AS TALLINNA SADAM

Consolidated annual report
for the financial year
ended on 31 December 2013

AS TALLINNA SADAM

CONSOLIDATED ANNUAL REPORT 2013

Registry number	**10137319**
VAT registration number	**EE100068489**
Postal address	**Sadama 25**
	15051 Tallinn
Registered office	**Sadama 25**
	15051 Tallinn
Domicile	**The Republic of Estonia**
Telephone	**+372 631 8555**
Fax	**+372 631 8166**
E-mail	**ts@ts.ee**
Corporate website	**www.ts.ee**
Beginning of financial year	**1 January**
End of financial year	**31 December**
Legal form	**Limited company (AS)**
Auditor	**KPMG Baltics OÜ**

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MANAGEMENT REPORT

The management report of AS Tallinna Sadam (Port of Tallinn) has been prepared based on consolidated financial data.

1. ABOUT THE COMPANY

Through ages, Estonia has been closely connected with seafaring and maritime trade. Also, the development of the city of Tallinn has depended on the development of its ports, and vice versa. Although the history of the ports of Tallinn dates back thousands of years, the company AS Tallinna Sadam is a young entity. State company Tallinna Sadam was founded in April 1992; in 1996 it was reorganised into a limited company defined as *aktsiaselts* under the Estonian legislation (AS).

AS Tallinna Sadam is the largest complex of cargo and passenger ports in Estonia. Its ports are navigable and easily accessible throughout the year and deep enough to receive all vessels passing through the Danish Straits. Thanks to Estonia's geographical position which provides favourable conditions for servicing cargo flows between the East and the West, transit cargo flows of Russia and other CIS countries account for a large part of the cargo flows of AS Tallinna Sadam. Thus AS Tallinna Sadam competes primarily with the other Baltic Sea ports servicing transit cargo flows between the East and the West. In addition to the competition between ports, various transit corridors also compete with each other (e.g. the Baltic Sea corridor competes with the Caspian-Black Sea corridor, etc.). The faster, the more effective and the more customer-friendly the operation of the whole logistics chain, the more successful the corridor is. However, in servicing Estonia's own imports and exports, AS Tallinna Sadam has been outperformed by other Estonian ports in a number of cargo groups.

In addition to transit flows, the volume and role in adding value to the cargo flows passing through the ports is increasing from year to year. To promote those tendencies, AS Tallinna Sadam has created necessary infrastructure for the areas surrounding its main cargo ports – developed industrial park areas in Muuga Harbour and Paldiski South Harbour.

Tallinn-Helsinki route is one of the busiest passenger ship routes in the world. In addition to passenger ship traffic with Finland, AS Tallinna Sadam also renders regular passenger ship services on the routes between Estonia and Sweden, and Estonia and Russia (St.Petersburg). The number of cruise liners visiting AS Tallinna Sadam is growing year by year. More than 300 calls per cruise season is a remarkable achievement for any cruise harbour in Europe. In addition, the passenger walking areas in the centre of Tallinn which are owned by AS Tallinna Sadam (i.e. a harbour-city combination) provide a unique possibility for real estate development.

At the end of 2012, AS Tallinna Sadam entered a new business sector – a multi-functional icebreaking vessel was purchased at a secondary market. From the beginning of 2013 icebreaker Botnica has been used for rendering icebreaking services to the state of Estonia for Estonian ports in the Gulf of Finland under a 10-year contract. Off icebreaking season the multi-functional icebreaker is leased out for various maritime support operations.

The core business line of AS Tallinna Sadam, the parent of the group, is rendering port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure as well as organising navigation in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger port) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the cargo harbour in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour); and the harbour in Saaremaa built mostly for receiving cruise liners. Cargo flows at the ports are handled by cargo operators who also own the buildings, structures and equipment necessary for cargo handling. However, the buildings and structures necessary for servicing passengers belong to AS Tallinna Sadam.

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia. Like any other limited company, AS Tallinna Sadam operates pursuant to its articles of association, the Commercial Code and other laws and regulations of the Republic of Estonia. The company has a budget which is covered from the funds generated by its business operations; however, loans may be taken or debt securities issued when appropriate for investing activities. AS Tallinna Sadam contributes to the state budget by paying state taxes and dividends.

As at year-end 2013, the consolidation group of AS Tallinna Sadam comprised of the parent and the following companies:

Name of the company	Ownership interest	Core business line
OÜ TS Energia	100%	Rendering of electricity, water and heat distribution and transmission services at harbours
OÜ TS Shipping	100%	Rendering of an icebreaking service and other maritime support services with multi-functional icebreaker Botnica

2. ECONOMIC ENVIRONMENT

Global economic growth in 2013 is forecast to be 3.0%, which is again slightly less than expected a year before (3.2%), and thus means some slow-down compared to the growth of 3.1% in 2012. However, growth in 2014 is projected to be 3.7% based on a pick-up in the global trade in the second half of 2013, largely on account of the advanced economies. Domestic demand in the USA exceeded expectations and as a result, economic growth there is expected to pick up from 1.9% in 2013 to 2.8%. The decline of -0.4% projected for 2013 in the euro area is expected to turn into growth of 1.0% in 2014. However, in both cases projected growth for 2013 remains below the forecasts made a year before. Increased demand from advanced economies should also have a positive impact on the developing economies. Key risks to economic growth in the advanced economies include such new factors as very low inflation that raises the likelihood of deflation; rather uneven recovery by country; and companies' increased debt burden. The developing economies are exposed to the risk of increased financial and capital market volatility. Also, the need to keep the monetary policy rather moderate persists in order to encourage further growth; however, more structural reforms are needed for the upward trends to survive. In 2014 global economic growth by region is driven slightly more evenly than forecast a year before, mostly as a result of somewhat improved prospects as regards the USA, Japan and European countries.[1]

An increase of 1.4% in global oil demand in 2013 was slightly above the expectations a year before (1.0%). The growth in demand forecast for 2014 is also 1.4%. Growth in 2013 mostly stemmed from the recovery in the advanced OECD economies. Growth forecast for 2014 is based on the expectation that macroeconomic environment continues to strengthen.[2]

According to preliminary data Estonian economic growth in 2013 was 0.7% which was remarkably less than the growth ranging from 3.0% to 3.5% forecast a year before. A bigger slowdown than expected resulted from a decline in both investments and exports, compensated by increased private consumption towards the end of the year. Growth in 2014 is projected to be about 3% based mostly on sustained external demand and increased domestic demand. According to preliminary data, consumer prices went up 2.8% in 2013 which meant a decrease compared to 3.9% a year before. Inflation in 2014 is expected to remain below 3%, based mostly on a favourable impact that the external environment is supposed to have on the prices of fuel and food products.[3]

The economic environment in 2013 also had an impact on the expenditure of AS Tallinna Sadam due to increased energy prices as well as outsourced services and personnel expenses; however, the impact of two last-mentioned factors was more diverse.

2.1. Developments in Russia

Russian economic growth slowed down to 1.4% in 2013 which is one of the smallest growth figures over the past 15 years and should mean a bottoming out. Growth was decelerated by low prices of energy carriers in the global market and also by the fragility of the global economic environment. Inflation slightly slowed down and was 6.5% (a year before: 6.6%).

Exports declined in such product groups as crude oil (-2.3%), mineral fertilizers (-6%) and grain (-20%); and went up in such product groups as oil products (7.3%), coal (10.0%), and liquid gas (20%). Cargo volumes in Russian ports increased by 3.9%; a year before: 5.6%. Liquid bulk accounted for 56.5% of the ports' cargo volumes, which shows that liquid cargo has retained its position in Russian trade. The volume of containerised cargo increased by 4.1%, again exceeding the economic growth figure.

As a result of people's increased income, imports of goods grew by 1.6%. However, exports fell by 2.4%. Sale of new cars dropped by 5.5% (a year before: a rise of 11%). When Russia joined the WTO, its domestic market became less shielded which, in turn, resulted in declined competitiveness of domestic goods accompanied by declined production volumes. Long-term economic growth is also hampered by decreased labour force and lingering structural reforms.

In the Baltic Sea region, AS Tallinna Sadam’s main Russian competitors are the ports of St. Petersburg and Ust-Luga. The most rapid growth in cargo volumes in recent years has been in Ust-Luga where two more oil product terminals were opened in 2013. The competitiveness of Russian ports was also indirectly fostered by an 11% decline in the exchange rate of the Russian rouble to the euro.

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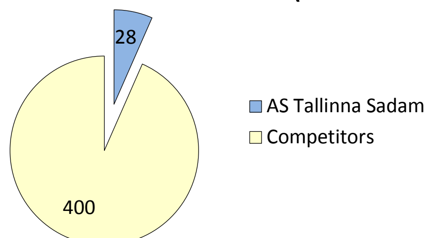
[1] IMF *World Economic Outlook Update*, January 2014
[2] IEA, *Oil Market Report*, 21 January 2014
[3] Statistics Estonia, Bank of Estonia, Ministry of Finance, SEB; Swedbank

2.2. Competitive position

On assessing our competitive position, major ports located on the east coast of the Baltic Sea and ports of Finland are considered as our competitors, the vast majority of which are immediate competitors of AS Tallinna Sadam in handling transit cargo mostly transported from or to Russia. In 2013, the total cargo turnover of the larger ports on the east coast of the Baltic Sea amounted to a record of 428 million tons, i.e. growth of 1.3% (in 2012, the market volume was 422 million tons with growth of 4.6%).



Adding the cargo volumes of other Estonian ports (14.9 million tons), the cargo market volume of AS Tallinna Sadam and its competitors was 443 million tons in 2013, up on 2012 by 6 million tons, i.e. 1.4%.

The competitive position of ports in 2013 was mostly characterised by further concentration of cargo volumes to Russian ports while the market volume did not change considerably. The change in the market volume was mostly influenced by growth in dry bulk (coal) volumes (5.6 million tons, i.e. 5.2%). In terms of general cargo, the volume of containerised cargo increased 3.4 million tons (5.7%), i.e. by 0.36 million TEUs (5.2%) amounting to a record of 6.9 million TEUs. The volume of liquid bulk decreased by 1.2 million tons (0.5%); the volume of metal (both general cargo and dry bulk) decreased by 3.0 million tons (16%).

As regards larger ports on the east coast of the Baltic Sea, the cargo volumes of only some Russian and also Polish ports increased considerably while the volumes of all Baltic and Finnish ports decreased. The only Russian port whose cargo volume decreased was the port of Primorsk. By far the biggest change in terms of the growth in cargo volumes was that of Ust-Luga port (total of 15.9 million tons, i.e. 34%), largely on the account of liquid bulk. In terms of growth, Ust-Luga was followed by Gdansk with the growth of 3.4 million tons (12%); Vysotsky with 2.5 million tons (19%) and Gdynia with the growth of 1.9 million tons (12%). The growth of Gdansk resulted from containers and coal while the growth in container volumes was overwhelmingly the strongest. Vysotsky's growth resulted from coal and Gdynia's from both coal and grain. The cargo volumes of other Russian ports (except for Primorsk) also increased slightly. The cargo volumes of all other ports declined with the largest fall by 10.9 million tons (15%) in the cargo volume of Primorsk, caused by declined volumes of liquid bulk. Liepaja's cargo volume declined by 2.6 million tons (35%) due to decreased grain and general cargo volumes. The cargo volume of Ventspils declined by 1.6 million tons (5.2%) on the account of dry bulk (coal, grain and fertilizer) and liquid bulk. The cargo volume of Klaipeda-Butinge port declined by 1.4 million tons (3.4%) due to liquid bulk, and the volume of Tallinna Sadam by 1.2 million tons (4.2%) in terms of dry bulk and liquid bulk. Changes in other ports were smaller. Due to the changes Estonian, Latvian and Lithuanian ports lost their market share compared to Russian ports. The market share of Russian ports was 58.3% (2012: 56.2%), Latvian ports 18.7% (2012: 20.0%), Estonian ports 11.6% (2012: 11.9%) and Lithuanian ports 11.4% (2012: 11.9%).

Primorsk still retained the title of the largest port on the east coast of the Baltic Sea (market share 14.4%) although maintaining only an edge over Ust-Luga (14.1%), which in 2013 overtook St. Petersburg (market share 13.1%). The cargo volume of Ust-Luga port was 62.6 million tons, only 1.2 million tons less than that of Primorsk. Primorsk has a crude oil pipeline connection with Transneft pipeline system with the annual capacity of about 75 million tons, and an oil product terminal with the capacity of 8.4 million tons which makes Primorsk the port with the largest oil export volume in Russia. AS Tallinna Sadam fell from the seventh position to the eight with a market share of 6.4% (2012: 6.8%) since Gdansk shifted from the eighth position to the sixth.

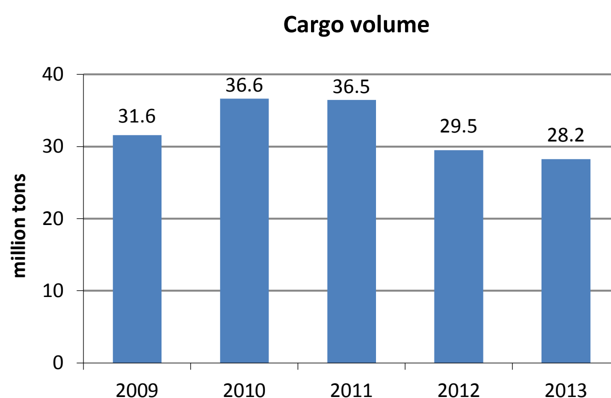
3. OPERATING PERFORMANCE

In 2013 the cargo volume of AS Tallinna Sadam declined by 1.2 million tons, i.e. 4% which meant a slowdown in the decline in the cargo volume compared to the decline a year before (by 7 million tons, i.e. 19%). The volume of dry and liquid bulk decreased while the volume of containerised and general cargo went up with containerised cargo reaching a new record level. A new record level was also achieved by the number of passengers totalling 9.24 million thanks to the grown number of line passengers as well as a record number of cruise passengers which, for the first time ever, was more than half a million. Multi-functional icebreaker Botnica completed its first year of operation generating revenue by both rendering services to the state during the icebreaking season and carrying out offshore operations off-season. For AS Tallinna Sadam charter income on Botnica meant additional income and significant growth in revenue. Income from traditional port charges and fees as well as rights of superficies also increased which resulted in a record revenue of EUR 102.2 million, the highest ever earned by AS Tallinna Sadam. As a whole, both operating income and operating expenses increased by 15% and net profit by 21%.

The operator, now under a new owner (AS Transiidikeskus, who in 2013 acquired and then merged OÜ Rail Garant Estonia), continued preparations for the construction of the terminal's superstructure and installing service equipment on the infrastructure of the container terminal extension built in Muuga Harbour in 2010. The terminal extension is projected to start handling containerised cargo in the middle of 2014 at the latest.

The major investment involved commencing the construction of a new cruise quay that will be completed in spring 2014 by the beginning of the cruise season.

