck solutions for the Group's vessels over the next two years.

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.

- 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 2018 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, 16 April 2019

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December, in thousands of EUR	**2018**	**2017**
Revenue (Note 4)	949 723	966 977
Cost of sales (Note 5)	-765 892	-772 372
Gross profit	183 831	194 605
Sales and marketing expenses (Note 5)	-69 315	-71 339
Administrative expenses (Note 5)	-55 223	-53 012
Impairment loss on receivables (Note 23)	-272	-660
Other operating income	4 633	2 873
Other operating expenses	-153	-509
Result from operating activities	63 501	71 958
Finance income (Note 5)	8 631	12 738
Finance costs (Note 5)	-27 552	-33 987
Share of profit of equity-accounted investees (Note 12)	4	40
Profit before income tax	44 584	50 749
Income tax (Note 6)	-4 535	-4 253
Net profit	40 049	46 496
Net profit attributable to equity holders of the Parent	40 049	46 496
Other compherensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	267	13
Other comprehensive income	267	13
Total comprehensive income	40 316	46 509
Total comprehensive income attributable to equity holders of the Parent	40 316	46 509
Basic and diluted earnings per share (in EUR, Note 7)	0.060	0.069

Consolidated statement of financial position

As at 31 December, in thousands of EUR	2018	2017
ASSETS		
Cash and cash equivalents (Note 8)	82 175	88 911
Trade and other receivables (Note 9)	43 805	46 466
Prepayments (Note 10)	6 084	5 395
Prepaid income tax	46	40
Inventories (Note 11)	35 741	40 675
Current assets	167 851	181 487
Investments in equity-accounted investees (Note 12)	407	403
Other financial assets (Note 13)	320	344
Deferred income tax assets (Note 6)	17 934	18 722
Investment property	300	300
Property, plant and equipment (Note 14)	1 267 928	1 308 441
Intangible assets (Note 15)	46 164	48 900
Non-current assets	1 333 053	1 377 110
TOTAL ASSETS	1 500 904	1 558 597
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings (Note 16)	78 658	159 938
Trade and other payables (Note 17)	100 682	95 548
Derivatives (Note 23)	918	29 710
Payables to owners	2	3
Income tax liability	116	34
Deferred income (Note 18)	32 113	31 429
Current liabilities	212 489	316 662
Interest-bearing loans and borrowings (Note 16)	431 477	400 968
Derivatives (Note 23)	0	4 688
Other liabilities	22	0
Non-current liabilities	431 499	405 656
Total liabilities	643 988	722 318
Share capital (Note 19)	361 736	361 736
Share premium (Note 19)	662	639
Reserves (Note 19)	69 474	68 946
Retained earnings	425 044	404 958
Equity attributable to equity holders of the Parent	856 916	836 279
Total equity	856 916	836 279
TOTAL LIABILITIES AND EQUITY	1 500 904	1 558 597

Consolidated statement of cash flows

For the year ended 31 December, in thousands of EUR	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	40 049	46 496
Adjustments for:		
Depreciation and amortisation (Notes 14, 15)	79 280	86 371
Net loss on disposals of property, plant and equipment	-104	-1 903
Net interest expense (Note 5)	19 806	23 744
Net income/expense from derivatives (Note 5)	-5 055	5 631
Profit from equity-accounted investees (Note 12)	-4	-40
Net unrealised foreign exchange loss/gain	4 294	-7 564
Treasury shares	6	0
Income tax (Note 6)	4 535	4 253
Adjustments	102 758	110 492
Changes in:		
Receivables and prepayments related to operating activities	2 407	-6 707
Inventories	4 934	-1 956
Liabilities related to operating activities	6 723	-12 140
Changes in assets and liabilities	14 064	-20 803
Cash generated from operating activities	156 871	136 185
Income tax paid	-87	-7
NET CASH FROM OPERATING ACTIVITIES	156 784	136 178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-36 037	-219 207
Proceeds from disposals of property, plant, equipment	368	132 448
Interest received	7	1
NET CASH USED IN INVESTING ACTIVITIES	-35 662	-86 758
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans received	110 000	184 000
Repayment of loans received	-69 666	-134 321
Repayment of bonds (Note 16)	-120 303	0
Change in overdraft (Note 16)	0	-40 110
Payments for settlement of derivatives	-3 569	-3 592
Payment of finance lease liabilities	-108	-102
Interest paid	-19 440	-20 744
Payment of transaction costs related to loans	-1 113	-216
Dividends paid (Note 19)	-20 096	-20 096
Reduction of share capital	-1	-1
Income tax on dividends paid (Note 19)	-3 562	-4 100
NET CASH USED IN FINANCING ACTIVITIES	-127 858	-39 282
TOTAL NET CASH FLOW	-6 736	10 138
Cash and cash equivalents at the beginning of period	88 911	78 773
Decrease/increase in cash and cash equivalents (Note 8)	-6 736	10 138
Cash and cash equivalents at the end of period	82 175	88 911

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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 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 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
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
As at 31 December 2016	361 736	639	-11	45 646	23 139	0	378 717	809 866	809 866
Net profit for 2017	0	0	0	0	0	0	46 496	46 496	46 496
Other comprehensive income for 2017									
Exchange differences on translating foreign operations	0	0	13	0	0	0	0	13	13
Total comprehensive income for 2017	0	0	13	0	0	0	46 496	46 509	46 509
Transactions with owners of the Company recognised directly in equity									
Transfer from profit for 2016	0	0	0	0	2 206	0	-2 206	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
Transactions with owners of the Company, recognised directly in equity	0	0	0	-2 047	2 206	0	-20 255	-20 096	-20 096
As at 31 December 2017	361 736	639	2	43 599	25 345	0	404 958	836 279	836 279

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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 2018 were authorised for issue by the Management Board on 16 April 2019.

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 5/7 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 2018 the Group employed 7 242 people (7 311 at 31 December 2017).

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 2018.

Changes in significant accounting policies

The Group has initially applied IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards were also effective from 1 January 2018 but they did not have a material effect on the Group's financial statements.

IFRS 9 Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of receivables in administrative expenses. Consequently, the Group reclassified impairment losses of EUR 660 thousand, recognised under IAS 39, from 'administrative expenses' to 'impairment loss on receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017. Impairment losses on other financial assets are presented under 'finance costs', similarly to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

According to IFRS 9 the Group measures an impairment allowance for receivables at an amount of lifetime expected credit loss. Lifetime expected credit loss is calculated as a product of total 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.

The following table summarises the impact of adopting IFRS 9 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018.

As at 1 January, in thousands of EUR 2018	**As reported**	**Adoption impact**	**Amounts without adoption of IFRS 9**
Impact on the consolidated statement of financial position			
Trade and other receivables	46 534	68	46 466
Retained earnings	405 026	68	404 958
As at 31 December 2018, in thousands of EUR			
Impact on the consolidated statement of financial position			
Trade and other receivables	43 805	-110	43 915
Retained earnings	425 044	-110	425 154
For the year ended 31 December 2018, in thousands of EUR			
Impact on the consolidated statement of profit or loss and OCI			
Impairment loss on receivables	-272	-178	-94

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

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In thousands of EUR	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Equity securities	Available-for-sale	FVOCI – equity instrument	168	168
Trade and other receivables	Loans and receivables	Amortised cost	46 466	46 534
Cash and cash equivalents	Loans and receivables	Amortised cost	88 911	88 911
Total financial assets			135 545	135 613
Financial liabilities				
Interest rate swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	4 688	4 688
Secured bank loans	Other financial liabilities	Other financial liabilities	469 331	469 331
Finance lease liabilities	Other financial liabilities	Other financial liabilities	287	287
Trade payables	Other financial liabilities	Other financial liabilities	95 548	95 548
Total financial liabilities			569 854	569 854

IFRS 15 Revenue from Contracts with Customers

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

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

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

The Group has adopted IFRS 15 using the cumulative effect method which requires that the cumulative effect of initially applying this standard is recognised in retained earnings at the date of initial application (i.e. 1 January 2018) and the information presented for 2017 is recognised, as previously reported. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

When assessing the effects of IFRS 15 adoption, the Group analysed its different types of income and the loyalty program Club One. Based on the Group's assessment, accounting for loyalty points in the Club One program has a material effect on its financial statements. Thus in the allocation of the transaction price, the residual method was replaced by the relative stand-alone selling price method. The effect of the new model is that less revenue is initially deferred, which results in accelerated revenue recognition. The effect of the first-time application of IFRS 15 at 1 January 2018 was recognised in retained earnings in the amount of EUR 343 thousand.