3.1. Cargo volume



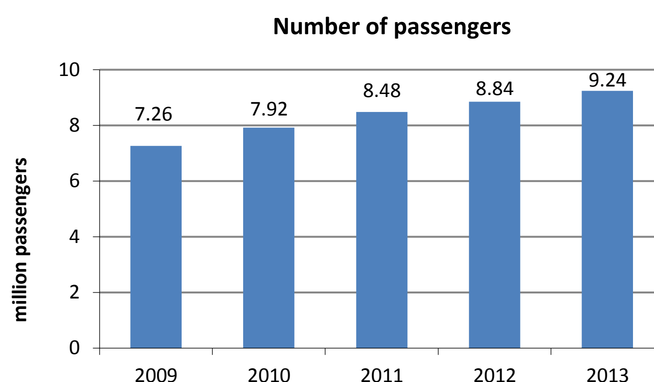
In 2013, the cargo volumes passing through the ports of AS Tallinn Sadam decreased by 1.2 million tons (4.2%) falling to 28.2 million tons. Volumes declined mostly in terms of dry and liquid bulk by 0.8 million tons (20%) and 0.4 million tons (2%) respectively. Also, the volume of Ro-Ro cargo declined by 0.14 million tons, i.e. 3.8%. The volume of containerised cargo increased (by 0.13 million tons, i.e. 8%; in TEUs: 26 thousand, i.e. 11%). General cargo volumes also edged up. The volume of containers in TEUs reached a record level of about 254 thousand TEUs. The volume of liquid cargo serviced under the vessel-terminal-vessel scheme increased by 12% up to 7.4 million tons, which accounted for 26% of the total cargo volume in 2013. However, the volume of liquid bulk transported to the port via the railway decreased by 1 million tons in 2013 which may be attributed to the grown cargo volumes of Ust-Luga port. In 2013 volumes of containerised cargo continued growing. The growth in the volumes of containerised and Ro-Ro cargo primarily related to the consumption on the east coast of the Baltic Sea and the area beyond is also promoted by the growing trend in the trade sector to deliver goods in containers. The decline in Ro-Ro cargo may be attributed to the slowdown in economic growth in 2013. More significant changes in terms of transport direction involved a decrease in the export transit volume and a bit smaller decrease in the import transit volume. The volumes of export and import cargo did not change significantly with exports slightly growing and imports declining.

In terms of types of cargo, liquid bulk with 67% (2012: 66%) accounted for the major part of cargo volumes; dry bulk accounted for 11.5% (2012: 14%), Ro-Ro for 13% (2012: 13%) and containers for 6.3% (2012: 5.6%) of the cargo volumes. In near future, the structure of the types of bulk cargo (liquid bulk and dry bulk) will depend on potential changes in Russian trade policy arising from Russia's joining the WTO and on further utilisation of Russia's port capacities. As regards Ro-Ro and containerised

cargo, the structure of cargo types depends on the development of the region's economic environment. Construction of a ready-to-service terminal on the container terminal infrastructure extension which was finished in Muuga Harbour at the end of 2010 forms a basis for increased containerised cargo transit volumes in future. In terms of transport direction, transit accounted for 75% (2012: 76%), import for 13% (2012: 12%) and export for 12% (2012: 12%) of cargo volumes.

Cargo transit through AS Tallinna Sadam is not seasonal by nature. The cargo volume passing through the port may be influenced by ice-covered shipping routes in the Gulf of Finland in the winter period as a result of extended cold weather when vessel and cargo movement may be slowed down by icebreaking operations. Extremely difficult ice conditions last occurred at the beginning of 2003. However, difficult ice conditions in the Gulf of Finland can give AS Tallinna Sadam a competitive advantage compared to northward and eastward ports where even more difficult ice conditions may result in more expensive and time-consuming transportation of goods. Fluctuations in cargo volumes are usually related to changes in market conditions (including changes in the world market prices of transported cargo; domestic consumption in Russia; and such export factors as export duties, tariffs and export capacities).

3.2. Number of passengers



In 2013 the number of passengers passing through the ports of AS Tallinn Sadam grew by 395 thousand, i.e. 4.5%, reaching a record number of 9.24 million passengers (2012: 8.84 million passengers with growth of 4.3%). Once again, such a large number of passengers exceeded expectations in the context of economic recession in the region.

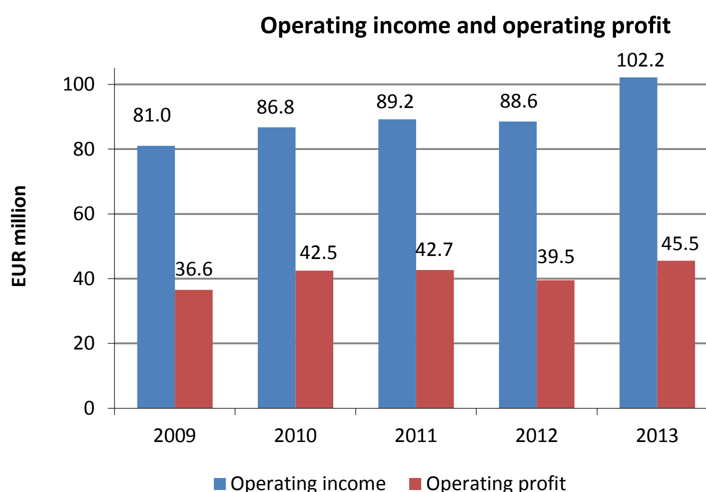
The increase in the number of passengers resulted mostly from the increased number of liner passengers with the most important Tallinn-Helsinki route accounting for the most of the increase (growth by 309 thousand passengers, i.e. 4.3%). The second largest contribution was made by cruise passengers. For the first time, the number of cruise passengers exceeded half a million amounting to 526 thousand passengers (growth by 84 thousand passengers, i.e. 19%). On St. Petersburg and Stockholm routes the number of passengers remained at the same level as a year before. Again, AS Tallinna Sadam rendered a turnaround service, quite a new service for the company, which means being the origin and destination port of a cruise. Rendering the turnaround service resulted in grown service volumes primarily for our local partners outside the port. The Baltic Sea region maintains its reputation as a rapidly developing area and the fastest growing region of the world's cruise tourism. For 2014 we forecast some decline in the number of cruise passengers.

Movements in 2013 regarding line passenger ships were as follows: on Tallinn-Helsinki route, Tallink replaced Baltic Princess with Silja Europa, the largest passenger ship in the Baltic Sea; Finlandia, a bigger and newer ship brought to Tallinn-Helsinki route by Eckerö Line within the last days of 2012, continued as expected; several passenger ships of Tallink on Tallinn-Helsinki route continued operating under the schedule intensified from autumn 2012. The changes were encouraged and caused by a continuously growing number of passengers.

The season of cruise ship calls lasts mostly from May to September.

The above seasonal nature in passenger transport is regular by nature; therefore, it does not have any unusual impact on the financial performance of AS Tallinna Sadam.

3.3. Income and expenses



Consolidated revenue of AS Tallinna Sadam for 2013 amounted to EUR 102.2 million increasing by EUR 13.6 million, i.e. 15% (2012: revenue of EUR 88.6 million and decrease of 0.7%). AS Tallinna Sadam, the parent of the consolidation group, earned 86% of the group's income; TS Energia OÜ and TS Shipping OÜ earned 7% of the income each.

In terms of the source of income, revenue from a new source of income related to icebreaker Botnica (charter fee) increased the most amounting to EUR 6.7 million. Income from the charter fee was earned on both rendering icebreaking services to the state and carrying out specialised vessel offshore operations off season. In addition, several on-board services were rendered to the charterer's crew members. As regards traditional sources of income, income from port charges and fees grew the most (by EUR 4.0 million, i.e. 7.6%). Income from passenger ships, cruise liners and tankers increased as a result of an increase in the number of calls and total capacity. Also, indexation of passenger and cruise ship tariffs and reduction of discounts had a positive effect on income. Income from leasing out land and other assets (income from rights of superficies and rental income) grew by EUR 1.8 million, i.e.19%., mostly earned on the extension of Muuga Harbour container terminal. Income from passenger fees increased by EUR 0.65 million, i.e. 6.6% as a result of an increase in the number of passengers and a change in the revenue tariff. Income from cargo charges remained at the same level as a year before in spite of some decline in the cargo volume. Income was also influenced by changes in cargo volumes varying by type of cargo. To sum up, the risk posed on the current revenue base by the growth of Ust-Luga port was mitigated by income from the new business line chartering a vessel.

Expenses related to operating activities (operating expenses; personnel expenses; and depreciation, amortisation and impairment losses) totalled EUR 56.6 million, up on 2012 by EUR 7.6 million, i.e. 15%. From the above expenses, personnel expenses increased the most (EUR 2.9 million, i.e. 32%), followed by depreciation and amortisation (EUR 2.8 million, i.e. 19%), mostly due to the additional expenses as a result of acquiring icebreaker Botnica from 2013. In 2013 a one-off write-down expense on non-current assets was reported in the amount of EUR 0.46 million (growth of EUR 0.41 million). Operating expenses increased EUR 1.8 million, i.e. 7.2%. Expenses accrued on repairs of non-current assets and energy costs increased the most, mostly arising from the acquisition of icebreaker Botnica. Expenses on doubtful receivables increased by EUR 0.26 million which may be deemed a one-off expense. On the other hand, advertising expenses decreased by EUR 0.35 million. Several operating expenses (services purchased for the infrastructure, land tax, research and development expenses) decreased in the course of ordinary operating activities as a result of more favourable service agreements, concluded or extended projects and establishing rights of superficies instead of leasing out premises.

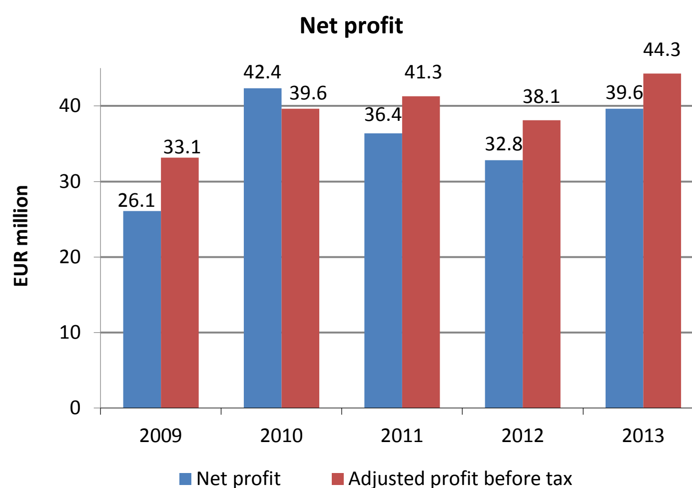
3.4. Operating profit, operating margin and EBITDA

Operating profit for 2013 (earnings before other income and other expenses) amounted to an all-time record of EUR 45.5 million, up on 2012 by EUR 6.0 million, i.e. 15% as a result of an increase in operating income which exceeded the increase in expenses from operating activities. As a result of the changes, operating margin (operating profit divided by revenue), which demonstrates the efficiency of the operations of AS Tallinna Sadam, remained 44.6%. Recent port extension projects that have passed from the investment stage to the operational stage with planned operation volumes and income

levels achievable over an extended period have a deteriorating effect on efficiency. Major such projects include the coal terminal opened in Muuga in 2005, Saaremaa Harbour opened in 2006 and the infrastructure of the extension of Muuga Harbour container terminal completed in 2010. We forecast some rise in operating margin in near future.

EBITDA (profit before interest income and expenses; income tax; and depreciation, amortisation and impairment) for 2013 was also an all-time record amounting to EUR 67.5 million compared to EUR 59.7 million in 2012, an increase by EUR 7.8 million, i.e. 13%. A bigger increase compared to the increase in operating profit resulted mostly from an increase in depreciation and amortisation by EUR 2.8 million which exceeded the change in the net effect of other operating income and expenses (EUR -1.0 million).

3.5. Net profit



Net profit was also impacted by other income and expenses, finance income and costs, and income tax on dividends. Other income amounted to EUR 4.8 million, down on the period a year before by EUR 2.2 million. Other income comprised mostly of a one-off gain of EUR 2.1 million on sale of non-current assets and income of EUR 1.8 million from fines and penalties received from several cargo operators as a result of their failure to meet contractual cargo volumes. Income from government grants (EUR 0.7 million) resulted mostly from investment support that was partially amortised. Other expenses totalled EUR 0.4 million, decreasing by EUR 1.2 million as a result of less expenses arising from fines and penalties recognised in other income the recovery of part of which was deemed doubtful. Finance income decreased due to a decrease in the amount of liquid funds and sustained decline in deposit interest rates. Finance costs slightly increased mostly as a result of an early repurchase of an interest rate risk hedging instrument. To sum up, net finance costs increased by EUR 0.5 million, i.e. 16%. Profit before income tax was EUR 46.4 million, growing by EUR 4.6 million.

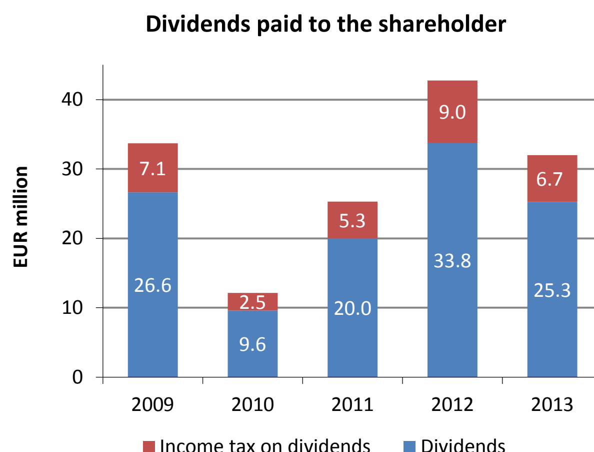
The group's net profit for 2013 amounted to EUR 39.6 million, up on 2012 by EUR 6.8 million, i.e. 21%. The increase resulted mostly from increased operating profit, which was adversely impacted by a decrease in other operating income and an increase in net finance costs. However, this impact was exceeded by a decrease in income tax expense as a result of a decrease in the amount of dividends from EUR 33.8 million to EUR 25.3 million.

To compare net profits of AS Tallinna Sadam for different years, net profit is adjusted by more significant one-off income and expenses and income tax expense incurred on paid dividends.

Adjusting the net profit for 2013 by income tax expense on dividends in the amount of EUR 6.7 million and the gain on sale of non-current assets of EUR 2.1 million, the result is an all-time record of adjusted profit before tax of EUR 44.3 million. Adjusting the net profit for 2012 by the income tax expense on dividends in the amount of EUR 9.0 million and the gain on sale of non-current assets of EUR 3.7 million, the result is adjusted profit before tax of EUR 38.1 million. The increase in adjusted profit (by EUR 6.2 million) mostly resulted from increased operating profit.

AS Tallinna Sadam's exposure to financial risks and methods used to hedge the risks are described in notes 3, 5 and 8 to these financial statement.

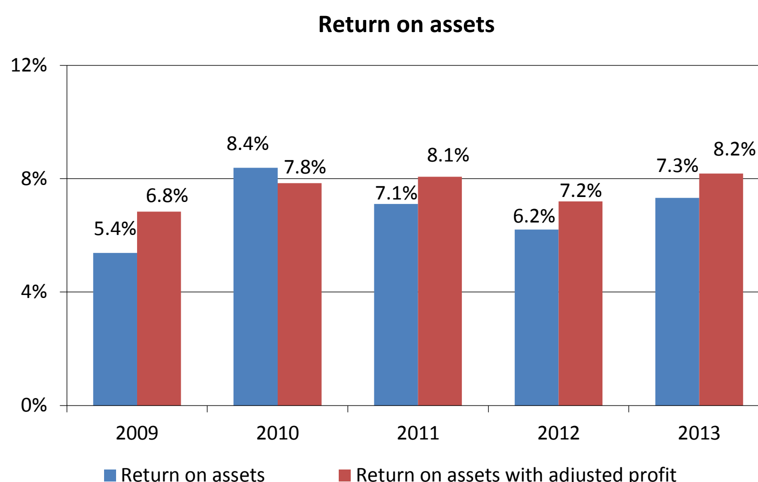
3.6. Dividends



In 2013, the shareholder was paid EUR 25.3 million as dividends plus income tax on dividends of EUR 6.7 million, a total of EUR 32.0 million. For further details see note 19 to these financial statements. The respective figures for 2012 were record dividends of EUR 33.8 million plus income tax on dividends of EUR 9.0 million, a total of EUR 42.8 million.

The decision on dividend distribution by AS Tallinna Sadam is made by the Government of the Republic of Estonia upon the proposition of the Minister of Finance, based on the financial performance of AS Tallinna Sadam and taking into account the financial forecast based on the group's development plan. The decisions on dividends payable to the parent by entities of the consolidation group are made on an individual basis after approval of their financial performance results and in line with the entity's development and capitalisation needs.

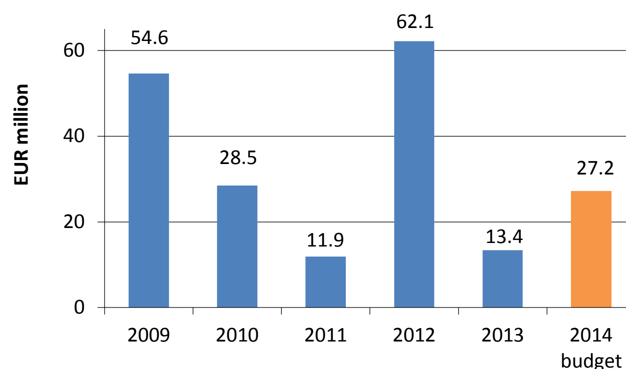
3.7. Return on assets



AS Tallinna Sadam's return on assets (net profit divided by the average total assets of the year) was 7.3%, which increased compared to the ratio in two previous years, but remained below the ratios of a number of years before that. Return on assets based on adjusted profit before income tax increased to the same extent amounting to 8.2%. Increase in return in 2013 resulted mostly from an increase in adjusted profit before income tax while total assets decreased by 1.4%. A decline in return on assets in past years was somewhat anticipated, as it stemmed from the growth in total assets as a result of long-term and large-scale investments on which income will be earned over an extended period in future. The above impact also reflected in the results for 2013.

AS Tallinna Sadam's adjusted return on equity (adjusted profit before income tax divided by the average total equity of the year) for 2013 was 12.1%. Return on equity also increased compared to 10.6% in the year before (also based on adjusted profit before income tax), resulting also from increased adjusted profit before income tax.

4. INVESTMENTS AND DEVELOPMENT OUTLOOK

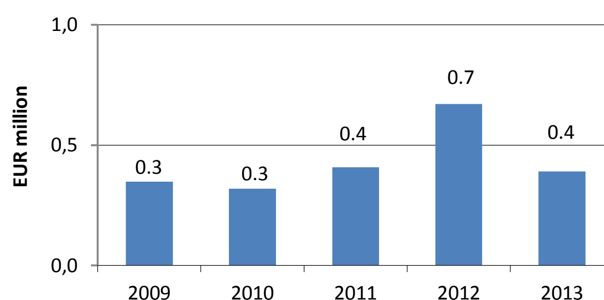


In 2013, the group's total investment in new infrastructure assets, acquisition of non-current assets and improvement of existing infrastructure assets amounted to EUR 13.4 million which was one of the smallest annual investments within past five years.

The largest investment in the total amount of EUR 7.2 million, i.e. 54% of total investment was made in the construction of the new cruise quay at the Old City Harbour that will be completed by the beginning of the cruise season 2014.

A major part of the remainder of investment in the amount of EUR 1.65 million was related to acquisition of state land mostly in the immediate neighbourhood of the port premises. Quays were reconstructed in the total amount of EUR 1.6 million. Capitalised costs of shipyard work on icebreaker Botnica amounted to EUR 0.9 million. Investment in IT hardware and software amounted to EUR 0.33 million. Other investments were mostly related to improvement of buildings, building of networks necessary for rendering public utility services, enhancing the reliability of supply of those services and development of environmental monitoring.

The largest investment in 2014 of about EUR 16 million is planned for the construction of the infrastructure, facilities and traffic solution in the area of terminal A in the Old City Harbour required for reception of vessels and passengers.



In addition to investments, AS Tallinna Sadam bears substantial research and development expenses each year. Research and development expenses incurred in 2013 stayed on usual level of past five years amounting to EUR 0.4 million. Research and development expenditures were mostly aimed at searching for high-potential trade flows and elaborating potential development projects considering environmental, constructional and economic feasibility aspects. Most research projects are aimed at planning new and unexploited areas in the harbours; preparing necessary preliminary and detailed plans; also at environmental studies and monitoring of exploitation of mineral resources; and at assessing and monitoring other factors impacting port operations.

As regards the Old City Harbour we plan to lease out under-exploited areas (property development) mostly to support busy passenger traffic and to further integrate the harbour area with the urban space. Therefore, possibilities for optimal reorganisation of passenger and cargo traffic flows in the harbour area are researched. Also, regular inspections of technical condition of quays and berths are carried out.

5. QUALITY AND ENVIRONMENTAL MANAGEMENT AND SOCIAL RESPONSIBILITY

Since 2003, the management system of AS Tallinna Sadam has been certified as being in compliance with the requirements of international standards ISO 9001 and ISO 14001. In March 2012 verification audit in accordance with ISO 9001: 2008 and ISO 14001: 2004 requirements was performed by *Bureau Veritas Eesti* who has performed certification and verification audits of the management system of AS Tallinna Sadam since 2009. From 2003 to 2009, the certification and audits of the management system of AS Tallinna Sadam were performed by another international certification agency *Lloyd's Register Quality Assurance*, who also performed internal audits in 2013. Major objectives of the development of the quality and environmental management systems of AS Tallinna Sadam were to continue with IT innovations to enhance the efficiency of core business lines; continue improvement of document management and paper free accounting; develop the project management system; and improve air quality in the western part of Muuga Harbour.

5.1. Corporate social responsibility

A priority of AS Tallinna Sadam is to implement the principles of corporate social responsibility in the company's day-to-day activities. In 2013 AS Tallinna Sadam responded, for the first time, to Estonian Corporate Sustainability and Responsibility (CSR) Index questionnaire organised by Responsible Business Forum. According to the questionnaire results AS Tallinna Sadam was awarded 64.7 points out of the possible maximum of 100 points. Based on the results derived from the responses to the CSR Index questionnaire, all CSR activities of AS Tallinna Sadam were mapped under the following categories: CSR principles and integrating them into the company's operating activities; risk management; issues management (community, environment, workplace and marketplace); and CSR reporting and communication. We also received feedback on what additional activities we could undertake to enhance and improve our CSR activities. For sustainable operations of AS Tallinna Sadam the welfare and interests of main stakeholders (employees, local community, and customers) are important; therefore, in addition to main business activities the company aims at offering added value to its stakeholders. In 2013 main activities meant for stakeholders included the following:

Employees – events for the staff (Shrove Tuesday, cleanup campaign "Let's Do It!", team building in summer, end of the year celebration); regular sport events (May run, tennis, basketball, badminton, SEB Tallinn Marathon); various training courses for the staff (courses in management, environment, safety at work, plus languages and computer courses);

Local community – regular round tables with leaders of local authorities were commenced; harbour excursions and various informative events in the neighbourhood of the harbours were organised for local people (Viimsi Safety Day, Maardu Fair, the Day of Entrepreneurship in Paldiski). In addition, large public events were held at the premises of the Old City Harbour (Jazzkaar – the largest jazz festival in the Baltics, Maritime Days);

Customers – regular customer information days were commenced; customer satisfaction surveys were conducted with customers of the Old City Marina and lessees in all harbours of AS Tallinna Sadam; joint conferences were organised and joint displays were exhibited at international fairs.

Participation in the CSR Index questionnaire provided the company with a sound indicator which will serve as a basis for further organisation and management of the company's CSR activities. In 2014 we definitely aim at further integration of CSR activities with the company's core business lines and better involvement of employees.

5.2. Indicators

To facilitate a balanced analysis of the group's results and their periodic monitoring, AS Tallinna Sadam has set down indicators for measuring financial, customer, process, personnel and development aspects. The following important observations and trends may be outlined on the basis of observable indicators for 2013:

- Financial performance indicators (EVA[4], profit, cash flows, etc) mostly improved as a result of increased income and profitability;
- Process performance indicators such as indicators for operation volume and efficiency (number of passengers, and loading and process efficiency) improved, but the cargo volume declined slightly (4.2%) compared to 2012. Number of discrepancies increased slightly compared to 2012;

[4] EVA: Economic Value Added

- Personnel and development performance indicators showed an increase in the number of personnel voluntarily leaving employment and the proportion of the hours of personnel in-service training, but expenses incurred on research and development decreased;
- Customer feedback was constantly monitored with the help of business line managers. Also, a customer satisfaction survey was conducted with customers of the Old City Marina and lessees in all harbours. Based on the results of the surveys it may be said that feedback was mostly positive, suggestions made by customers were taken into account on setting divisions' objectives for 2014.

5.3. Environmental protection activities

In 2013, environmental protection expenses and investments of AS Tallinna Sadam amounted to EUR 0.93 million (2012: EUR 1.0 million) of which the maintenance costs of the ports' pollution recovery vessels accounted for EUR 0.61 million (2012: EUR 0.82 million). In 2013 the third outdoor air monitoring station for Muuga Harbour was acquired at the total cost of EUR 0.145 million, co-financed by the Environmental Investment Centre. Environmental research and consulting expenses totalled EUR 0.03 million (2012: EUR 0.06 million), and the fee for waste-water treatment amounted to EUR 0.05 million (2012: EUR 0.06 million).

The most significant development activities related environmental projects in 2013 were as follows:

- Acquisition of the third outdoor air monitoring station for Muuga Harbour and installation in Randvere village; development of the environmental management system in cooperation with oil operators;
- Outdoor air monitoring in the western part of Muuga Harbour (impact of oil terminals on atmosphere air pollution);
- Strategic assessment of the environmental impact of Saaremaa Harbour (approved);
- Assessment of the environmental impact of the dredging of the aquatory and fairway in Paldiski South Harbour.

Environmental monitoring and assessment of environmental impact was performed in respect of construction and development operations in Muuga Harbour, Paldiski South Harbour and Saaremaa Harbour. The work was performed by competent experts from OÜ Estonian Environmental Research Centre, the Marine Systems Institute of Tallinn Technical University and OÜ Corson.

6. SUBSIDIARIES AND JOINT VENTURES

As at year-end 2013, AS Tallinna Sadam held two subsidiaries (OÜ TS Energia and OÜ TS Shipping) and one joint venture (AS Green Marine). In 2014, no changes are planned to be made in the structure of the consolidation group.

6.1. OÜ TS Energia

In the second half of 2004, AS Tallinn Sadam founded subsidiary OÜ Tallinna Sadama Elektrivõrk. The company was engaged in rendering and selling electricity network services through a distribution network which was separated as an independent operation from the operations of AS Tallinna Sadam at the beginning of 2005. In 2011, the company's operations were expanded by adding management of water and sewage systems and providing heat supply in port premises. Assets and employees required for rendering the above services were transferred from the parent to the subsidiary that became responsible for ensuring and developing the whole energy supply in port premises. On restructuring the subsidiary was renamed OÜ TS Energia. The change did not have any impact on income and expenses at the group level.

In 2013, the company continued investing in the renovation of electricity distribution networks and utilities networks to enhance the reliability of supply. Backup supply is guaranteed for the customers of the electricity network in accordance with the policy of increased supply reliability within port premises. In 2013 total revenue from the rendering of services exceeded the forecast level since from the beginning of the year after the electricity market had opened up the majority of the customers of the electricity network continued buying electricity via TS Energia.

The remuneration of the subsidiary’s management and supervisory boards for 2013 amounted to EUR 45.6 thousand and EUR 9.9 thousand respectively. The remuneration of the management board for 2012 amounted to EUR 57.0 thousand including the bonus of EUR 11.4 thousand for the performance results of 2012. The remuneration of the supervisory board members for 2012 amounted to EUR 9.9 thousand. A bonus for performance results of 2013 may be added to the

remuneration paid to the management board for 2013, which the supervisory board decides after the approval of the annual report.

6.2. OÜ TS Shipping

The subsidiary (formerly OÜ Tallinna Sadama Veevõrk) was established in the second half of 2005 in order to separate the provision of water, sewage and heat network services in ports' premises from port services and ensure as efficient as possible functioning of these services. However, from February 2011 the above services were transferred to another subsidiary, OÜ TS Energia. So far OÜ Tallinna Sadama Veevõrk had no real economic activity. At the end of 2012 the company was renamed OÜ TS Shipping, and icebreaker Botnica acquired by the parent together with the obligation to carry out the icebreaking service contract signed with the state of Estonia was transferred to OÜ TS Shipping. The subsidiary's new line of business was activities related to owning and operating vessels.

From the beginning of 2013 the company commenced actual operations by rendering icebreaking services under a ten-year service agreement. Also, preparations of both the crew and the ship were commenced for off icebreaking season when the vessel is used as a special purpose vessel in offshore operations. Dry docking of the vessel compulsory in every five years was carried out. In summer and autumn the vessel participated in various off-shore operations and preparations were made for performing relevant operations in future periods under a long-term charter agreement signed at the end of 2013.

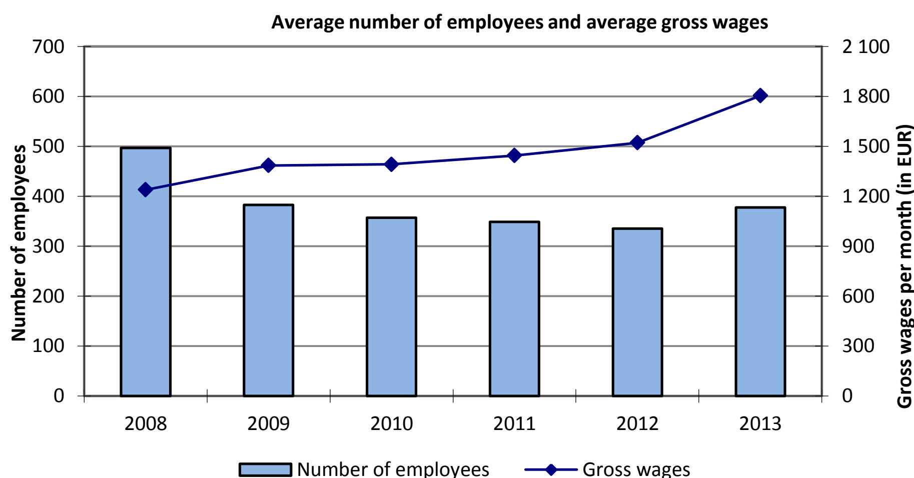
The remuneration of the subsidiary's management and supervisory boards for 2013 amounted to EUR 74.8 thousand and EUR 1.1 thousand respectively. Members of the management and supervisory boards were not remunerated for 2012.

6.3. AS Green Marine

AS Green Marine is a joint venture engaged in waste management. The company was founded by AS Tallinna Sadam and AS NT Marine at the end of 2003 and it is under joint control of the shareholders. The activities of AS Green Marine include management of waste generated in harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of the aquatory and premises of harbours. In 2013, the company continued receiving and handling ship-generated waste under a cooperation agreement signed with AS Tallinna Sadam. In order to utilise more of the processing capability of the liquid waste handling terminal, additional handling volumes were received from customers outside the port's premises. To sum up, the company's income from customers not related to the port demonstrates that the services offered are competitive. In 2013 AS Green Marine distributed dividends in the amount of EUR 150 thousand of which EUR 76.5 thousand was attributable to AS Tallinna Sadam. In the comparative year 2012 AS Green Marine distributed dividends in the amount of EUR 200 thousand of which EUR 102 thousand was attributable to AS Tallinna Sadam.