The following table summarises the impact of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018.

As at 1 January 2018, in thousands of EUR	As reported	Adoption impact	Amounts without adoption of IFRS 15
Impact on the consolidated statement of financial position			
Deferred income	31 086	-343	31 429
Retained earnings	405 301	343	404 958
As at 31 December 2018, in thousands of EUR			
Impact on the consolidated statement of financial position			
Deferred income	32 113	-465	32 578
Retained earnings	425 044	465	424 579
For the year ended 31 December 2018, in thousands of EUR			
Impact on the consolidated statement of profit or loss and OCI			
Revenue	949 723	122	949 601

According to the Group assessment other revenue streams did not have material effect on its financial statements due to entry into force of IFRS 15.

Effective standards and interpretations

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

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

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

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

Amendments to IFRS 2 did not have a material impact on the Group's financial statements.

Amendments to IAS 40 Transfers of Investment Property

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

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

Amendments to IAS 40 did not have a material impact on the Group's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

IFRIC 22 did not have a material impact on the Group's financial statements.

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

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

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019

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.

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

In 2018 preparations were made for the introduction of IFRS 16. Agreements were assessed to decide whether they constitute a lease or a service. In most cases, rental of properties and premises constitutes a lease. These agreements are the main leases within the Group in terms of value.

IFRS 16 offers alternative rules on transition. The Group will choose the modified retrospective transition method using the incremental borrowing rate as at 1 January 2019, which means that any effects of the transition will be recognised as an adjustment of retained earnings as at 1 January 2019.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of EUR 104 million as at 1 January 2019. See also Note 20 Contingencies and commitments, the section "The Group as the lessee".

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019.

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.

The Group does not expect that the interpretation, when initially applied, will have a material impact on its consolidated financial statements as the Group does not have material uncertain tax positions.

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:

Operating leases – the Group as lessee

As at 31 December 2018, the Group had entered into lease agreements for four hotel buildings, three office buildings, one warehouse building and one restaurant building (31 December 2017: five hotel buildings, three office buildings, one warehouse building and one restaurant building). Management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 20 for more detailed information on the minimum lease payments of the lease agreements. Starting from 2019 the Group accounts for leases according to principles of IFRS 16.

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 2018. The fair value of ships depends on many factors, including the year of construction, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Management is of the opinion that as at 31 December 2018 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 2018. 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. Management's opinion of the useful lives of the Group's property, plant and equipment and the Group's intangible assets is disclosed in Notes 3.4 and 3.5 respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2018 amounted to EUR 11 066 thousand (31 December 2017: 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.

Fair value of derivatives

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

Customer loyalty programme

Customer loyalty programme (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group recognises the credits that it awards to customers as a 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 2.3 (Changes in significant accounting policies, IFRS 15 Revenue from Contracts with Customers) and Note 18.

Note 3 Significant accounting policies

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

3.1. Basis of consolidation

Business combinations

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

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

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

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

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

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

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed or has rights to variable returns from its involvements with the investee and it has the ability to affect those returns through its power over the investee and there is a link between power and returns. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its

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subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as at the same reporting date. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Investments in equity-accounted investees

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

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

Transactions eliminated on consolidation

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

3.2. Foreign currency

Foreign currency transactions

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

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

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

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

Foreign operations

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

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

3.3. Financial instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

<u>Financial assets – Policy applicable from 1 January 2018</u>

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

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

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

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

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

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

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

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 assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
    - held for trading;
    - derivative hedging instruments; or
    - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL. Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.

Held-to-maturity financial assets. Measured at amortised cost using the effective interest method.

Loans and receivables. Measured at amortised cost using the effective interest method.

Available-for-sale financial assets. Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to 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.

Derivative financial instruments

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

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

Share capital

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

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

3.4. Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

Subsequent costs

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

Depreciation

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

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

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

Land is not depreciated.

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

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

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

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

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

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

3.5. Intangible assets

Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Research and development costs

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

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

Trademark

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

Other intangible assets

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

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

Subsequent expenditure

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

Amortisation

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

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

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

3.6. Investment property

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

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

3.7. Inventories

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

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

3.8. Borrowing costs

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

3.9. Impairment

Financial assets

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

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

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

See also Note 2.3.

Non-financial assets

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

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

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

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

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

3.10. Employee benefits

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

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

3.11. Provisions

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

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

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

3.12. Leases

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

The Group as a lessee

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

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

The Group as a lessor

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

3.13. Revenue

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

Sale of goods – sales in restaurants and shops

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

Ticket sale and sale of cargo transport

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

Sales of hotel accommodation

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

Revenue from travel packages

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

Charter income

Charter income arising from operating charters of ships is accounted for on a straight-line basis over the charter terms. In these financial statements the term 'charter' refers to 'lease' as defined in IFRS (EU).

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 2.3 (Changes in significant accounting policies, IFRS 15 Revenue from Contracts with Customers), Note 4 and Note 18.

3.14. Government grants

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

3.15. Finance income and finance costs

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

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

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

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

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

3.16. Income tax

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

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

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

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

Group companies in Estonia

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

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

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

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

Group companies in Cyprus

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

Other foreign Group companies and permanent establishments

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

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

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

3.17. Earnings per share

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

3.18. Segment reporting

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

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

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

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

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

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

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

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

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

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

3.19. Determination of fair values

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

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

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

Ships (Level 3)

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

Intangible assets (Level 3)

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

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

Investment property (Level 3)

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

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

Derivatives (Level 3)

The fair value of interest rate swaps is based on independent appraisers' valuations. Fair values reflect the credit risk, interest rate risk and foreign exchange risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Non-derivative financial liabilities (Levels 1 and 2)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

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 organized and managed separately according to the nature of the different markets. As at 31 December 2018 the Group operated in the following business segments:

- Estonia - Finland routes: 4 ships (31 December 2017: 4 ships)
- Estonia - Sweden routes: 3 ships (31 December 2017: 3 ships)
- Latvia - Sweden route: 2 ships (31 December 2017: 2 ships)
- Finland - Sweden routes: 4 ships (31 December 2017: 4 ships)
- Other segment
  - Ships chartered out by the Group: 1 ship (31 December 2017: 1 ship)
  - Hotels in Estonia: 3 hotels (31 December 2017: 4 hotels)
  - Hotels in Latvia : 1 hotel (31 December 2017: 1 hotel)
  - Shops in Estonia: 15 shops (31 December 2017: 7 shops)
  - Restaurants in Estonia: 1 restaurant (31 December 2017: 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 2018 and 31 December 2017.