7. ORGANISATION AND PERSONNEL

7.1. Employees



In 2013 the group's average number of employees was 378 (2012: 335). The remuneration of the employees amounted to EUR 8.18 million (2012: EUR 6.11 million). In 2013 average gross wages of the group's employees amounted to EUR 1,805 per month, i.e. 18.6% up on 2012 (EUR 1,522 per month). Such an upsurge in the group's average wages was mostly caused by additional staff and their remuneration as a result of acquiring icebreaker Botnica at the end of 2012.

Employee turnover in 2013 was 2.6% (2012: 2.2%). The average number of sick leave days in 2013 was 3.6 calendar days per employee (2012: 4.9 calendar days). AS Tallinna Sadam cares for its employees' work environment and is involved in raising employees' awareness of work environment and safety. The employer also promotes regular sport activities of the staff. The above has helped to reduce the number of employees' sick leave days.

To enhance internal communication, publishing of the intra-group newsletter was continued in 2013; also, several information days aimed at the staff were held during the year.

Training of the crew for icebreaker Botnica increased the volume of training activities in 2013 considerably compared to 2012. On average, each group employee participated in 17.7 hours of training in 2013 (2012: 11.3 hours). Investments in training in 2013 amounted to EUR 382 (2012: EUR 170) per employee.

The largest portion, i.e. 45% of the entire training volume was covered by marine- and port related training; 31% by professional training (including specialised work, use of special equipment and engineering education). Several training courses on safety at work were organised, e.g. in-service training for first aid providers and training on the use of fire-extinguishing appliances. Training on health and safety at work and first aid accounted for 10% of the total training volume.

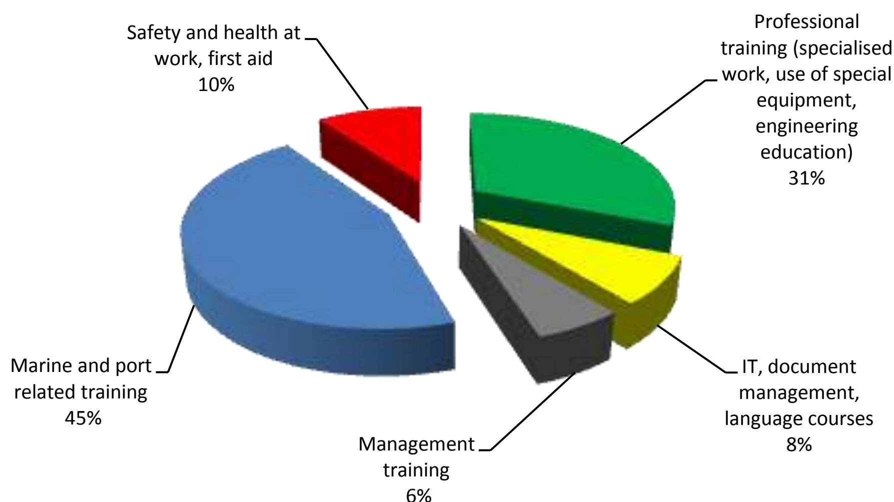


Diagram. Training activities in 2013, based on training hours

7.2. Management board

In 2013 no changes in the membership of the management board were made. The management board continued with two members: Ain Kaljurand, chairman of the management board, and Allan Kiil, member of the management board.

The remuneration of the members of the management board for 2013 amounted to EUR 142 thousand. The remuneration of the members of the management board for 2012 amounted to EUR 177 thousand, including a bonus for performance results of 2012 of EUR 35 thousand. A bonus for performance results of 2013 may be added to the remuneration paid to the management board for 2013, which the supervisory board decides after the approval of the annual report.

7.3. Supervisory board

The supervisory board of AS Tallinna Sadam held 9 meetings in 2013. In 2013 no changes in the membership of the supervisory board were made. With the sole shareholder's decision of 17 October 2013 Remo Holsmer was appointed a member of the supervisory board for the next term. The remuneration of the members of the supervisory board for 2013 amounted to EUR 34.8 thousand (2012: EUR 35.2 thousand).

8. CORPORATE GOVERNANCE REPORT

Upon resolving issues related to group management, AS Tallinna Sadam mostly observes the Corporate Governance Recommendations (hereafter: the CGR). In addition to the recommended guidelines provided in the CGR, the group also adheres to the State Assets Act (hereafter: the SAA), because AS Tallinna Sadam is wholly owned by the Republic of Estonia. Therefore, based on the ownership of AS Tallinna Sadam and the specific requirements arising from that as regards group management at the level of the general meeting and the supervisory board, AS Tallinna Sadam does not follow some of the guidelines recommended by the CGR. The provisions of the CGR (the CGR section with a brief description) not complied with and the explanation for non-compliance are presented below.

However, it should be noted that although the group does not observe some of the guidelines, protection of shareholders' and creditors' interests and equal treatment is ensured on arranging the operations of AS Tallinna Sadam. Non-compliance with the CGR guidelines mostly concerns conducting general meetings and appointing members of the supervisory board which is primarily aimed at ensuring that the interests of shareholders are protected. As the sole shareholder of AS Tallinna Sadam is the Republic of Estonia, the shareholder's interests are protected in accordance with the principles set out in the SAA.

8.1. General meeting

AS Tallinna Sadam has not observed the following sections of the CGR:

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

Section 1.2.3 –The Management Board shall publish on the Issuer's website the essential information connected with the agenda provided to it or otherwise available concurrently with compliance with the General Meeting calling requirements provided by law.

Section 1.2.4 – Within a reasonable period of time prior to holding a General Meeting the Supervisory Board shall publish its proposed agenda items on the Issuer's website.

Section 1.3.1. – The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting.

Section 1.3.2 – Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

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

The above recommended guidelines of the CGR are not followed due to the fact that the sole shareholder of AS Tallinna Sadam is the Republic of Estonia and the exerciser of the shareholder's rights is the Ministry of Economic Affairs and Communications, represented at the general meeting of shareholders by the Minister of Economic Affairs and Communications. Exercising of the shareholder's rights and the authority of the representative are provided in the SAA; holding of the general meeting and its participants are determined as needed in concordance with the sole shareholder. Based on the above, AS Tallinna Sadam does not consider it feasible to appoint an independent chair of the general meeting or make participation in the general meeting possible by means of communication equipment.

8.2. Management board

Pursuant to section 2.2.7 of the CGR, the following information about the amount of remuneration paid to the members of the management board of AS Tallinna Sadam in 2013 and the scheme for determining severance package and additional bonuses and benefits are presented.

The remuneration paid to Ain Kaljurand, chairman of the management board, for 2013 was EUR 76 thousand. The remuneration paid to Allan Kiil, member of the management board, for 2013 was EUR 66 thousand. A bonus for financial performance in 2013 may be added to the remuneration paid to the management board for 2013, which the supervisory board decides after the approval of the annual report. The limits to the amounts of incentives and severance pay payable to a member of the management board are prescribed in section 86 subsections 2 and 3 of the SAA, pursuant to which the amount of incentive payments to a member of the management board cannot exceed the amount equal to the management board member's four months' remuneration.

Under the valid contracts as at 31 December 2013 AS Tallinna Sadam has the obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration. In return for observing the prohibition of competition, the group has the obligation to pay monthly

compensation during 12 months as of the expiry of the contract in the amount equal to 25% of the management board member's remuneration.

Determination of incentive payments must be justified and take into consideration the value added for AS Tallinna Sadam and its market position. Severance pay is paid only when a member of the management board is removed at the initiative of the supervisory board before the expiry of the management board member's terms of authority, and the amount cannot exceed the management board member's three months' remuneration.

8.3. Supervisory board

AS Tallinna Sadam has not followed section 3.2.2 of the CGR – At least half of the members of the Supervisory Board shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.

The supervisory board of AS Tallinna Sadam consists of eight members. According to section 81 subsection 2 of the SAA, at least a half of the members (i.e. at least four members) are appointed by the Minister of Economic Affairs and Communications pursuant to the resolution of the sole shareholder and the remaining four members are appointed by a directive of the Minister of Finance. Based on the above, the members of the supervisory board of AS Tallinna Sadam may be considered as dependent on the controlling shareholder.

Pursuant to section 3.2.5 of the CGR, the amount of the remuneration paid to the members of the supervisory board of AS Tallinna Sadam in 2013 and the procedure for remuneration are presented below.

The procedure for appointing and remunerating members of the supervisory board is stipulated in section 85 of the SAA. Pursuant to the SAA, the limits of remuneration and detailed procedure for remuneration are established by the Minister of Finance. The limits of the remuneration of the members of the supervisory board are laid down in the Minister of Finance Regulation No 10 of 22 February 2010, "Procedure for Remuneration of Members of the Supervisory Board of State-owned Companies and Foundations and Limits of Remuneration”.

Pursuant to the prescribed limits, the remuneration of a member of the supervisory board is determined by the minister controlling the shares. Pursuant to the directive of the Minister of Economic Affairs and Communications the monthly remuneration of a member of the supervisory board of AS Tallinna Sadam was EUR 355 and of the chairman of the supervisory board EUR 473. A member of the supervisory board is remunerated once a month. Members of the supervisory board do not receive any remuneration for the month they did not participate in the meeting adopting resolutions of the supervisory board.

In accordance with the above resolution, additional remuneration is paid to a member of the supervisory board for participating in the activities of another body of the supervisory board. A body of the supervisory board of AS Tallinna Sadam is the audit committee, which consists of three members. For participating in the work of the supervisory board’s audit committee, the committee members are remunerated in the amount equal to 25% of a supervisory board member's remuneration and the remuneration paid to the chairman of the committee amounts to 50% of a supervisory board member's remuneration.

AS Tallinna Sadam does not pay members of the supervisory board any severance pay or any other incentives besides the remuneration for participating in a body of the supervisory board.

Section 3.3.2 – All conflicts of interests that have arisen in the preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.

As at the date of the annual report for 2013, the members of the supervisory board of AS Tallinna Sadam had not notified the group of any conflicts of interest.

8.4. Financial reporting and auditing

AS Tallinna Sadam does not follow section 6.2.2 of the CGR – Before entering a contract for auditing services with an auditor, the Management Board shall present the Supervisory Board with the draft contract for approval.

The management board of AS Tallinna Sadam does not deem it necessary to obtain the supervisory board’s approval to the draft contract for auditing services as the auditor is chosen through a tendering procedure, the contract is based on the tender results and material terms and conditions of the contract (including the schedule and responsibilities) have been agreed with the supervisory board before the tender is announced.

The auditor of AS Tallinna Sadam is KPMG Baltics OÜ and the independent auditor's report is signed by Andris Jegers. The contract for audit services has been made for three years (for auditing annual reports 2012 - 2014). In addition to the audit the auditing company has not rendered the company any such services that might compromise the auditor's independence.

MANAGEMENT'S CONFIRMATION AND SIGNATURES

By authorising the consolidated annual financial statements as at 31 December 2013 the management board confirms the correctness and completeness of the data of AS Tallinna Sadam and companies related to it as set out on pages 20 to 67 and that

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

2. The consolidated annual financial statements give a true and fair view of the financial position of the group and its cash flows and financial performance;

3. All significant events that occurred until the date on which the financial statements were authorised for issue (7 March 2014) have been properly recognised and disclosed in the consolidated financial statements; and

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

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board

7 March 2014

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

At 31 December	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	**6**	10,856	9,257
Bank deposits with maturities of more than 3 months	**6**	0	1,620
Available-for-sale financial assets	**7**	182	182
Trade and other receivables	**9**	11,647	15,528
Inventories		152	208
Total current assets		**22,837**	**26,795**
Non-current assets			
Investments in joint venture	**10**	418	427
Other long-term receivables	**9**	3,098	759
Property, plant and equipment	**11**	510,292	516,026
Intangible assets	**12**	709	772
Total non-current assets		**514,517**	**517,984**
Total assets		**537,354**	**544,779**
LIABILITIES			
Current liabilities			
Loans and borrowings	**17**	11,720	18,186
Derivatives	**8**	949	2,672
Provisions	**14**	943	1,081
Government grants	**18**	690	378
Trade and other payables	**15,16**	6,616	7,622
Total current liabilities		**20,918**	**29,939**
Non-current liabilities			
Loans and borrowings	**17**	115,686	131,156
Government grants	**18**	24,716	25,101
Other payables	**15**	977	953
Total non-current liabilities		**141,379**	**157,210**
Total liabilities		**162,297**	**187,149**
EQUITY			
Share capital at par value	**19**	185,203	183,882
Statutory capital reserve		18,388	18,387
Hedging reserve	**19**	-949	-2,672
Retained earnings		132,772	125,214
Profit for the year		39,643	32,819
Total equity		**375,057**	**357,630**
Total liabilities and equity		**537,354**	**544,779**

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

In thousands of euros	Note	2013	2012
Revenue	**20**	102,158	88,578
Other income	**22**	4,761	6,965
Operating expenses	**21**	-26,777	-24,971
Personnel expenses	**21**	-12,059	-9,128
Depreciation, amortisation and impairment losses	**11,12**	-17,778	-14,945
Other expenses	**22**	-424	-1,670
Operating profit		**49,881**	**44,829**
Finance income and finance costs			
Finance income	**23**	116	429
Finance costs	**23**	-3,706	-3,523
Net finance costs		**-3,590**	**-3,094**
Share of profit/loss of equity-accounted investees	**10**	67	42
Profit before income tax		**46,358**	**41,777**
Income tax expense	**19**	-6,715	-8,958
Profit for the year		**39,643**	**32,819**
Basic earnings and diluted earnings per share (in euros)	**19**	0.22	0.18

Consolidated statement of comprehensive income

In thousands of euros	Note	2013	2012
Profit for the year		**39,643**	**32,819**
Other comprehensive income			
Revaluation of hedging instruments	**8**	1,723	-98
Total other comprehensive income		**1,723**	**-98**
Total comprehensive income for the year		**41,366**	**32,721**

CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD)

In thousands of euros	Note	2013	2012
Cash receipts for sales of goods or services		106,305	93,396
Cash receipts related to other income		2,819	1,842
Cash paid to suppliers		-33,143	-30,799
Cash paid to and on behalf of employees		-10,728	-7,167
Cash payments related to other expenses		-153	-921
Income tax paid on dividends	**19**	-6,715	-8,825
Net cash from operating activities		**58,385**	**47,526**
Acquisition of property, plant and equipment	**26**	-12,373	-57,961
Acquisition of intangible assets	**26**	-177	-165
Proceeds from sale of property, plant and equipment		4,406	4,799
Proceeds from government grants related to non-current assets		491	0
Dividends received	**10**	76	102
Interest received		116	447
Net change in term deposits with maturities of more than 3 months	**6**	1,620	380
Net cash used in investing activities		**-5,841**	**-52,398**
Proceeds from issue of debt securities		0	45,000
Redemption of debt securities	**17**	-18,650	-4,900
Proceeds from loans received	**17**	10,000	0
Repayment of loans received	**17**	-13,286	-13,286
Dividends paid	**19**	-25,260	-33,803
Interest paid	**17**	-3,529	-3,545
Other payments related to financing activities		-220	-111
Net cash used in financing activities		**-50,945**	**-10,645**
NET CASH INFLOW/OUTFLOW		**1,599**	**-15,517**
Cash and cash equivalents at beginning of year	**6**	9,257	24,774
Increase/decrease in cash and cash equivalents		1,599	-15,517
Cash and cash equivalents at end of year	**6**	10,856	9,257

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Note	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
Equity at 31 December 2011		**183,873**	**17,807**	**-2,574**	**159,597**	**358,703**
Profit for the year		0	0	0	32,819	**32,819**
Other comprehensive income	**8,19**	0	0	-98	0	**-98**
Total comprehensive income for the year		*0*	*0*	*-98*	*32,819*	***32,721***
Transfer to share capital	**19**	9	0	0	0	**9**
Dividends declared	**19**	0	0	0	-33,803	**-33,803**
Total transactions with the owner of the company		*9*	*0*	*0*	*-33,803*	***-33,794***
Transfer to capital reserve	**19**	0	580	0	-580	**0**
Equity at 31 December 2012		**183,882**	**18,387**	**-2,672**	**158,033**	**357,630**
Profit for the year		0	0	0	39,643	**39,643**
Other comprehensive income	**8,19**	0	0	1,723	0	**1,723**
Total comprehensive income for the year		*0*	*0*	*1,723*	*39,643*	***41,366***
Transfer to share capital	**19**	1,321	0	0	0	**1,321**
Dividends declared	**19**	0	0	0	-25,260	**-25,260**
Total transactions with the owner of the company		*1,321*	*0*	*0*	*-25,260*	***-23,939***
Transfer to capital reserve	**19**	0	1	0	-1	**0**
Equity at 31 December 2013		**185,203**	**18,388**	**-949**	**172,415**	**375,057**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as 'the parent ') is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statements of AS Tallinna Sadam as at and for the year ended 31 December 2013 comprise the parent and its subsidiaries (together referred to as 'the group'). The parent's primary activity is rendering of port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure and organising navigation in the port basin. The parent holds five harbours: The Old City Harbour located in the centre of Tallinn and known as the passenger harbour; the cargo harbour in Paljassaare; Estonian largest cargo harbour in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour) and the newest harbour, opened in Saaremaa in 2006 for receiving cruise ships. The group's subsidiaries render services that support port services in the above harbours, an icebreaking service and other maritime support services.