Geographical segments – by the location of assets

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	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

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
2017							
Sales to external customers	354 497	117 246	66 453	344 833	83 948	0	966 977
Intersegment sales	0	0	0	0	10 237	-10 237	0
Revenue	354 497	117 246	66 453	344 833	94 185	-10 237	966 977
Segment result	77 877	10 578	-1 200	18 475	17 536	0	123 266
Unallocated expenses							-51 308
Net financial items							-21 249
Share of profit of equity-accounted investees							40
Profit before income tax							50 749
Income tax							-4 253
Net profit for the period							46 496
Segment's assets	450 273	279 270	128 303	518 053	78 965	-430	1 454 434
Unallocated assets							104 163
Assets							1 558 597
Segment's liabilities	48 103	18 009	8 134	64 339	7 870	-430	146 025
Unallocated liabilities							576 293
Liabilities							722 318
Capital expenditures							
Segment’s property, plant and equipment	190 558	6 445	5 568	9 520	1 241	0	213 332
Unallocated property, plant and equipment							1 002
Segment’s intangible assets	0	0	3	5	155	0	163
Unallocated intangible assets							4 757
Depreciation	17 392	11 410	7 399	29 431	12 608	0	78 240
Unallocated depreciation							1 984
Amortisation	1 155	250	99	725	167	0	2 396
Unallocated amortisation							3 751

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Revenue by service

For the year ended 31 December, in thousands of EUR	Routes 2018	Other 2018	Total 2018	Routes 2017	Other 2017	Total 2017
Revenue from contracts with customers						
Restaurant and shop sales on-board and onshore	495 777	28 639	524 416	501 987	34 755	536 742
Ticket sales	243 807	0	243 807	242 748	0	242 748
Sales of cargo transport	124 852	0	124 852	117 718	0	117 718
Sales of accommodation	0	19 183	19 183	0	20 810	20 810
Other	10 345	10 123	20 468	11 189	9 581	20 770
Total revenue from contracts with customers	874 781	57 945	932 726	873 642	65 146	938 788
Revenue from other sources						
Income from charter of vessels	0	8 030	8 030	0	18 802	18 802
Other	8 967	0	8 967	9 387	0	9 387
Total revenue from other sources	8 967	8 030	16 997	9 387	18 802	28 189
Total revenue of the Group	883 748	65 975	949 723	883 029	83 948	966 977

Contract balances

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

In thousands of EUR	31 December 2018	1 January 2018
Trade and other receivables	43 805	46 466
Contract liabilities		
Club One points	11 303	12 105
Prepaid revenue	20 810	19 324
Total contract liabilities	32 113	31 429

The contract liabilities relate to the advance consideration received from customers and to the unredeemed customer loyalty points. An amount of EUR 27 453 thousand recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018.

Loyalty points are recognised as revenue when the points are redeemed by customers, which is expected to occur over the next two years.

Note 5 Operating expenses and financial items

Cost of sales

For the year ended 31 December, in thousands of EUR	2018	2017
Cost of goods sold	-217 429	-227 803
Port & stevedoring costs	-104 772	-104 756
Fuel costs	-102 473	-85 870
Staff costs	-160 608	-160 041
Ships' operating expenses	-75 657	-79 723
Depreciation and amortisation (Notes 14, 15)	-70 917	-78 169
Cost of travel package sales	-11 001	-11 165
Other costs	-23 035	-24 845
Total cost of sales	-765 892	-772 372

Sales and marketing expenses

For the year ended 31 December, in thousands of EUR	2018	2017
Advertising expenses	-32 372	-34 372
Staff costs	-32 652	-32 071
Depreciation and amortisation (Notes 14, 15)	-1 435	-2 467
Other costs	-2 856	-2 429
Total sales and marketing expenses	-69 315	-71 339

Administrative expenses

For the year ended 31 December, in thousands of EUR	2018	2017
Staff costs	-24 849	-23 050
Depreciation and amortisation (Notes 14, 15)	-6 927	-5 735
Other costs	-23 447	-24 227
Total administrative expenses	-55 223	-53 012

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	2018	2017
Wages and salaries	-189 816	-187 990
Government grants	35 807	38 583
Social security costs	-58 797	-60 521
Staff training costs	-1 772	-1 906
Other staff costs	-3 531	-3 328
Total staff costs	-218 109	-215 162

During the reporting period EUR 35 806 thousand was deducted from the cost of sales in connection with government grants related to seamen's salaries in Finland and Sweden (2017: EUR 38 583 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	2018	2017
Employees under employment contract	7 018	7 048
Employees under service contract	408	355
Members of the Management Board	4	3
Total average number of employees	7 430	7 406

Finance income and finance costs recognised in profit or loss

For the year ended 31 December, in thousands of EUR	2018	2017
Net foreign exchange gain	0	8 126
Income on foreign exchange derivatives	4 854	0
Interest income on financial assets not measured at fair value through profit or loss	0	1
Income on interest rate swaps	3 770	4 611
Income from other financial assets	7	0
Total finance income	8 631	12 738
Net foreign exchange loss	-4 170	0
Expenses on foreign exchange derivatives	0	-6 650
Interest expense on financial liabilities measured at amortised cost	-19 813	-23 745
Expenses on interest rate swaps	-3 569	-3 592
Total finance costs	-27 552	-33 987
Net finance costs	-18 921	-21 249

Note 6 Income tax

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, German and Russian subsidiaries

In accordance with the Swedish, Finnish, German and Russian 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 and Russia. As at 31 December 2018, the tax rate was 20% in Finland, 22% in Sweden, 15% in Germany and 20% in Russia (as at 31 December 2017, 20% in Finland, 22% in Sweden, 15% in Germany and 20% in Russia).

Income tax expense

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

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For the year ended 31 December, in thousands of EUR	2018	2017
Latvian subsidiaries	-3	0
Finnish subsidiaries	-169	-78
German subsidiary	-1	-6
Estonian subsidiaries and Parent company	-3 562	-4 100
Current period tax expense	-3 735	-4 184
Swedish subsidiaries	-407	283
Finnish subsidiaries	-377	-287
German subsidiaries	-16	-8
Latvian subsidiaries	0	-57
Deferred tax expense	-800	-69
Total tax expense	-4 535	-4 253

Reconciliation of the effective tax rate

For the year ended 31 December, in thousands of EUR	2018	%	2017	%
Profit before tax	44 584		50 749	
Tax using the Company's domestic rate	0	0.00%	0	0.00%
Tax arising on dividends declared in Estonia	-3 562	-7.99%	-4 100	-8.08%
Current income tax expense in foreign jurisdictions	-170	-0.38%	-84	-0.17%
Change in recognised tax losses	-1 367	-3.07%	-587	-1.16%
Change in temporary differences	564	1.27%	518	1.02%
Income tax expense	-4 535	-10.17%	-4 253	-8.39%

Deferred tax assets and liabilities

According to Russian, German, Finnish and Swedish legislation it is permissible to use higher depreciation and amortisation rates for taxation purposes and thereby defer tax payments. These deferrals are shown as 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 2018	Liabilities 2018	Assets 2017	Liabilities 2017
Tax loss carry-forward[1]	22 302	0	23 670	0
Property, plant and equipment	0	0	3	0
Intangible assets	0	-4 368	0	-4 951
Tax assets / liabilities	22 302	-4 368	23 673	-4 951
Offset of assets and liabilities	-4 368	4 368	-4 951	4 951
Tax assets	17 934	0	18 722	0

[1] Deferred tax assets of EUR 20 438 thousand (2017: EUR 21 399 thousand) in Finland and of 1 864 thousand (2017: EUR 2 271 thousand) in Sweden have been recognised in respect of losses carried forward. The recognised Finnish tax losses will expire from 2024 to 2028 (2017: 2024-2027) and the Swedish tax losses have no expiration date. The tax losses of the Finnish subsidiary that will expire before 2024 have not been recognised due to estimation uncertainty. Such unrecognised tax losses amounted to EUR 134 180 thousand as at 31 December 2018 (EUR 116 947 thousand as at 31 December 2017).

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 2021 onwards (2017: from 2020 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 revised revenue estimate for 2019. The revenue growth rate of the Finnish operations for the years 2019-2028 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 2017, the revenue growth rate for the years 2018-2027 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 2019-2028 would change the value of recognised tax assets by EUR +13 188 thousand / EUR -10 526 thousand respectively; 2) +/- 1 percentage point change in average costs' growth rate for the years 2019-2028 would change the value of recognised tax assets by EUR -7 709 thousand / EUR +13 188 thousand respectively.

Movements in deferred tax balances

As at 31 December, in thousands of EUR	Balance as at 31 December 2018	Recognised in profit/loss in 2018	Balance as at 31 December 2017
Tax loss carry-forward	22 302	-1 368	23 670
Property, plant and equipment	0	-3	3
Intangible assets	-4 368	583	-4 951
Net deferred tax (asset)/liability	17 934	-788	18 722

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	2018	2017
Shares issued	669 882	669 882
Treasury shares	-17	0
Shares outstanding	669 866	669 882

For the year ended 31 December, in thousands of EUR	2018	2017
Weighted average number of ordinary shares outstanding (in thousands)	669 859	669 882
Net profit attributable to equity holders of the Parent	40 049	46 496
EPS (EUR)	0.060	0.069

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Note 8 Cash and cash equivalents

As at 31 December, in thousands of EUR	2018	2017
Cash at bank and in hand	82 175	88 048
Short-term deposits	0	863
Total cash and cash equivalents	82 175	88 911

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2018 the rates were in the range of 0.00-0.01% and in 2017 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	2018	2017
Trade receivables	30 386	28 510
Allowance for doubtful receivables	-436	-698
Government grants receivable	9 322	14 495
Receivables from related parties	33	22
Other receivables	4 500	4 137
Total trade and other receivables	43 805	46 466

During the reporting period EUR 272 thousand of trade receivables was expensed as doubtful and uncollectible (2017: EUR 660 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	2018	2017
Prepaid expenses	5 313	4 328
Tax prepayments	771	1 067
Total prepayments	6 084	5 395

As at 31 December in thousands of EUR	2018	2017
Tax prepayments		
VAT	541	872
Other prepayments	230	195
Total tax prepayments	771	1 067

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	2018	2017
Raw materials (mostly fuel)	3 615	3 502
Goods for sale	32 126	37 173
Total inventories	35 741	40 675

In 2018 the write-down of inventories to net realisable value amounted to EUR 351 thousand (2017: EUR 374 thousand). The write-downs are included in the cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of fuel price increases. At 31 December 2018 (as well as at 31 December 2017) there were no derivative contracts for fuel outstanding. For more information, see Note 23.

Note 12 Investments in equity-accounted investees

As at 31 December 2018 the Group had a 34% interest in the equity-accounted investee Tallink Takso AS, incorporated in Estonia (as at 31 December 2017: 34%).

In thousands of EUR	2018	2017
Investments at the beginning of financial year	403	363
Share of profit of equity-accounted investee	4	40
Investments at the end of financial year	407	403

The key figures of the equity-accounted investee Tallink Takso AS are below. The figures as at and for the year ended 31 December 2018 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 2018	1 012	686	1 698	355	145	500
As at 31 December 2017	1 119	677	1 796	369	243	612

In thousands of EUR	Revenues	Expenses	Profit	Equity
For the year ended 31 December 2018	4 242	4 228	14	1 198
For the year ended 31 December 2017	4 159	4 049	110	1 184

Note 13 Other financial assets

As at 31 December, in thousands of EUR	2018	2017
Equity securities	167	168
Other receivables	153	176
Total other financial assets	320	344

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Note 14 Property, plant and equipment

In thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total
Book value as at 31 December 2017	2 308	1 268 604	32 958	4 571	1 308 441
Additions	0	6 595	19 938	6 651	33 184
Reclassification	792	2 488	1 291	-4 571	0
Disposals	0	0	-368	0	-368
Depreciation for the period	-776	-62 392	-10 161	0	-73 329
Book value as at 31 December 2018	2 324	1 215 295	43 658	6 651	1 267 928
As at 31 December 2018					
Gross carrying amount	8 226	1 629 933	76 999	6 651	1 721 809
Accumulated depreciation	-5 902	-414 638	-33 341	0	-453 881
Book value as at 31 December 2016	2 525	1 230 437	23 063	48 872	1 304 897
Additions	223	193 645	18 426	2 040	214 334
Reclassification	101	46 341	-101	-46 341	0
Disposals	0	-130 289	-277	0	-130 566
Depreciation for the period	-541	-71 530	-8 153	0	-80 224
Book value as at 31 December 2017	2 308	1 268 604	32 958	4 571	1 308 441
As at 31 December 2017					
Gross carrying amount	5 927	1 633 053	67 060	4 571	1 710 611
Accumulated depreciation	-3 619	-364 449	-34 102	0	-402 170

Revaluation of ships

The Group used the valuations of three independent appraisers to determine the fair value of 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 2018 there were no material differences between the carrying amounts and fair values (as well as at 31 December 2017).

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

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

As at 31 December 2017	In thousands of EUR
Cost	1 758 135
Accumulated depreciation	-533 130
Net carrying amount	1 225 005

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 2018 by EUR 2 047 thousand (2017: EUR 2 047 thousand) and retained earnings were increased by the same amount.

As at 31 December 2018 the Group's ships with a book value of EUR 1 037 488 thousand (2017: EUR 1 076 791 thousand) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 16).

Contractual commitments

As at 31 December 2018 the Group did not have any substantial contractual commitments. For information about a new vessel order placed in 2019, see Note 24.

Note 15 Intangible assets

In thousands of EUR	Goodwill[1]	Trademark[2]	Other[3]	Assets under construction	Total
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
Book value as at 31 December 2016	11 066	27 670	9 358	2 033	50 127
Additions	0	0	200	4 720	4 920
Reclassification	0	0	2 839	-2 839	0
Amortisation for the period	0	-2 916	-3 231	0	-6 147
Book value as at 31 December 2017	11 066	24 754	9 166	3 914	48 900
As at 31 December 2017					
Cost	11 066	58 288	26 329	3 914	99 597
Accumulated amortisation	0	-33 534	-17 163	0	-50 697

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 2018, a revenue growth rate of 0% p.a. (2017: 0%) and a discount rate of 6% (2017: 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 2018 the remaining amortisation period of the trademark was 7.5 years.

As at 31 December 2018, the book value of the trademark was tested for impairment. For testing purposes the average annual revenue growth rate of 2.5% (2017: 2.3%), a royalty rate of 2.25% (2017: 2.25%) and a discount rate of 4.0% (2017: 5.8%) were used. There was no need to recognise an impairment loss.

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

Note 16 Interest-bearing loans and borrowings

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

As at 31 December 2017, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	84	203	287
Unsecured bonds [1]	2018	91 288	0	91 288
Long-term bank loans	2016-2029	68 566	400 765	469 331
Total borrowings		159 938	400 968	560 906

[1] A senior unsecured bond issue of NOK 900 million was redeemed at its maturity date of 18 October 2018.

As at 31 December 2018 the Group had the right to use bank overdrafts of up to EUR 75 000 thousand (2017: EUR 75 000 thousand). Bank overdrafts are secured with a commercial pledge of EUR 20 204 thousand (2017: EUR 20 204 thousand) and mortgages on ships (see Note 14). In the year ended 31 December 2018 the average effective interest rate of bank overdrafts was EURIBOR + 2.23% (2017: EURIBOR + 2.23%). As at 31 December 2018 and 31 December 2017 the balance of overdrafts in use was zero.