Company	Domicile	Ownership interest (%)	Core business line
OÜ TS Energia	The Republic of Estonia	100	Rendering and sale of electricity network services, rendering water and heat supply and wastewater drainage services
OÜ TS Shipping	The Republic of Estonia	100	Rendering an icebreaking service and other maritime support services with multi-functional icebreaker Botnica

The address of the parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

The management board authorised these consolidated financial statements for issue on 7 March 2014. Under the Commercial Code effective in the Republic of Estonia, the annual report has also to be approved by the supervisory board and the shareholder. The shareholder may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand preparation of a new annual report.

2. ACCOUNTING POLICIES

Significant accounting policies applied in preparing these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in these financial statements, and have been applied consistently by group entities.

Bases of measurement

The group's consolidated financial statements for 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The consolidated financial statements have been prepared on the historical cost basis except that financial assets and financial liabilities (including derivatives) have been measured at fair value through profit or loss, except for derivatives designated as hedging instruments (see note 2 *Derivative instruments and hedging*).

Note 2 continued

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant under the circumstances the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas, where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to these financial statements.

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2013 and have not been applied in preparing these financial statements:

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early. This standard is to be applied retrospectively when there is a change in control conclusion.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities (SPEs) in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when it is exposed or has rights to variable returns from its involvements with the investee; it has the ability to affect those returns through its power over that investee; and there is a link between power and returns.

The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the group's control over its investees.

IFRS 11 Joint Arrangements

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.

IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

A joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

Note 2 continued

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets or operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in their consolidated financial statements.
The group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively, except not required to present comparative information for unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied. Earlier application is permitted.
IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in another entity or arrangement, subsidiary, joint arrangement and associate and unconsolidated structured entity.
The group does not expect the new standard will have a material impact on the financial statements.

IAS 27 (2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.
IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*.
The group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity‘s accounting policy.

IAS 28 (2011) Investments in Associates and Joint Ventures

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.
There are limited amendments made to IAS 28 (2008):
Associates and joint ventures held for sale. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

Note 2 continued

The group does not expect the amendments to the standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments. Investments in joint ventures are accounted for under the equity method.

Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted; however, the additional disclosures required by amendments to IFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities* must also be made.

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The amendments clarify that the group has a legally enforceable right to set-off if that right is not contingent on a future event; and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The group does not expect the amendments to have any impact on the financial statements since the group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted; to be applied retrospectively subject to transitional provisions.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities (as well as investments in associates and joint ventures) at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity obtains funds from investors to provide those investors with investment management services; commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The group does not expect the new standard to have any impact on the financial statements, since the parent does not qualify as an investment entity.

Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted. The group does not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

The amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period.

The amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generating units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal:

Note 2 continued

The level of fair value hierarchy (pursuant to IFRS 13) within which the fair value measurement of the asset or cash-generating unit is categorised;
for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.
The group does not expect the new standard will have a material impact on the financial statements.

Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted. The group does not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13.
The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:
The novation is made as a consequence of laws or regulations;
A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument;
Changes to the terms of the derivative are limited to those necessary to replace the counterparty.
The group does not expect the new standard will have a material impact on the financial statements.

Basis of consolidation

a) Subsidiaries

A subsidiary is an entity controlled by the parent. Control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power of the subsidiary (unless it can be clearly demonstrated that such ownership does not constitute control) or it is otherwise able to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities. If the parent acquired or transferred its control over a subsidiary during the accounting period, the respective subsidiary is fully consolidated from the date on which it was acquired until the date on which it was disposed.
In the group's consolidated financial statements, the financial information of the parent and its subsidiaries is combined on a line by line basis. Receivables, liabilities, income, expenses, and unrealised gains and losses on transactions between the parent and its subsidiaries have been eliminated.

b) Joint ventures

A joint venture is an entity in which the group has significant influence but which is under joint control of two or more investors. Investments in joint ventures are accounted for under the equity method and recognised initially at cost. The group’s share of the joint ventures’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in the joint ventures’ equity reserve is recognised directly in equity. The cost of the investment is adjusted to reflect cumulative post-acquisition changes.

Note 2 continued

Currency translations

a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates – the euro (the functional currency).

The consolidated financial statements are presented in euros. All amounts in these consolidated financial statements are presented in thousands of euros, unless stated otherwise.

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

Transactions in foreign currencies are translated to the functional currency (the euro) using the European Central Bank exchange rates quoted at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the euro at the European Central Bank exchange rates quoted at that date. Non-monetary financial assets and liabilities that are measured at fair value are retranslated to the functional currency using the exchange rate at the date that the fair value was determined. Gains and losses resulting from transactions in foreign currencies and from revaluation of assets and liabilities denominated in foreign currencies are recognised in the income statement as income or expenses of the period in which they arise.

Financial assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified under this category if acquired primarily for the purpose of reselling it in the short term.

Derivatives are classified as financial assets at fair value through profit or loss, except for those designated as hedging instruments. Assets in the category of financial assets at fair value through profit or loss are recognised as current assets.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the group has the positive intention to hold to maturity. Held-to-maturity investments are measured at amortised cost. If the group sells more than an insignificant amount of held-to-maturity investments before maturity, all financial assets in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are recognised as long-term investments except for those with maturities less than 12 months as at the reporting date.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised within current assets, except for those with maturities of more than 12 months after the reporting date which are recognised as non-current assets. The group's loans and receivables recognised in the statement of financial position comprise trade and other receivables, bank deposits with maturities of more than 3 months, and cash and cash equivalents.

Note 2 continued

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated into this category or that are not classified into any other category of financial assets. Available-for-sale financial assets are recognised as non-current assets, except when management intends to dispose of them within 12 months after the reporting date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised at the trade-date, i.e. the date that the group commits itself to purchase or sell the asset. Investments are recognised initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are recognised initially at cost and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value though profit or loss are subsequently measured at fair value. Receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the assets classified as financial assets at fair value through profit or loss are presented in the income statement within "Finance income" and "Finance costs" in the period in which they arise.

Changes in the fair value of available-for-sale financial assets are recognised through equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of listed investments are determined by reference to their quoted bid price. If the market for a financial instrument is not active (and for unlisted securities), the group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length transactions, reference to other similar instruments, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on group-specific inputs.

At each reporting date the group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. For shares classified as available for sale a significant or prolonged decline in the fair value of the securities below their cost is evidence of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, adjusted by any previous impairment loss on that financial asset – is removed from equity and recognised in the income statement. Impairment losses recognised on equity instruments through profit or loss are not reversed in the income statement. Impairment allowances for receivables are disclosed in note 9 to these financial statements.

Derivative instruments and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and also subsequently. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, on the nature of the item being hedged. The group has concluded several long-term interest swap contracts – cash flow hedges – in order to fix interest expense on floating interest rate borrowings and debt securities.

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

Note 2 continued

The fair values of derivatives used for hedging purposes and movements in the hedging reserve in equity are disclosed in the statement of comprehensive income and notes 8 and 19 to these financial statements.

Cash flow hedge

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

Cash and cash equivalents

Cash and cash equivalents recognised in the statements of financial position and cash flows comprise cash on hand, current account balances and term deposits with maturities of up to three months.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. An impairment allowance is recognised if there is objective evidence that the group may not be able to collect all amounts due in accordance with the terms and conditions of the receivables. Such evidence may include debtors’ significant financial difficulties, bankruptcy, financial reorganisation or default (payments more than 90 days overdue). The amount of the impairment allowance is measured as the difference between the asset’s carrying amount and recoverable amount, i.e. the amount of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the “Allowance for doubtful receivables” account and the amount of the loss is recognised in the income statement within operating expenses or other expenses. When a trade receivable has been deemed irrecoverable, it is written off reducing also the write-down previously recognised in “Allowance for doubtful receivables”. Subsequent recoveries of amounts previously written off are recognised in the income statement as reduction of operating expenses or other expenses.

Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories are expensed using the FIFO method. The cost of inventories does not include borrowing costs. The cost of raw and other materials comprises the purchase price, transportation costs and other costs directly attributable to the acquisition of inventories.

Property, plant and equipment

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

a) Cost

An item of property, plant and equipment is recognised initially at cost, which comprises the purchase price and any costs directly attributable to the acquisition which are necessary for bringing the asset to its operating condition and location. The borrowing costs incurred in order to finance self-constructed non-current assets (including amortisation of contract fees and

Note 2 continued

interest charges), which are calculated from commencing construction activities until the acceptance of the completed asset, are recognised as part of the cost of commenced new construction projects. Subsequent improvement-related costs are added to the asset's cost if they meet the definition of property, plant and equipment and recognition criteria. If a part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item and the replaced part is written off the statement of financial position. Ongoing repairs and maintenance are expensed as incurred.

b) Depreciation

Depreciation of property, plant and equipment is calculated on the difference between the cost and residual value using the straight-line method over the estimated useful life of the asset. If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items and assigned depreciation rates that correspond to their useful lives. The estimated useful lives of items of property, plant and equipment are reviewed at each reporting date, on recognising subsequent improvements and
when significant changes are made in the group's development plans. If the estimated useful life of an asset differs significantly from the previous estimate, the remaining useful life of the asset is adjusted, resulting in a change in the asset's depreciation charge for subsequent periods.

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

Quays and berths	10-50 years
Dredging areas of aquatories	20 years
Buildings and other constructions	5-50 years
Plant and equipment	3.3-10 years
Ships	20 years
Other items of property, plant and equipment	2-10 years

Land is not depreciated.

Depreciation for two ship-related parts is calculated separately: the ship itself and dry dock maintenance expenses as a separate part. Calculations are based on the common practice in the shipping sector.
The depreciation charge for either part of the ship is calculated under the straight-line method based on the expected useful life of the part as follows:

Ships	20 years
Capitalised dry dock maintenance costs	2.5-5 years

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

Intangible assets

Development expenditure (costs attributable to designing and testing of new or improved products) is recognised as intangible assets when the following criteria are met:

- Management intends to complete the intangible asset and commence using it or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the asset;
- The expenditure during its development can be reliably measured.

Note 2 continued

Development expenditure is capitalised if a plan exists to implement the project and future economic benefits generated by the intangible asset can be measured reliably.

Other research and development expenditures that do not meet the criteria to be classified as intangible non-current assets are recognised as an expense as incurred.
Intangible assets are amortised under the straight-line method over their estimated useful life which does not exceed 20 years.

Expenditures incurred on purchasing computer software is also included in intangible assets. Software development costs are included in intangible assets if they are directly attributable to the development of such software items that are identifiable, controlled by the group and from which the group expects to gain future economic benefits for a longer period than one year.
Capitalised software development costs include labour costs and other costs directly attributable to development. Software costs are amortised over the software's estimated useful life which does not exceed 5 years. Costs of the day-to-day maintenance of software are recognised as expenses in the income statement.

Impairment

Financial assets
At each reporting date the group assesses whether there is any indication that a financial asset may be impaired. A financial asset is impaired if there is objective evidence of one or more events that have had an adverse impact on the estimated future cash flows of that 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 the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated through its fair value.
Impairment of significant financial assets is tested on an individual basis. Assets that are not individually significant are assessed for impairment collectively, in groups of assets with similar credit risk characteristics.
Any impairment loss is recognised in the income statement. Impairment losses on available-for-sale financial assets are recognised by reclassifying the accumulated losses in other comprehensive income to the income statement.
If the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed. The decrease in the impairment loss on financial assets measured at amortised cost is recognised in the income statement.

Non-financial assets
The group assesses whether there is any indication that an asset may be impaired. Impairment losses can be estimated for an individual asset or for a group of assets (cash-generating unit, CGU). If such indications occur, the recoverable amount of the asset is estimated and compared with its carrying amount recognised in the statement of financial position. The impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For the purpose of testing impairment, the recoverable amount is assessed either for each individual asset or for the smallest possible group of assets for which there are separately identifiable cash flows. Impairment losses are recognised as expenses in the period in which they arise.
Assets that have been previously written down to recoverable amount are assessed at each subsequent reporting date to determine whether there is any indication that their recoverable amount may have increased. Reversal of write-down to the recoverable amount is recognised in the income statement for the year as reduction of impairment losses on non-current assets.

Note 2 continued

Financial liabilities

Financial liabilities (trade payables, loans, accrued expenses, debt securities issued and other short- and long-term loans and borrowings) are measured initially at fair value. The fair value of financial liabilities other than those carried at fair value through profit or loss includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. Subsequent to initial recognition, the group measures all financial liabilities at amortised cost using the effective interest method. The amortised cost of current financial liabilities usually equals their nominal value; therefore, current financial liabilities are stated at the amount to be settled. A financial liability is classified as current when it is due to be settled within 12 months as from the reporting date. The amortised cost of non-current financial liabilities is calculated using the effective interest method.

Dividend distribution and corporate income tax

Under the Income Tax Act effective in the Republic of Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profits, dividends distributed from retained earnings are subject to income tax that is calculated as 21/79 (until 31 December 2012, also 21/79) of the net dividend distribution. Dividend distribution to shareholders is recognised as a liability in the period in which the dividends are declared by the shareholder. The income tax payable on dividends is recognised as income tax expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are actually distributed.

Employee benefits

a) Short-term employee benefits

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

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

b) Termination benefits

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

Provisions and contingent liabilities

A provision is recognised only if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognised for future operating losses. A provision is recognised based on management's estimates of the timing and amount of the expenditure required to settle the obligation. A provision is recognised in the amount which the management estimates as required to settle the obligation at the reporting date or to transfer it to a third party at that time. If an obligation

Note 2 continued

has to be settled later than 12 months after the reporting date, the provision is recognised at the present value of the expected future cash flows.