In the year ended 31 December 2018 the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 2.25% (2017: EURIBOR + 2.28%).

As at 31 December 2018 Tallink Grupp AS had given guarantees to Nordea Bank Plc and Danske Bank A/S for loans of EUR 192 792 thousand (2017: EUR 226 903 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc for the loan granted to Tallink Grupp AS. As at 31 December 2018 the book value of the loan was EUR 316 915 thousand (31 December 2017: EUR 242 428 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 2018 the total amount of the guarantees was EUR 8 057 thousand (2017: EUR 9 754 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 2018 (as well as in 2017) the Group complied with all financial covenants.

Reconciliation of liabilities arising from financing activities

In thousands of EUR	Bank overdrafts	Long-term bank loans	Unsecured bonds	Finance leases	Derivatives	Reserves	Retained earnings	Total
Balance as at 31 December 2017	0	469 331	91 288	287	34 398	68 946	404 958	1 069 208
Changes from financing cash flows								
Proceeds from loans	0	110 000	0	0	0	0	0	110 000
Repayment of loans	0	-69 666	0	0	0	0	0	-69 666
Repayment of bonds	0	0	-120 303	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	0	-108	0	0	0	-108
Interest paid	0	0	0	0	0	0	-19 440	-19 440
Payment of transaction costs related to loans	0	-1 113	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	0	39 221	-120 303	-108	-3 569	0	-43 099	-127 858
The effect of changes in foreign exchange rates	0	0	28 838	-9	-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	0	370	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	0	-112	0	0	0	-112
Amortisation of capitalised borrowing costs	0	1 155	177	0	0	0	0	1 332
Capitalised borrowing costs	0	0	0	0	0	0	0	0
Treasury shares	0	0	0	0	0	-17	0	-17
Reduction of share capital	0	0	0	0	0	0	1	1
Income tax on dividends paid	0	0	0	0	0	0	3 562	3 562
Interest paid	0	0	0	0	0	0	19 440	19 440
Total liability-related changes	0	1 155	177	258	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	0	509 707	0	428	918	69 474	425 044	1 005 571

In thousands of EUR	Bank overdrafts	Long-term bank loans	Unsecured bonds	Finance leases	Derivatives	Reserves	Retained earnings	Total
Balance as at 31 December 2016	40 110	419 795	98 627	373	32 359	68 774	378 717	1 038 755
Changes from financing cash flows								
Proceeds from loans	0	184 000	0	0	0	0	0	184 000
Repayment of loans	0	-134 321	0	0	0	0	0	-134 321
Change in overdraft	-40 110	0	0	0	0	0	0	-40 110
Payments for settlement of derivatives	0	0	0	0	-3 592	0	0	-3 592
Payment of finance lease liabilities	0	0	0	-102	0	0	0	-102
Interest paid	0	0	0	0	0	0	-20 744	-20 744
Payment of transaction costs related to loans	0	-216	0	0	0	0	0	-216
Dividends paid	0	0	0	0	0	0	-20 096	-20 096
Reduction of share capital	0	0	0	0	0	0	-1	-1
Income tax on dividends paid	0	0	0	0	0	0	-4 100	-4 100
Total changes from financing cash flows	-40 110	49 463	0	-102	-3 592	0	-44 941	-39 282
The effect of changes in foreign exchange rates	0	0	-7 567	-10	0	13	0	-7 564
Changes in fair value	0	0	0	0	5 631	0	0	5 631
Liability-related changes								
New finance leases	0	0	0	47	0	0	0	47
Transfer from retained earnings	0	0	0	0	0	2 206	-2 206	0
Transfer from revaluation reserve	0	0	0	0	0	-2 047	2 047	0
Termination of old finance leases	0	0	0	-21	0	0	0	-21
Amortisation of capitalised borrowing costs	0	1 503	228	0	0	0	0	1 731
Capitalised borrowing costs	0	-1 430	0	0	0	0	0	-1 430
Reduction of share capital	0	0	0	0	0	0	1	1
Income tax on dividends paid	0	0	0	0	0	0	4 100	4 100
Interest paid	0	0	0	0	0	0	20 744	20 744
Total liability-related changes	0	73	228	26	0	159	24 686	25 172
Total equity-related changes	0	0	0	0	0	0	46 496	46 496
Balance as at 31 December 2017	0	469 331	91 288	287	34 398	68 946	404 958	1 069 208

Note 17 Trade and other payables

As at 31 December, in thousands of EUR	2018	2017
Trade payables	43 824	43 097
Other payables	4 533	2 078
Payables to employees	25 258	24 421
Interest payable	2 418	3 323
Tax liabilities	19 221	18 046
Other accruals	5 428	4 583
Total trade and other payables	100 682	95 548

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	2018	2017
Salary-related taxes	13 771	12 933
Excise duties	2 000	1 618
VAT	3 449	3 485
Other taxes	1	10
Total tax liabilities	19 221	18 046

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	2018	2017
Club One points	11 303	12 105
Prepaid revenue	20 810	19 324
Total deferred income	32 113	31 429

Note 19 Share capital and reserves

As at 31 December, in thousands	2018	2017
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	2018	2017
Share capital (authorised and registered)	361 736	361 736
Total share capital	361 736	361 736
Share premium	662	639
Total share premium	662	639

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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.

Tallink Grupp AS has 669 882 040 registered shares (31 December 2017: 669 882 040) without nominal value and the notional value of each share is EUR 0.54.

Reserves

As at 31 December, in thousands of EUR	2018	2017
Translation reserve	269	2
Ships' revaluation reserve	41 552	43 599
Mandatory legal reserve	27 670	25 345
Reserve for treasury shares	-17	0
Total reserves	69 474	68 946

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 2018, the Company held 16 500 own shares.

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Dividends

Dividends declared and paid by the Company in 2018 amounted to EUR 20 097 thousand (2017: EUR 20 097 thousand), i.e. 0.03 EUR per ordinary share (2017: 0.03 EUR). This gave rise to income tax expense of EUR 3 562 thousand (2017: EUR 4 100 thousand). About income tax on dividends see also Note 6.

Note 20 Contingencies and commitments

Legal claims

Disputes with former seafarers of Superfast vessels

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

In 2018 the Group agreed with the former owner and seller of Superfast vessels compensation of EUR 1 000 thousand as a full and final settlement inclusive of interest and costs. The settlement was fully paid to the Group at 30 November 2018.

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 2018 the maximum amount of such benefits was EUR 2 394 thousand (EUR 2 268 thousand in 2017) (see Note 21).

In February 2019 the Tallink Grupp AS Supervisory Board recalled Mr. Janek Stalmeister and Mr. Andres Hunt from the Management Board. In line with the service agreements with Mr. Stalmeister and Mr. Hunt, total termination benefits of EUR 1 512 thousand were paid to them.

The maximum amount of Management Board members' termination benefits after the February 2019 terminations is EUR 882 thousand.

Income tax on dividends

The Group's retained earnings as at 31 December 2018 were EUR 425 044 thousand (2017: EUR 404 958 thousand). As at 31 December 2018, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 85 009 thousand (2017: EUR 80 992 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 2018 (2017: 31 December 2017).

Non-cancellable operating leases

The Group as the lessee

The Group leases four hotel buildings under operating leases (2017: five hotel buildings). The leases typically run for a period of ten years, with the Group's option to renew the lease for a further 5 years. Some lease payments are increased every year and some leases provide for additional rental payments that are based on the result of hotel operations. The lease expenses from 1 January 2018 to 31 December 2018 were EUR 12 876 thousand (2017: EUR 13 375 thousand) including contingent lease expense of EUR 1 053 thousand (2017: EUR 1 381 thousand).