A provision is used only to cover the expenditures for which it was originally recognised.

Other possible or existing obligations the settlement of which is less likely to occur than not to occur or where no reliable estimate of expenditures attributed to the obligation can be made are disclosed as contingent liabilities in the notes to the financial statements.

Share capital

Ordinary shares are recognised within equity.

Statutory capital reserve

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

Earnings per share

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account all discounts and concessions made. Revenue is shown net of value-added tax, returns, rebates or discounts and intra-group sales transactions.

Revenue from the sale of goods is recognised when the significant risks of ownership of the goods have been transferred to the buyer; the revenue and expenses attributable to the transaction can be measured reliably; and it is probable that the consideration associated with the transaction will flow to the group. Revenue from the rendering of services is recognised after the service has been rendered. Revenue is not reliably measurable until all terms and conditions related to the sale have been met. The group bases its estimates on historical experience taking into account the type of customer, the type of transaction and the specific features of each arrangement.

Calculation of port charges and fees

Port charges and fees are levied as follows:

- Tonnage charge is calculated on the basis of the gross tonnage of the vessel separately for each call of the vessel;
- Waste fee is calculated on the basis of the gross tonnage of the vessel separately for each call of the vessel;
- Mooring charge is calculated separately for each mooring operation based on the gross tonnage of the vessel;
- Passenger fee is calculated at arrival and departure of a vessel based on the number of passengers (provided by the captain of the vessel) who arrived at (or left) the port on board the vessel. Passenger fee is levied regardless of whether or not the passengers disembarked;
- Electricity, communication services and water supply charges are calculated when a vessel plugs into the electricity system on shore and uses electricity; a vessel plugs into the communication network on shore and uses the communication network; and when a vessel uses water supply through quay systems;
- Fees for the use of port’s auxiliary vessels are charged for liquidation of oil pollution; deployment of oil booms for loading or unloading operations; and short-term use of the vessels.

On calculation of charges and fees an entrance of a vessel into any of the ports of AS Tallinna Sadam is considered a call.

Note 2 continued

Calculation of cargo charges

Cargo charge is levied for using the port's general infrastructure. Cargo charge is calculated based on the cargo volumes reshipped by the operator during the reporting period.

Charter income on ships

Charter income on ships is recognised on a straight-line basis over the charter term.

Sale of electricity

- Accounting for sales of electricity and network services

  Revenue is recognised based on the readings of customers' electricity meters. Customers state their actual consumption based readings, or remote reading is used, or readings are projected based on consumption schedules.
- Accounting for connection fees

  When connecting to the electricity network, customers pay a connection fee based on the expenses incurred on connecting to the network. Revenue from connection fees is recognised as income on a straight-line basis over the estimated period during which customers use the service related to the connection. In cases where the period of the sale of the service is not stated in the agreement, the connection fee is recognised as income over the useful life of the investments made in respect of the connection.

  The connection fee not included in income is recognised in the statement of financial position as long-term deferred income.

Interest income and dividend income

Income on interest and dividends is recognised when the receipt of income is probable and the amount of income can be reliable measured. Interest income is recognised using the effective interest rate of the asset, except when the receipt of interest is uncertain. In such cases, interest income is accounted for on a cash basis. Dividend income is recognised when the group’s right to receive payment is established.

Leases

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

a) The group as the lessee

Operating lease payments are expensed in the income statement over the lease term on a straight-line basis.

b) The group as the lessor

Assets leased out under operating lease terms are recognised as non-current assets. Assets leased out are depreciated using the same accounting policies as the group applies to depreciating similar assets. Operating lease payments received are recognised as income over the term of the lease on a straight-line basis.

Government grants

Government grants are recognised under the gross method as income over the periods in which the costs for which the grant is intended to compensate are incurred. A government grant that becomes receivable as compensation for expenses incurred in previous periods, or which does not involve any additional future conditions is accounted for as income in the period in which the grant is received. Grants are not recognised as income at fair value until there is reasonable assurance that the group will comply with the conditions associated with the grant and the grant will be received. Potential liabilities related to government grants are recognised as provisions or contingent liabilities.

Note 2 continued

Government grants related to assets are recognised initially at cost, the amount of the grant received for acquiring assets is recognised as a liability under deferred income from government grant. The acquired asset is depreciated and the liability arising from the government grant is recognised as income over the useful life of the acquired asset.

Government grants related to income are recognised in proportion to the related costs. In the income statement, the costs to be compensated and income from the grant are recognised separately.

Statement of cash flows

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

Related party transactions

For the purpose of the consolidated financial statements, the members of the supervisory and management boards of the group companies; their close family members; companies, the joint venture, government agencies under the control or significant influence of the above persons; and companies under the control or significant influence of the state are considered as related parties.

3. FINANCIAL RISK MANAGEMENT

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

Risk management is performed by the group's risk management professionals in accordance with the policies approved by the management board. The management board stipulates in written the policies of risk management and regulations covering specific areas.

Market risk

a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the group’s financial instruments or in cash flows arising from movements in foreign exchange rates. The main instrument for mitigating the group's currency risk is the euro-based nature of its contracts. The group has no material liabilities and receivables denominated in foreign currencies. All outstanding long-term loans and borrowings are denominated in euros; therefore, they are considered as liabilities not exposed to currency risk.

In 2013 nearly all receipts were denominated in euros with the proportion of receipts denominated in some other currency remaining below 0.01%. In the comparative year 2012 only 0.1% of all receipts were denominated in any other currency than the euro. 99.1% of expenditures (operating expenses, investments, finance costs, etc.) were denominated in the euro; 0.5% in the US dollar; 0.3% in the Norwegian krone; and 0.1% in other currencies. In the comparative year 2012, about 99.8% of expenditures were denominated in the euro; 0.1% in the US dollar; and about 0.1% in other currencies.

Owing to the above, the group is not exposed to currency risk.

b) Price risk

As the group has made no investments in equity instruments, the group is not exposed to market price risk arising from financial instruments.

Note 3 continued

c) Interest rate risk

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

Floating interest rate loans and borrowings expose the group to interest rate risk. The group's policy is to maintain approximately 50% of its debt portfolio in fixed rate instruments, by using floating-to-fixed interest rate swaps when appropriate. As at 31 December 2013, the proportion of loans and borrowings with rates fixed through derivative transactions was 50% (31 December 2012: 50%) of the portfolio. Thus, 50% of the loans and borrowings that are not hedged are exposed to interest rate risk.

To assess the group's exposure to interest rate risk, sensitivity analysis is used which describes the impact of interest rate risk exposure on the group's net profit through estimated fluctuation of the market interest rate. If the market interest rate as at 31 December 2013 had been higher/lower by 100 basis points, i.e. 1 percentage point, the group's net profit for the financial year would have been EUR 638 thousand bigger/smaller assuming all other variables remained constant. As at 31 December 2012, the value of the market interest rate fluctuation estimate used in the sensibility analysis was also 100 basis points and the total impact on net profit would then have been EUR 752 thousand.

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. As at 31 December 2013, the group's balances of receivables exposed to credit risk totalled EUR 25,116 thousand; as at comparative 31 December 2012: EUR 26,525 thousand.

In thousands of euros

At 31 December	**2013**	**2012**
Current accounts and bank deposits with maturities of less than 3 months	10,853	9,240
Bank deposits with maturities of more than 3 months (note 6)	0	1,620
Receivables from customers* (note 9)	11,050	11,612
Other receivables (note 9)	3,213	4,053
Total	**25,116**	**26,525**

*Impairment losses are deducted from receivables from customers

To decrease customer related credit risk exposure, advances or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, customer background is studied prior to concluding any major contract. Other methods for managing customer-related credit risk exposure include day-to-day monitoring of customers' payment behaviour and prompt application of appropriate measures. As at year-end, all known doubtful receivables were written down. Further details on the credit quality of financial assets is presented in note 5.2 to these financial statements.

Credit risk exposure to financial transactions is mitigated by using financial institutions with high credit ratings on performing investment or derivative instrument transactions. The procedure of financial transactions established by AS Tallinna Sadam provides counterparty risk limits set on issuers of traded securities and volume limits set on the components of the investment portfolio.

Receivables not past due at the reporting date amounted to 78.2% (2012: 76.1%) of the receivables from customers. Trade receivables written down amounted to 19.2% (2012: 21.0%) of the receivables from customers. Further details on receivables from customers are disclosed in note 9 to these financial statements.

Note 3 continued

Liquidity risk

For the purposes of liquidity risk management, the group applies two-level liquidity monitoring. The first level liquidity reserve is to ensure that the group's urgent obligations arising in the ordinary course of business are met including claims arising from overnight deposits with banks and units in money market and interest funds. In accordance with the requirements established for financial transactions, the minimum first level liquidity reserve is EUR 959 thousand.

The second level liquidity reserve enables effective settlement of claims which arise from the group's operations but are not urgent by nature and immediately scheduled to a certain date. The second level liquidity reserve includes claims arising from commercial papers and debt securities of issuers with a credit rating of Baa1 (Moody's) and BBB+ (S&P's) or higher, and claims arising from term deposits at banks. The minimum second level liquidity reserve is EUR 320 thousand.
If necessary, short-term external financing in the form of various debt instruments is used.
Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the group's liquidity reserve (which comprises cash and cash equivalents, term deposits at banks with maturities of more than 3 months, available-for-sale financial assets and available credit lines). As at 31 December 2013, the group's liquidity reserve amounted to EUR 25.9 million. As at comparative 31 December 2012: EUR 10.9 million.

Movements in the liquidity reserve forecast for 2014 are as follows:

In thousands of euros	**EUR**
Opening balance	**25,856**
Cash flows from operating activities	55,701
Cash flows used in investing activities	-28,451
Interest payments	-3,095
New loan/debt security emission	5,000
Dividend payments	-42,000
Debt security redemption and loan repayments	-11,720
Closing balance	**1,291**

In the following liquidity analysis the group's financial liabilities are grouped by contractual maturity. The balances shown in the table are contractual undiscounted cash flows, which comprise of the principal and accrued interest for interest bearing loans and borrowings. On calculating accrued interest on interest bearing loans and borrowings (bank loans and issued debt securities), the yield curves of interest rate swap transactions at Nordea Bank Finland Plc have been used as the basis for Euribor forecast as follows: for the year-end 2013 liquidity risk estimate as at 29 January 2014; for the year-end 2012 liquidity risk estimate as at 29 January 2013.

Liquidity analysis

In thousands of euros	**Loans drawn**	**Debt securities issued**	**Trade and other payables**	**Derivatives**	**Total**
At 31 December 2013					
< 6 months	5,403	1,597	5,043	310	**12,353**
6 - 12 months	4,432	1,692	0	602	**6,726**
1 - 5 years	28,022	59,544	0	533	**88,099**
> 5 years	39,497	0	0	0	**39,497**
Total	**77,354**	**62,832**	**5,043**	**1,446**	**146,675**
At 31 December 2012					
< 6 months	5,168	2,902	5,718	415	**14,203**
6 - 12 months	8,633	3,068	0	838	**12,539**
1 - 5 years	29,882	74,040	0	1,199	**105,121**
> 5 years	35,837	3,741	0	0	**39,578**
Total	**79,520**	**83,751**	**5,718**	**2,452**	**171,441**

Note 3 continued

For intra-group management of subsidiaries' liquidity, internally established credit limits are applied.

Equity risk management

AS Tallinna Sadam is a company whose shares are wholly owned by the state. Decisions on dividend distribution and increase or decrease in share capital are made by the Republic of Estonia (through the Ministry of Economic Affairs and Communications). Each financial year, the dividends payable by AS Tallinna Sadam to the state budget are established by the order of the Government of the Republic of Estonia.

Gearing

In thousands of euros

At 31 December	**2013**	**2012**
Loans and borrowings (note 17)	127,406	149,342
Cash and cash equivalents (note 6)	10,856	9,257
Net debt	**116,550**	**140,085**
Total equity	375,057	357,630
Total capital	**491,607**	**497,715**
Gearing ratio	**24%**	**28%**

As at 31 December 2013, the gearing ratio of AS Tallinna Sadam, i.e. the ratio of external funds to total capital was 24%. Compared to 2012, the gearing ratio fell by 4 percentage points while the net debt declined by 17% and total capital decreased by 1.2%.

Special terms of loan agreements stipulate requirements for the company's financial ratios, including the equity to assets ratio, which must not fall below 50%.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The areas involving a higher degree of judgement or complexity, or areas in which assumptions and estimates have significant effect on the consolidated financial statements involve assessing useful lives of items of property, plant and equipment; testing property, plant and equipment for impairment; and assessing doubtful receivables.

Classification of leased out assets

One of the critical judgements is that assets that by their nature could also be classified as investment property (since lease income is earned on the asset) are classified as property, plant and equipment. The group has classified all such assets as property, plant and equipment since the assets are held for earning operating income through increasing cargo or passenger flows or in activities supporting core operations. Therefore, according to the group's estimates the main objective of holding such assets is not to earn rentals; they are primarily held to help increase income earned from operating activities. Accordingly, the main income attributable to those assets is not received from rentals.

Useful lives of property, plant and equipment

Useful lives of property, plant and equipment are based on management’s estimates on the period of actual use of the asset. As at 31 December 2013, the net value of the group’s property, plant and equipment amounted to EUR 510,292 thousand; depreciation for the year was EUR 17,079 thousand; as at 31 December 2012, the respective figures were EUR 516,026 thousand and EUR 14,693 thousand. If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and net profit would increase by EUR 1,708 thousand; in the comparative year 2012: by EUR 1,469 thousand.

Note 4 continued

Impairment tests of property, plant and equipment

The group assesses whether there is any indication that any item of property, plant and equipment may be impaired. If such indications occur, the recoverable amount of the asset is estimated and compared with its carrying amount recognised in the statement of financial position. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the fair value of an item of non-current asset cannot be determined reliably, a future cash flow model is developed to calculate its value in use. Such calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of the services sold. If circumstances change in future, either additional impairment will be recognised or the previously recognised impairment loss will be reversed either in part or in full.

The group tests assets for impairment as needed when circumstances indicate that assets might be impaired. Items of property, plant and equipment recognised in the statement of financial position as at 31 December 2013 include quays and premises related to cargo transport at the carrying amount of EUR 45,220 thousand; and quays, berths and premises related to passenger transport at the carrying amount of EUR 6,763 thousand the recoverable amount of which is most sensitive to the fulfilment of future projections. As the useful life of quays and berths is up to 50 years and the premises have infinite useful lives, extremely long-term cash flow projections (up to 50 years) have been developed to estimate their value. The uncertainty of the projections is amplified by the fact that they are based on project-based income that is expected to multiply in next few years or a decade compared to the past financial year. If 80% of the estimated revenue base used in the cash flow projections were achieved, the group would have recognised an impairment loss of EUR 1,031 thousand on the above passenger transport related assets. The group applies an average long-term discount rate of 8.1% to discount cash flows used in impairment testing. If the discount rate applied to impairment tests had been higher by 1 percentage point, the group should have recognised an impairment loss of EUR 157 thousand on non-current assets related to passenger transport.

According to the group's estimates the uncertainty about whether the income level used in the cash flow projections can be achieved will persist until the above assets have actually achieved the higher level of income used in cash flow projections. According to the group's estimates long-term discount rates did not change significantly in 2013. Future developments seem to depend mostly on the sustainability of the signs of economic growth in the circumstances where measures intended to improve current terms of financing have been restrained; also, application of more immediate economic reforms to resolve the crisis seem to be increasingly crucial.

Assessment of doubtful receivables

Based on its historical experience, the group has set a rule that receivables which are more than 90 days overdue are written down. Evidence of impairment may include such indications as the debtor's bankruptcy, significant financial difficulty or delinquency in payments. However, the probability of collecting receivables is estimated on an individual basis; therefore, if sufficient certainty and probability about the recoverability exists, some receivables that are more than 90 days overdue may not be written down whereas some receivables that are less than 90 days overdue may be written down. As at 31 December 2013, the group had doubtful receivables of EUR 2,625 thousand. As at 31 December 2012, the group’s doubtful receivables amounted to EUR 3,081 thousand.

5. FINANCIAL INSTRUMENTS

5.1. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros	**Loans and receivables**	**Available for-sale assets**	**Total**
At 31 December 2013			
Cash and cash equivalents (note 6)	10,856	0	10,856
Available-for-sale financial assets (note 7)	0	182	182
Trade and other receivables (note 9)*	14,288	0	14,288
Total financial assets	**25,144**	**182**	**25,326**
At 31 December 2012			
Cash and cash equivalents (note 6)	9,257	0	9,257
Bank deposits with maturities of more than 3 months (note 6)	1,620	0	1,620
Available-for-sale financial assets (note 7)	0	182	182
Trade and other receivables (note 9)*	15,699	0	15,699
Total financial assets	**26,576**	**182**	**26,776**

* Total trade and other receivables, less advances

Financial liabilities

In thousands of euros	**Hedging instruments through equity**	**Financial liabilities at amortised cost**	**Total**
At 31 December 2013			
Trade and other payables * (note 15)	0	6,717	6,717
Loans and borrowings and debt securities (note 17)	0	127,406	127,406
Derivatives (note 8)	949	0	949
Total financial liabilities	**949**	**134,123**	**135,072**
At 31 December 2012			
Trade and other payables * (note 15)	0	7,434	7,434
Loans and borrowings and debt securities (note 17)	0	149,342	149,342
Derivatives (note 8)	2,672	0	2,672
Total financial liabilities	**2,672**	**156,776**	**159,448**

* Total trade and other payables, less prepayments for goods and services.

Fair value

According to the group's estimates, the fair values of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts presented in the group's consolidated statement of financial position as at 31 December 2013 and 31 December 2012. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting the contractual cash flows by current market interest rates that would be available for the group for similar financial instruments. A more detailed comparison of the carrying amount and fair value of loans and borrowings disclosed in the statement of loans and borrowings is disclosed in note 17 to these financial statements. The carrying amount of trade receivables and trade payables, less write-downs, is estimated to be equal to their fair value. Derivatives are recognised at fair value. A more detailed description is provided in note 2 under *Derivative instruments and hedging*.

Note 5 continued

Only derivatives that are publicly traded in financial markets at the current market price are recognised at fair value in the statement of financial position. The fair value of derivatives is evaluated on a monthly basis using bank pricing based on the price of similar products in financial markets. In terms of fair value hierarchy this qualifies as the 2nd level measurement, i.e. values derived from quoted prices.

5.2. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to, for instance, credit ratings of independent credit agencies (if available for the counterparty) or historical information available for the group about counterparty default rates.

Cash on current accounts and deposits by rating*

In thousands of euros

At 31 December	**2013**	**2012**
Aa3	3,797	1,020
A1	4,048	5,281
A2	0	2,939
Baa1	3,008	1,620
Total on current accounts and deposits	**10,853**	**10,860**

* The remainder of the balances under the statement of financial position items “Cash and cash equivalents” and "Bank deposits with maturities of more than 3 months" consists of cash on hand.

Trade receivables by customer group*

In thousands of euros

At 31 December	**2013**	**2012**
New customers (up to 6 months)	129	40
Current customers (more than 6 months) with no or little contractual delinquency	10,461	10,885
Current customers (more than 6 months) with frequent contractual delinquency	97	260
Total trade receivables by customer group (note 9)	**10,687**	**11,185**

* Includes only receivables not past due or impaired as at the reporting date.

6. CASH AND CASH EQUIVALENTS AND DEPOSITS

In thousands of euros

At 31 December	**2013**	**2012**
Cash on hand	3	17
Current accounts with banks	4,372	1,303
Short-term deposits	6,481	7,937
Total cash and cash equivalents	**10,856**	**9,257**

Note 6 continued

Cash and cash equivalents by currency

In thousands of euros At 31 December	**2013**	**2012**
EUR	10,856	9,257
Total cash and cash equivalents by currency	**10,856**	**9,257**

In 2013, the weighted average return on cash and cash equivalents was 0.24%; in the comparative year 2012: 1.01%. The interest accrued as at the reporting date is recognised in "Trade and other receivables”.

Bank deposits with maturities of more than 3 months

As at 31 December 2013, AS Tallinna Sadam had not entered into any deposit transaction with a maturity of more than 3 months. As at 31 December 2012, AS Tallinna Sadam had entered into one deposit transaction with a maturity of more than 3 months in the amount of EUR 1,620 thousand.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2013, shares of EUR 182 thousand were recognised as available-for-sale financial assets. In the comparative period as at 31 December 2012, shares at the same amount of EUR 182 thousand were recognised as available-for-sale financial assets.

8. DERIVATIVE INSTRUMENTS

As at 31 December 2013, AS Tallinna Sadam had effective interest rate swap transactions to fix the interest rates of long-term loans in the nominal value of EUR 63,650 thousand. As at 31 December 2012, the respective amount was EUR 74,100 thousand. All terms and conditions and maturities of interest rate swap transactions follow the repayment schedule of the loan to be hedged and the swap transactions are treated as cash flow hedging instruments.

As at 31 December 2013, AS Tallinna Sadam had entered into 3 derivative transactions to hedge interest rate risk with maturities from 5 to 5.3 years and with outstanding maturities ranging from 0.7 to 4.5 years as at 31 December 2013. The floating interest rate to be swapped by all derivative transactions is 6 months' Euribor.
The fair value of derivative instruments is based on quotes of Nordea Bank Finland Plc. The payments related to derivative instruments are made in euros.

On 23 October 2013 AS Tallinna Sadam redeemed the base amount underlying an interest rate swap transaction at the outstanding balance of EUR 13,750 thousand. The transaction was cancelled due to the liquidation of the asset underlying the derivative transaction, i.e. an early redemption of the debt security on 15 October 2013.

To assess the effectiveness of derivative instruments, the qualitative Critical Terms Match Method is used both retrospectively and prospectively at each reporting date. If the result of the qualitative analysis indicates that a derivative instrument may be ineffective, the quantitative Dollar-offset method is used to assess hedge effectiveness. Since at 31 December 2013, the base amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and were in line with the amortisation schedules; the hedged interest payments are calculated on the same bases (6 months' Euribor); the payments are

Note 8 continued

denominated in the same currency (the euro) and are made at the same dates, it should be assumed that risk hedging has been and will be effective.

In thousands of euros	2013	2012
Base amount at 31 December	63,650	74,100
Fair value at beginning of year	**-3,077**	**-2,760**
Incl. market value of derivative	*-2,672*	*-2,574*
interest payable	*-405*	*-186*
Change in derivative's market value (note 19)	1,723	-98
Change in interest payable	39	-219
Fair value at end of year	**-1,315**	**-3,077**
Incl. market value of derivative	*-949*	*-2,672*
interest payable	*-366*	*-405*

As at 31 December 2013, the average fixed interest rate was 2.46% (31 December 2012: 2.66%); the floating interest rate is based on Euribor. Gains and losses on swap transactions included within the hedge reserve in equity are recognised in the income statement on expiry of derivative contracts or when hedging is deemed ineffective.

9. TRADE AND OTHER RECEIVABLES

In thousands of euros At 31 December	2013	2012
Receivables from customers*	13,675	14,693
Allowance for doubtful receivables	-2,625	-3,081
Prepaid taxes (note 16)	226	210
Outstanding government grants	9	27
Other prepayments	231	378
Receivables from joint venture (note 24)	16	7
Other receivables*	3,213	4,053
Total trade and other receivables	**14,745**	**16,287**
Incl. short-term receivables	11,647	15,528
long-term receivables	3,098	759

*Incl. receivable from sale of non-current assets of EUR 4,574 thousand; as at 31 December 2012: EUR 5,284 thousand.

All long-term receivables fall due within 13 years as from the reporting date.

Note 9 continued

Receivables from customers by maturity

In thousands of euros At 31 December	2013	2012
Receivables not due and not impaired* (note 5.2)	10,687	11,185
Receivables overdue but not impaired*, incl.	363	427
1-30 days	*36*	*206*
31-60 days	*112*	*5*
61-120 days	*29*	*4*
181-360 days	*182*	*79*
More than 360 days	*4*	*133*
Receivables not due but impaired**	349	503
Receivables overdue and impaired**	2,276	2,578
1-30 days	*2*	*0*
31-60 days	*2*	*3*
61-120 days	*9*	*30*
121-180 days	*6*	*531*
181-360 days	*781*	*372*
More than 360 days	*1,476*	*1,642*
Total receivables from customers by maturity	**13,675**	**14,693**

***** Trade receivables that are not due or that are less than 90 days overdue are usually treated as receivables that are not impaired. The group also has receivables that are more than 360 days overdue which have not been written down. Those receivables have not been written down as the majority of the receivables overdue are collateralised and therefore, according to management's estimate, collectible in full.

****** As at 31 December 2013, impaired receivables amounted to EUR 2,625 thousand; as at 31 December 2012: EUR 3,081 thousand. Impairment losses for the reporting period are presented in the table below. Based on the historical experience, the group has set a rule that receivables more than 90 days overdue are generally written down after being analysed on an individual basis (a detailed description of impairment policies is disclosed in note 4 to these financial statements).

Changes in the allowance for doubtful receivables

In thousands of euros	2013	2012
Allowance for doubtful receivables at beginning of year	-3,081	-2,289
Items deemed doubtful during the year	-1,133	-1,626
Previously written-down items collected during the year	283	270
Adjustment to the allowance for doubtful receivables	232	23
Doubtful receivables deemed irrecoverable	1,074	541
Allowance for doubtful receivables at end of year (note 4)	**-2,625**	**-3,081**

Changes arising from impairment are recognised as operating expenses in the income statement if related to invoiced revenue, and as other expenses if related to invoiced other income.

Impaired receivables are recognised as irrecoverable if collecting the receivable is impossible or if it is probable that costs incurred on recovery will exceed potential income.

Note 9 continued

Receivables from customers by currency

In thousands of euros

At 31 December	2013	2012
EUR	13,675	14,693
Total receivables from customers by currency	**13,675**	**14,693**

The maximum exposure of receivables from customers and other receivables to credit risk as at the reporting date equals their fair value. In general, collection of receivables from customers and the receipt of services and goods related to other receivables is not covered by collateral. In exceptional cases, bank guarantees may have been required from customers.
Other receivables and prepayments have not been impaired.

10. INVESTMENTS IN JOINT VENTURE

AS Green Marine

The joint venture is a waste management entity established by AS Tallinna Sadam and AS NT Marine at the end of 2003. Although AS Tallinna Sadam holds 51% of ownership interest in the joint venture, this does not constitute control over the joint venture since pursuant to the shareholders' agreement, the company is under the joint control of its shareholders. The lines of business of AS Green Marine include management of waste generated in harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of harbours' aquatory and premises.
AS Green Marine's financial statements have been prepared in accordance with accounting principles generally accepted in Estonia (the Estonian GAAP). According to management estimates the financial results of AS Green Marine would not be significantly different if the financial statements had been prepared in accordance with IFRS (EU).

Changes in investments in joint venture

In thousands of euros

At 31 December	2013	2012
Carrying amount at beginning of year	427	487
Share in profit under the equity method	67	42
Accrued dividends	-76	-102
Carrying amount at end of year	**418**	**427**

Joint venture

In thousands of euros

At 31 December	2013	2012
Current assets	695	562
Non-current assets	2,127	2,323
Current liabilities	887	806
Non-current liabilities	1,116	1,241
Operating income	3,385	2,538
Operating expenses	3,177	2,351
Net profit	129	86

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Pre-payments	Total
At 31 December 2011						
Cost	536,031	47,227	6,696	31,121	0	**621,075**
Accumulated depreciation and impairment losses	-125,945	-18,668	-4,608	0	0	**-149,221**
Carrying amount at 31 December 2011	**410,086**	**28,559**	**2,088**	**31,121**	**0**	**471,854**
Changes in 2012						
Acquisition and reconstruction (note 26)	1,952	50,096	237	9,705	0	**61,990**
Disposed at carrying amount	-3,020	-12	-46	-1	0	**-3,079**
Depreciation charge	-11,669	-2,614	-410	0	0	**-14,693**
Impairment loss	-2	-43	-1	0	0	**-46**
Reclassification	38,167	780	27	-38,974	0	**0**
At 31 December 2012						
Cost	570,694	97,888	6,689	1,850	0	**677,121**
Accumulated depreciation and impairment losses	-135,180	-21,122	-4,794	0	0	**-161,096**
Carrying amount at 31 December 2012	**435,514**	**76,766**	**1,895**	**1,851**	**0**	**516,026**
Changes in 2013						
Acquisition and reconstruction (note 26)	2,774	1,100	451	8,858	257	**13,440**
Disposed at carrying amount	-1,539	0	0	-96	0	**-1,635**
Depreciation charge	-11,703	-5,291	-421	0	0	**-17,415**
Impairment loss	0	0	-2	-122	0	**-124**
Reclassification	2,441	171	0	-2,612	0	**0**
At 31 December 2013						
Cost	567,508	99,047	6,903	7,879	257	**681,594**
Accumulated depreciation and impairment losses	-140,021	-26,301	-4,980	0	0	**-171,302**
Carrying amount at 31 December 2013	**427,487**	**72,746**	**1,923**	**7,879**	**257**	**510,292**

The group's assets have not been pledged.

As at 31 December 2013, the cost of fully depreciated items still in use amounted to EUR 20,552 thousand, as at 31 December 2012: EUR 18,382 thousand.

The group did not capitalise interest expenses on loans in 2013 as no large-scale construction or reconstruction projects have been commenced after 1 January 2010.

Impairment tests of property, plant and equipment are described in note 4 to these financial statements. Commitments related to property, plant and equipment are disclosed in note 25 to these financial statements.