The Group also leases four office buildings, one warehouse and one restaurant. The lease expenses from 1 January 2018 to 31 December 2018 were EUR 4 362 thousand (2017: EUR 4 187 thousand). The lessor has the right to increase lease payments by up to 6% per year.

Minimum non-cancellable operating lease payments are as follows:

As at 31 December, in thousands of EUR	2018	2017
< 1 year	16 746	14 592
1-5 years	65 102	34 779
> 5 years	36 325	23 864
Total minimum lease payments	118 173	73 235

The Group as the lessor

The Group's charter income from 1 January to 31 December 2018 was EUR 8 030 thousand (2017: EUR 18 803 thousand).

Minimum non-cancellable charter payments are as follows:

As at 31 December, in thousands of EUR	2018	2017
< 1 year	6 688	6 688
Total minimum charter payments	6 688	6 688

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

Note 21 Related party disclosures

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

Companies controlled by the Key Management Personnel

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

Associated companies

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

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

For the year ended 31 December 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

For the year ended 31 December 2017, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Companies controlled by the Key Management Personnel	327	24 573	20	2 178
Associated companies	3	185	2	13
Total	330	24 758	22	2 191

The following goods and services were purchased from related parties:

For the year ended 31 December, in thousand of EUR	2018	2017
Leases	14 987	16 541
Fuel	7 489	5 027
Other goods and services	2 794	3 190
Total goods and services	25 270	24 758

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 2018, the Key Management Personnel's compensation was EUR 1 211 thousand (2017: EUR 1 185 thousand).

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 2018 the maximum amount of such benefits was EUR 2 394 thousand (EUR 2 268 thousand in 2017).

In February 2019 the Tallink Grupp AS Supervisory Board recalled Mr. Janek Stalmeister and Mr. Andres Hunt from the Management Board. In line with the service agreements with Mr. Stalmeister and Mr. Hunt, total termination benefits of EUR 1 512 thousand were paid to them.

The maximum amount of Management Board members' termination benefits after the February 2019 terminations is EUR 882 thousand.

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

Note 22 Group entities

Group entities	Interest as at 31 December 2018	Interest as at 31 December 2017	Country of incorporation	Parent company
Baan Thai OÜ	100%	100%	Estonia	Tallink Grupp AS
Baltic Retail OÜ	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
HTG Invest AS	-	100%	Estonia	Tallink Grupp AS
Mare Catering OÜ	100%	100%	Estonia	Tallink Grupp AS
Tallink AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Baltic AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Duty Free AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Scandinavian AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Travel Club OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Agent OÜ	100%	-	Estonia	Tallink Grupp AS
TLG Hotell OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Stividor OÜ	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, in liquidation	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Swedish Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Vana Tallinn Line Ltd, in liquidation	100%	100%	Cyprus	Tallink Grupp AS
HTG Stevedoring OY	100%	100%	Finland	Tallink Grupp AS
Tallink Finland OY	100%	100%	Finland	Tallink Grupp AS
Tallink Silja OY	100%	100%	Finland	Tallink Scandinavian AS
Sally AB	100%	100%	Finland	Tallink Silja OY
Tallink Silja GMBH	100%	100%	Germany	Tallink Silja OY
Tallink Latvija AS	100%	100%	Latvia	Tallink Grupp AS
HT Shipmanagement SIA	100%	100%	Latvia	HT Laevateenindus OÜ
TLG Hotell Latvija SIA	100%	100%	Latvia	TLG Hotell OÜ
Tallink-Ru OOO	100%	100%	Russia	Tallink Grupp AS
Tallink Silja AB	100%	100%	Sweden	Tallink Grupp AS
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	2018	2017
Cash and cash equivalents (Note 8)	82 175	88 911
Trade and other receivables (Notes 9, 13)	34 636	32 147
Total	116 811	121 058

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

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

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

In thousands of EUR	2018	2017
Balance at 1 January	698	685
Amounts written off	-523	-431
Impairment loss recognised	272	660
Reversal of prior period impairment loss	-11	-216
Balance at 31 December	436	698

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when 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 three committed bank overdraft facilities to minimize the Group's liquidity risk (see Note 16 for details).

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

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

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

[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), the Swedish krona (SEK) and the Norwegian krone

(NOK). Exposure to USD results from the purchase of ship fuel and insurance, exposure to NOK resulted from the bonds issued in that currency and exposure to SEK arises from the fact that it is the operational currency on some routes.

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

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

In thousands of EUR, 2018	**EUR**	**USD**	**SEK**	**NOK**	**Other**	**Total**
Cash and cash equivalents	74 288	1	7 663	1	222	82 175
Trade receivables, net of allowance	27 886	0	2 058	0	36	29 980
Other financial assets	529	0	4 119	0	8	4 656
Total	102 703	1	13 840	1	266	116 811
Current portion of borrowings	-78 585	0	-73	0	0	-78 658
Trade payables	-40 721	-188	-4 577	-6	-299	-45 791
Other current payables	-27 292	0	-8 380	0	0	-35 672
Interest rate swaps	-918	0	0	0	0	-918
Foreign exchange derivatives	0	0	0	0	0	0
Non-current portion of borrowings and other liabilities	-431 126	0	-351	0	0	-431 477
Total	-578 642	-188	-13 381	-6	-299	-592 516
Net, EUR	-475 939	-187	459	-5	-33	-475 705

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

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 2017.

As at 31 December, in thousands of EUR	**2018 Profit or loss**	**2017 Profit or loss**
USD	19	13
SEK	-46	295
NOK	1	-375
Other	3	13

Interest rate risk

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

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

As at 31 December, in thousands of EUR	2018	2017
Fixed rate financial liabilities	160 213	175 267
Variable rate financial liabilities	350 840	420 037
Total	511 053	595 304

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 2017.

In thousands of EUR	2018	2017
10 basis point increase	-326	-299
10 basis point decrease	326	299

Fair values of financial instruments

In the opinion of the Group's management there are no significant differences between the carrying values and fair values of financial assets and liabilities. The fair value for derivatives has been determined based on accepted valuation methods.

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:

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As at 31 December, in thousands of EUR	Hierarchy	Maturity	2018 Notional amount	2018 Fair value	2017 Notional amount	2017 Fair value
Interest rate swap	Level 3	2019	100 000	-918	100 000	-4 688
Interest rate swap	Level 3	2018	0	0	70 000	0
Foreign exchange derivative[1]	Level 3	2018	0	0	60 000	-14 855
Foreign exchange derivative[1]	Level 3	2018	0	0	60 000	-14 855
Total derivatives with negative value				-918		-34 398

[1] Foreign exchange derivatives - at the effective date the Group exchanged the NOK notional amount (NOK 450 000 thousand) against the EUR notional amount (EUR 60 000 thousand) and at the termination date there was an exchange back. During the life of the derivative the Group paid EURIBOR based EUR and received NIBOR based NOK every three months.

The fair values of interest rate derivatives at 31 December 2018 have been determined by using the Bloomberg Professional valuation functions. The valuation method is Hull White Model. Inputs used are EUR interest rates' term structure and EUR swaption and cap volatilities. Inputs are mainly unobservable (level 3 under the fair value hierarchy). The following table shows the valuation techniques used in measuring derivatives' fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
- Hull White Model	- EUR interest rates' term structure	The estimated fair value would increase (decrease) if:
	- EUR swaption and cap volatilities	- EUR interest rates were higher (lower)

Capital management

The Group considers total shareholders' equity as capital. As at 31 December 2018 the shareholders' equity was EUR 856 916 thousand (2017: EUR 836 279 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 2018 the Group's equity ratio was 57.1% and the net debt to EBITDA ratio was 3.0 (2017: 53.7% 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 on the Management Board

On 4 February 2019, the Group announced that the Tallink Grupp AS Supervisory Board has appointed Mrs. Kadri Land and Mr. Harri Hanschmidt as Members of the Management Board and has recalled from the Management Board Mr. Janek Stalmeister following his resignation. The mandate of Mr. Janek Stalmeister ended on 2 February 2019. The mandate of Mrs. Kadri Land and Mr. Harri Hanschmidt started on 4 February 2019 and lasts for a period of three years.

On 22 February 2019, the Group announced that the Supervisory Board has appointed Mrs. Piret Mürk-Dubout as a Member of the Management Board and has recalled from the Management Board Mr. Andres Hunt following his resignation. The mandate of Mr. Andres Hunt ended on 26 February 2019, the mandate of Mrs. Mürk-Dubout began on 15 April 2019 and lasts for a period of three years.

From 15 April, the Management Board of Tallink Grupp AS operates with five members under the leadership of Mr. Paavo Nõgene and includes Mr. Lembit Kitter, Mrs. Kadri Land, Mr. Harri Hanschmidt and Mrs. Piret Mürk-Dubout.

Changes in the Group structure

In February 2019, the Group's Cyprus-registered dormant entities Tallinn-Stockholm Line Ltd and Vana Tallinn Line Ltd were dissolved.

New vessel order

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 estimated cost of the project is approximately 250 million euros and the new vessel will be built at the Rauma shipyard in Finland. The delivery of the vessel is expected in January 2022.

Termination benefits

On February 2019, the Tallink Grupp AS Supervisory Board recalled Mr. Janek Stalmeister and Mr. Andres Hunt from the Management Board. In line with the service agreements with Mr. Stalmeister and Mr. Hunt, total termination benefits of EUR 1 512 thousand were paid to them.

Note 25 Primary financial statements of the Parent

Statement of comprehensive income

For the year ended 31 December, in thousands of EUR	2018	2017
Revenue	460 392	457 589
Cost of sales	-376 102	-368 820
Gross profit	84 290	88 769
Sales and marketing expenses	-40 711	-41 923
Administrative expenses	-25 960	-25 287
Impairment loss on receivables	-132	-195
Other operating income	1 236	7 274
Other operating expenses	-68	-133
Result from operating activities	18 655	28 505
Finance income	43 662	12 437
Finance costs	-53 910	-36 753
Share of profit of subsidiaries	107 500	357 750
Share of profit of equity-accounted investees	4	40
Profit before income tax	115 911	361 979
Income tax	-2 787	0
Net profit for the year	113 124	361 979

Statement of financial position

As at 31 December, in thousands of EUR	2018	2017
ASSETS		
Cash and cash equivalents	18 165	26 116
Receivables from subsidiaries	157 417	142 997
Receivables and prepayments	23 741	23 429
Inventories	10 037	10 386
Current assets	209 360	202 928
Investments in subsidiaries	490 401	467 390
Receivables from subsidiaries	208 205	219 396
Investments in equity-accounted investees	407	403
Other financial assets and prepayments	68	54
Property, plant and equipment	112 818	142 592
Intangible assets	12 852	12 589
Non-current assets	824 751	842 424
TOTAL ASSETS	1 034 111	1 045 352
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings	111 259	199 785
Derivatives	918	29 710
Payables and deferred income	111 901	124 752
Dividends payable to shareholders	2	3
Tax liabilities	3 739	3 783
Current liabilities	227 819	358 033
Interest-bearing loans and borrowings	320 719	290 276
Derivatives	0	4 688
Non-current liabilities	320 719	294 964
Total liabilities	548 538	652 997
Share capital	361 736	361 736
Share premium	662	639
Reserves	27 653	25 345
Retained earnings	95 522	4 635
Equity	485 573	392 355
TOTAL LIABILITIES AND EQUITY	1 034 111	1 045 352

Statement of cash flows

For the year ended 31 December, in thousands of EUR	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	113 124	361 979
Adjustment for:		
Depreciation and amortisation	42 648	41 421
Net gain/loss on disposals of tangible and intangible assets	-104	57
Net interest expense	6 588	31 801
Net unrealised foreign exchange loss/gain	4 036	-7 567
Income from subsidiaries	-107 500	-357 750
Income tax	2 787	0
Other adjustments	7 206	-2 717
Adjustments	-44 339	-294 755
Changes in:		
Receivables and prepayments related to operating activities	-55 783	84 150
Inventories	349	-975
Liabilities related to operating activities	47 776	151 749
Changes in assets and liabilities	-7 658	234 924
Cash generated from operating activities	61 127	302 148
Income tax paid/repaid	0	64
NET CASH FROM OPERATING ACTIVITIES	61 127	302 212
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-13 137	-13 117
Proceeds from disposals of property, plant, equipment	104	0
Increase in share capital of subsidiaries	-23 003	-58 800
Loans granted to subsidiaries	-28 150	-56 000
Repayments of loans granted	47 300	0
Dividends received from subsidiaries	18 052	16 400
Interest received	10 160	1
NET CASH FROM/USED IN INVESTING ACTIVITIES	11 326	-111 516
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	110 000	0
Proceeds from loans from subsidiaries	5 600	12 400
Repayment of loans	-35 000	-46 988
Repayment of bonds	-120 303	0
Change in overdraft	0	-94 804
Payments for settlement of derivatives	-3 569	-3 592
Interest paid	-13 135	-14 444
Payment of transaction costs related to loans	-1 113	-161
Dividends paid	-20 096	-20 096
Reduction of share capital	-1	-1
Income tax on dividends paid	-2 787	0
NET CASH USED IN FINANCING ACTIVITIES	-80 404	-167 686
NET CASH FLOW	-7 951	23 010
Cash and cash equivalents at the beginning of period	26 116	3 106
Decrease/increase	-7 951	23 010
Cash and cash equivalents at the end of period	18 165	26 116

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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 2017	361 736	639	25 345	0	4 635	392 355
Initial application of IFRS 9 and IFRS 15	0	0	0	0	184	184
Adjusted balance as 1 January 2018	361 736	639	25 345	0	4 819	392 539
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
As at 31 December 2018	361 736	662	27 670	-17	95 522	485 573
As at 31 December 2016	361 736	639	23 139	0	-335 042	50 472
Net profit for 2017	0	0	0	0	361 979	361 979
Transfer from profit for 2016	0	0	2 206	0	-2 206	0
Dividends	0	0	0	0	-20 096	-20 096
As at 31 December 2017	361 736	639	25 345	0	4 635	392 355

In thousands of EUR	2018	2017
Unconsolidated equity at 31 December	485 573	392 355
Interests under control and significant influence:		
Carrying amount	-490 808	-467 793
Value under the equity method	862 151	911 717
Adjusted unconsolidated equity at 31 December	856 916	836 279

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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, 16 April 2019

Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallink Grupp AS and its subsidiaries (collectively, the Group) as at 31 December 2018, 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 2018,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

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.

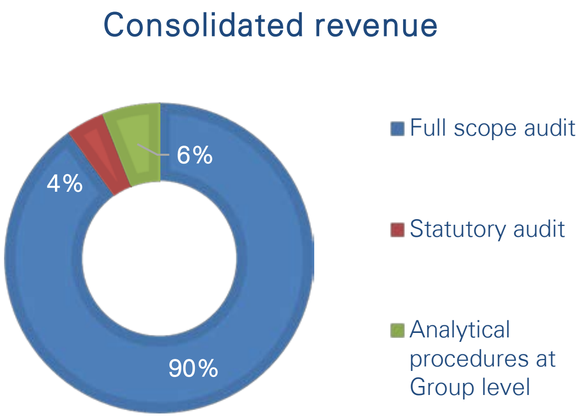
We, as group auditors, determined 15 of the Group’s 46 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink AS, Tallink Ltd, Tallink Fast Ltd, Tallink Victory Line Ltd, Tallink Autoexpress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

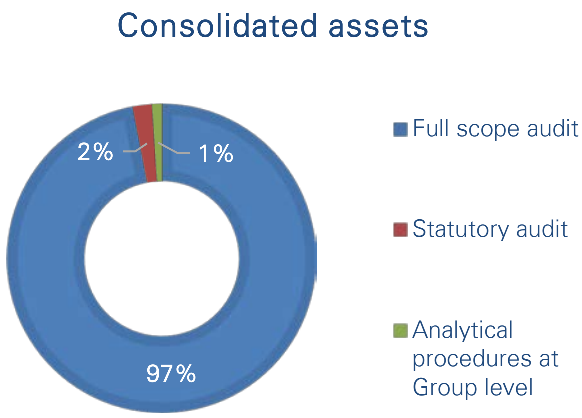
We have used the results of statutory audits of financial statements of Tallink Duty Free AS, HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

For the remaining 27 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.

KPMG

Key Audit Matters

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

Fair value of ships

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

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>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 2018 was EUR 1 215 million.

The fair value of ships depends on many factors, including changes in the fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. In order to assess the fair value of the ships, the Group’s management used independent appraisers.

We have identified the carrying value of ships as a key audit matter because of its significance to the consolidated financial statements and because applying the Group’s accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group’s ships as well the depreciation charge for the current year and future years.</td><td>Our audit procedures in this area included, among others:

• assessing the methodologies used by the external appraisers to estimate the fair values of the ships;
• evaluating the independent external appraisers’ competence, capabilities and objectivity;
• evaluating the historical accuracy of the Group’s assessment of the fair values of the ships by comparing them to transaction prices in prior years;
• testing the adequacy of the capitalized expenditures of the ships;
• analysing the estimates of useful lives and residual values and comparing them to published estimates of other international ship operators; and
• assessing the adequacy of the consolidated financial statement disclosures.</td></tr>
</table>

Recognition of deferred tax assets	
Refer to Note 6 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
The Group has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable. The recoverability of recognised deferred tax assets is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses (before the latter expire). We have determined this to be a key audit matter, due to the inherent uncertainty of forecasting the amount and timing of future taxable profits and the reversal of temporary differences.	Our audit procedures in this area included, among others: • evaluating the Group's process to prepare the deferred tax calculation, including the Group's budgeting procedures upon which the forecasts are based; • using our own tax specialists to evaluate the tax strategies the Group expects will enable the successful recovery of the recognised deferred tax assets; • assessing the accuracy of forecast future taxable profits by evaluating the historical forecasting accuracy and comparing the assumptions, such as projected growth rates, with our own expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during our audit, including where applicable their consistency with business plans; and • evaluating the adequacy of the consolidated financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 12 June 2018 to audit the financial statements of Tallink Grupp AS for the year ended 31 December 2018. Our total uninterrupted period of engagement is 12 years, covering the periods ending 31 August 2007 to 31 December 2018.

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, 16 April 2019

Eero Kaup
Certified Public Accountant, Licence No 459

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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 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

Reconciliations of certain alternative performance measures

In thousands of EUR	2018	2017	2016
Depreciation	73 329	80 224	72 262
Amortisation	5 951	6 147	5 596
Depreciation and amortisation	79 280	86 371	77 858
Result from operating activities	63 501	71 958	71 607
Depreciation and amortisation	79 280	86 371	77 858
EBITDA	142 781	158 329	149 465
Additions to property, plant and equipment	33 184	214 334	65 783
Additions to intangible assets	3 223	4 920	3 075
Capital expenditures	36 407	219 254	68 858
Net profit	40 049	46 496	44 105
Weighted average number of shares outstanding	669 859 148	669 882 040	669 882 040
Earnings per share (EUR)	0.060	0.069	0.066
Liabilities under finance lease	428	287	373
Unsecured bonds	0	91 288	98 627
Overdraft	0	0	40 110
Long-term bank loans	509 707	469 331	419 795
Interest-bearing liabilities	510 135	560 906	558 905
Interest-bearing liabilities	510 135	560 906	558 905
Cash and cash equivalents	82 175	88 911	78 773
Net debt	427 960	471 995	480 132
Total equity	856 916	836 279	809 866
Total assets	1 500 904	1 558 597	1 539 009
Equity ratio	57.1%	53.7%	52.6%
Equity attributable to equity holders of the Parent	856 916	836 279	809 866
Number of ordinary shares outstanding	669 882 040	669 882 040	669 882 040
Shareholders' equity per share (EUR)	1.28	1.25	1.21
Gross profit	183 831	194 605	192 582
Net sales	949 723	966 977	937 805
Gross margin (%)	19.4%	20.1%	20.5%
EBITDA	142 781	158 329	149 465
Net sales	949 723	966 977	937 805
EBITDA margin	15.0%	16.4%	15.9%
EBIT	63 501	71 958	71 607
Net sales	949 723	966 977	937 805
EBIT margin	6.7%	7.4%	7.6%
Net profit	40 049	46 496	44 105
Net sales	949 723	966 977	937 805
Net profit margin	4.2%	4.8%	4.7%

In thousands of EUR	2018	2017	2016
Result from operating activities 12-months trailing	63 501	71 958	71 607
Total assets 31 December (previous year)	1 558 597	1 539 009	1 538 766
Total assets 31 March	1 531 619	1 730 199	1 554 753
Total assets 30 June	1 554 542	1 739 028	1 567 425
Total assets 30 September	1 534 786	1 714 505	1 552 007
Total assets 31 December	1 500 904	1 558 597	1 539 009
Average assets	1 536 090	1 656 268	1 550 392
ROA	4.1%	4.3%	4.6%
Net profit 12-months trailing	40 049	46 496	44 104
Total equity 31 December (previous year)	836 279	809 866	824 422
Total equity 31 March	817 056	789 396	812 337
Total equity 30 June	812 701	787 374	807 703
Total equity 30 September	858 705	835 174	811 159
Total equity 31 December	856 916	836 279	809 866
Average equity	836 332	811 618	813 097
ROE	4.8%	5.6%	5.4%
Result from operating activities 12-months trailing	63 501	71 958	71 607
Total assets 31 December (previous year)	1 558 597	1 539 009	1 538 766
Total assets 31 March	1 531 619	1 730 199	1 554 753
Total assets 30 June	1 554 542	1 739 028	1 567 425
Total assets 30 September	1 534 786	1 714 505	1 552 007
Total assets 31 December	1 500 904	1 558 597	1 539 009
Current liabilities 31 December (previous year)	316 663	243 991	203 842
Current liabilities 31 March	327 805	299 899	287 139
Current liabilities 30 June	367 624	335 025	323 405
Current liabilities 30 September	322 784	288 067	285 931
Current liabilities 31 December	212 489	316 662	243 991
Total assets - current liabilities 31 December (previous year)	1 241 934	1 295 018	1 334 924
Total assets - current liabilities 31 March	1 203 814	1 430 300	1 267 614
Total assets - current liabilities 30 June	1 186 919	1 404 003	1 244 020
Total assets - current liabilities 30 September	1 212 002	1 426 438	1 266 076
Total assets - current liabilities 31 December	1 288 415	1 241 935	1 295 018
Average assets - current liabilities	1 226 617	1 359 539	1 281 530
ROCE	5.2%	5.3%	5.6%
Net debt	427 960	471 995	480 132
Depreciation	73 329	80 224	72 262
Amortisation	5 951	6 147	5 596
Depreciation and amortisation	79 280	86 371	77 858
EBITDA	142 781	158 329	149 465
Net debt to EBITDA	3.0	3.0	3.2

CONTACT INFORMATION

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