12. INTANGIBLE ASSETS

In thousands of euros	**Computer software**	**Assets under construction**	**Prepayments**	**Total**
At 31 December 2011				
Cost	969	0	10	**979**
Accumulated amortisation and impairment losses	-149	0	0	**-149**
Carrying amount at 31 December 2011	**820**	**0**	**10**	**830**
Changes in 2012				
Acquisition and reconstruction (note 26)	53	105	-10	**148**
Amortisation charge	-206	0	0	**-206**
Reclassification	24	-24	0	**0**
At 31 December 2012				
Cost	1,046	81	0	**1,127**
Accumulated amortisation and impairment losses	-355	0	0	**-355**
Carrying amount at 31 December 2012	**691**	**81**	**0**	**772**
Changes in 2013				
Acquisition and reconstruction (note 26)	71	105	0	**176**
Amortisation charge	-239	0	0	**-239**
Reclassification	186	-186	0	**0**
At 31 December 2013				
Cost	1,303	0	0	**1,303**
Accumulated amortisation and impairment losses	-594	0	0	**-594**
Carrying amount at 31 December 2013	**709**	**0**	**0**	**709**

13. OPERATING LEASES

Carrying amount of non-current assets leased out under operating lease

At 31 December
In thousands of euros

	2013	2012
Land	56,429	57,601
Incl. with right of superficies	*46,483*	*46,417*
Buildings	11,193	10,928
Plant and equipment	95	100
Other items of property, plant and equipment	899	1,006
Total carrying amount of non-current assets leased out under operating lease	**68,616**	**69,635**

Depreciation charge on non-current assets leased out under operating lease

In thousands of euros	2013	2012
Buildings	736	740
Plant and equipment	5	5
Other items of property, plant and equipment	106	111
Total depreciation charge on non-current assets leased out under operating lease	**847**	**856**

Rental income from non-current assets leased out under operating lease

In thousands of euros	2013	2012
Land	6,863	5,512
Buildings	4,294	3,842
Plant and equipment	104	114
Other items of property, plant and equipment	152	157
Total rental income from non-current assets leased out under operating lease (note 20)	**11,413**	**9,625**

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

In thousands of euros

At 31 December	2013	2012
< 1 year	10,772	9,119
1-5 years	45,256	45,122
> 5 years	349,390	346,680
Total rental income in subsequent periods under non-cancellable operating lease contracts	**405,418**	**400,921**

Operating leases are agreements whereby the lessor transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period in accordance with signed contracts. Operating lease contracts are entered into for periods ranging from 2 years to 20 years. As a rule, operating lease rentals are subject to increase once a year based on changes in the consumer price index for the previous year (depending on the contract, either the index applied in Estonia, the euro area or Germany serves as the basis). As a rule, improvements to a leased asset made by the lessee are not compensated by the lessor at the end of the lease term.

Note 13 continued

Under right of superficies contracts, all significant risks and rewards of the ownership of the asset are transferred to the superficiaries. In contracts entered into by the group and customers for the establishment of a right of superficies, payments for the right of superficies and the duration of the contract (usually ranging from 36 years to 50 years) have been stipulated. As a rule, payments for a right of superficies are subject to increase after a certain period has passed based mostly either on changes in the assessed value of land (for older contracts) or changes in the consumer price index (for more recent contracts). Contractual payments for a right of superficies are usually not covered by guarantees. As a rule, at expiry of the contract the superficiary has the right to remove the construction erected on the land under the right of superficies; apply for extension of the term of the right of superficies up to the end of the construction's life; or the constructions are subject to compensation by the constitutor of the right of superficies at the usual value of the right of superficies.

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

In thousands of euros

At 31 December	2013	2012
< 1 year	483	481
1-5 years	793	630
> 5 years	3	1
Total rentals payable in subsequent periods under non-cancellable operating lease contracts	**1,279**	**1,112**

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

14. SHORT-TERM PROVISIONS

Provision for bonuses

In thousands of euros	2013	2012
At beginning of year	**1,015**	**946**
Recognised and revalued	965	1,032
Used	-1,037	-963
At end of year	**943**	**1,015**

Other provision

In thousands of euros	2013	2012
At beginning of year	**66**	**0**
Recognised and revalued	-66	66
Used	0	0
At end of year	**0**	**66**
Total provisions	**943**	**1,081**

Note 14 continued

The provision for bonuses includes accrued bonuses payable to the members of the group companies' management board members and employees for the operating results of the reporting period. The provision also includes social security charges and unemployment insurance contributions. Bonuses payable to the members of the management boards of the group companies are decided by the supervisory boards after the annual reports of respective companies for the year ended 31 December 2013 have been approved.

15. TRADE AND OTHER PAYABLES

In thousands of euros

At 31 December	2013	2012
Trade payables	2,803	3,565
Payables to employees	521	415
Interest payable	697	764
Accrued tax payable on remuneration	330	267
Taxes payable (note 16)	1,239	1,335
Advances for goods and services	877	1,140
Payables to joint venture (note 24)	119	121
Other payables	1,008	966
Total trade and other payables	**7,594**	**8,573**
Incl. current liabilities	6,616	7,622
non-current liabilities	977	953

Trade payables for property, plant and equipment and intangible assets

In thousands of euros

At 31 December	2013	2012
Trade payables* incl.	2,803	3,565
*For property, plant and equipment** (note 26)*	*919*	*1,205*
*For intangible assets** (note 26)*	*4*	*5*
Total trade payables for property, plant and equipment and intangible assets**	**923**	**1,210**

* Including VAT

** Excluding VAT

16. TAXES PAYABLE

In thousands of euros

At 31 December	2013	2012
Value added tax	777	852
Personal income tax	126	110
Corporate income tax	26	25
Pollution charge	3	3
Social security tax	250	225
Unemployment insurance contributions	16	22
Funded pension contributions	8	7
Land tax	0	51
Excise duty	33	40
Total taxes payable (note 15)	**1,239**	**1,335**

Note 16 continued

As at 31 December 2013, prepaid taxes amounted to EUR 226 thousand, in the comparative period as at 31 December 2012: EUR 210 thousand. Prepaid taxes are disclosed in note 9 to these financial statements.

17. LOANS AND DEBT SECURITIES

In thousands of euros At 31 December	2013	2012
Current portion		
Loans and borrowings	9,220	13,286
Debt securities	2,500	4,900
Total current portion	**11,720**	**18,186**
Non-current portion		
Loans and borrowings	59,536	58,756
Debt securities	56,150	72,400
Total non-current portion	**115,686**	**131,156**
Total loans and borrowings	**127,406**	**149,342**

Interest paid

In thousands of euros	2013	2012
On debt securities issued	1,140	949
On loans and borrowings	705	1,617
On derivatives	1,684	979
Total interest paid	**3,529**	**3,545**

Interest expenses are recognised in the income statement under “Finance costs” and disclosed in note 23 to these financial statements.

Issue and redemption of debt securities

From prior periods, AS Tallinna Sadam has three bond issues with final maturities in 2017 and 2018. The issues have not been listed. The debt securities have been issued in euros and with a floating interest rate (with the base interest rate of 3 or 6 months' Euribor).

In 2013, AS Tallinna Sadam redeemed debt securities in line with the redemption schedules in the total amount of EUR 4,900 thousand. In addition, debt securities of EUR 13,750 thousand issued in 2009 were redeemed early. In the comparative year 2012 redemption payments amounted to EUR 4,900 thousand.

Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 December 2013 was 1.964% (31 December 2012: 2.358%).

Loans

All loan agreements are denominated in euros and are based on a floating interest rate (the base interest is 1 month or 6 months' Euribor). As at 31 December 2013, the weighted average interest rate on drawn loans was 1.296% (in the comparative year 2012: 1.050%). Considering the effect of derivative transactions used to hedge the interest rate risk, the weighted average interest rate on loans as at 31 December 2013 was 2.356% (31 December 2012: 2.366%).

Note 17 continued

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

In 2013 a loan agreement was made with Nordic Investment Bank (NIB) on up to EUR 25 million with the final maturity of 15 years. It is a floating interest rate loan with the base interest rate of 6 months' Euribor, plus risk margin. EUR 10 million of the loan amount was drawn in 2013, the remainder of the loan is planned to be drawn down in 2014. In the comparative year 2012 new loan agreements were not concluded and no undrawn loans existed.

In 2013, loan principal repayments amounted to EUR 13,286 thousand, in the comparative year 2012: EUR 13,286 thousand. The final maturities of drawn loans fall into the years from 2014 to 2028.

Contractual maturities of loans and borrowings

In thousands of euros

At 31 December	**2013**	**2012**
< 6 months	6,420	7,437
6-12 months	5,300	10,749
1-5 years	80,725	95,379
> 5 years	34,961	35,777
Total loans and borrowings	**127,406**	**149,342**

Carrying amount of loans and borrowings recognised in the statement of financial position compared with their fair value

In thousands of euros

At 31 December	**2013**	**2012**
Carrying amount		
Debt securities	58,650	77,300
Loans and borrowings	68,756	72,042
Total carrying amount	**127,406**	**149,342**
Fair value		
Debt securities	58,577	76,850
Loans and borrowings	68,679	71,748
Total fair value	**127,256**	**148,598**

In terms of fair value hierarchy this qualifies as the 2nd level measurement.

18. GOVERNMENT GRANTS

In thousands of euros	2013	2012
Long-term grant advances at beginning of year		
Cohesion Fund	24,950	21,825
TEN-T Fund	32	38
State budget of the Republic of Estonia	119	128
Total long-term grant advances at beginning of year	**25,101**	**21,991**
Grants received		
Cohesion Fund	0	3,432
TEN-T Fund	203	0
European Regional Development Fund	11	23
Other foreign assistance	42	26
State budget of the Republic of Estonia	72	0
Total grants received	**328**	**3,481**
Grants repaid		
Cohesion Fund	-34	0
Total grants repaid	**-34**	**0**
Recognised as income		
Cohesion Fund	454	307
TEN-T Fund	160	6
European Regional Development Fund	11	23
Other foreign assistance	42	26
State budget of the Republic of Estonia	12	9
Total recognised as income (note 22)	**679**	**371**
Long-term grant advances at end of year		
Cohesion Fund	24,462	24,950
TEN-T Fund	75	32
State budget of the Republic of Estonia	179	119
Total long-term grant advances at end of year	**24,716**	**25,101**
Short-term grant advances		
TEN-T Fund	656	344
Other foreign assistance	34	34
Total short-term grant advances	**690**	**378**

Pursuant to section 22 subsection 12 of the 2007-2013 Structural Assistance Act a final recipient is required to guarantee the preservation of the assets necessary for achieving the goal of the project and use thereof for the intended purposes under the prescribed conditions and in compliance with the provisions on Article 57 of Council Regulation No 1083/2006/EC within at least the period of five years after the end of the eligibility period of the project.

Cohesion Fund

Project “Extension of the eastern part of Muuga Harbour” (2006-2011)

The project was co-financed by the EU Cohesion Fund to the extent of 44.95%. Within the framework of the project, the first stage of the extension of Muuga Harbour was supported, including filling the coastal area and seabed. The aim of the project was to develop the container terminal area and build transport connections, which would result in increased capacity for handling container cargo.

Note 18 continued

The outstanding balance of the project related grant of EUR 17,992 thousand (31 December 2012: EUR 18,254 thousand) included non-depreciable asset related grant of EUR 13,902 thousand (31 December 2012: EUR 13,936 thousand).
Structural assistance of EUR 34 thousand received for covering non-eligible expenditure was repaid in 2013.

Project "Creating connections between the eastern part of Muuga Harbour and the Industrial Park" (2010-2014)
Within the framework of the project, a viaduct was constructed in Muuga Harbour to connect the Industrial Park with the harbour; the free zone of Muuga Harbour was extended; and the railway network of Muuga Industrial Park was finished.
The project provides another access to Muuga Harbour with additional facilities for customs entry. Extension of Muuga free zone enables Muuga Harbour and the Industrial Park to compete with free economy zones of other countries and enhances Estonia's competitiveness. Finishing the railway network of Muuga Industrial Park helps facilitate cargo handling and enables more cost-efficient railway transport.
The outstanding balance of the project related grant was EUR 6,470 thousand (31 December 2012: EUR 6,695 thousand). There are no non-depreciable assets related to the project.

European Regional Development Fund
Programme "Development of clusters" (2010-2013)
Estonian Logistics Cluster is a joint project that focuses on international marketing of its participants; explaining logistical advantages of Estonia in target markets; product development through deployment of free resources; logistics-related educational issues; and cooperation of companies as regards IT issues.
AS Tallinna Sadam participated in Estonian Logistics Cluster development project together with 22 companies, universities and professional associations.
In 2013 expenses incurred within the framework of the project amounted to EUR 14 thousand (2012: EUR 12 thousand) and assistance received amounted to EUR 11 thousand (2012: EUR 8 thousand).

State budget of the Republic of Estonia
Programme "Grant for small ports" (2010)
Within the project framework, eligible expenditure incurred on construction of the Old City Marina was funded from the state budget via Enterprise Estonia to the extent of 43.5%. The aim of the project was to provide small craft tourists visiting Tallinn with the possibility to moor at the heart of Tallinn. The project was aimed at enhancing the value of the Old City Harbour area – the Port of Tallinn not merely as a sea gate but also as a destination. The Old City Harbour area was made more attractive for passenger and cruise ship tourists, and the Old City Harbour was opened up for the citizens of Tallinn. The Old City Marina is located at the heart of Tallinn, providing arriving visitors with an easy access to the city centre.
The outstanding balance of the project related grant was EUR 110 thousand (31 December 2012: EUR 119 thousand). There are no non-depreciable assets related to the project.

Programme "Atmosphere air protection programme " (2011-2013)
Within the framework of the project "Extension to the outdoor air monitoring system in Muuga Harbour" the outdoor air monitoring and management system in Muuga Harbour was extended by installing one outdoor air monitoring station in Randvere village, west of Muuga Harbour.
In the reporting period the assistance received for the project amounted to EUR 72 thousand. The outstanding balance of the project related grant as at 31 December 2013 was EUR 69 thousand.

TEN-T programme Motorways of the Seas
The Baltic Sea Hub and Spokes Project (2010-2013)
Under the European Commission decision of 20 July 2011, AS Tallinna Sadam is granted assistance for making investments and developing cooperation in safety and security related areas within the framework of the Baltic Sea ports' project "The Baltic Sea Hub and Spokes Project". Major partners within the project are the ports of Aarhus and Gothenburg. Assistance for investments amounts to 20% of the total cost of the investment and assistance for cooperation amounts to 50% of the cost of activities.

Note 18 continued

The outstanding balance of the project related grant was EUR 75 thousand (31 December 2012 EUR 32 thousand). There are no non-depreciable assets related to the project.

LNG in the Baltic Sea Ports (2011 – 2014)

Under the European Commission decision of 7 July 2012 AS Tallinna Sadam gets assistance for making preparations for investments in liquefied natural gas bunker facilities and for international cooperation aimed at turning to more environmentally friendly fuel. The project involves the following ports: Aarhus, Helsingborg, Helsinki, Malmö-Copenhagen, Tallinn, Turku, Stockholm. The project was initiated by the Baltic Ports Organisation (BPO). The assistance from the funds of the European Union covers 50% of the project's activities.
In 2013 expenses incurred within the framework of the project amounted to EUR 104 thousand (2012; EUR 36 thousand); the assistance received amounted to EUR 96 thousand (2012: EUR 87 thousand).

Twin-Port (2012-2015)

Within the framework of Twin-Port project north-south transport corridor of the European Union is developed which includes developing the infrastructure in the Old City Harbour of Tallinn and the Western Port of Helsinki. Investments in the Old City Harbour are related to improving the traffic scheme in the harbour area and developing the roads connecting the harbour and the city.
In 2013 expenses incurred within the framework of the project amounted to EUR 3 thousand; an advance under the assistance scheme was received in the amount of EUR 419 thousand.

"Green Innovation Through Information and Communication Technology (ICT)" financed by the state of Norway

Preliminary survey for project "Smart Port" (2013-2014)

Within the framework of the project a pilot info technology solution is developed for creating an automatic check-in service for cars in the passenger port terminals and devising an optimal traffic scheme.
In 2013 expenses incurred within the framework of the project amounted to EUR 24 thousand; no assistance was received in that period.

Other international cooperation projects (Port Integration, Clean Baltic Sea Shipping)

Since 2006, AS Tallinna Sadam has participated in various international cooperation projects. Each project is aimed at focusing on the development of various important port and maritime related areas. Also, international cooperation networks created during the projects form a good basis for broader cooperation and exchange of information.

19. EQUITY

Share capital

As at 31 December 2013 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period as at 31 December 2012: 183,882,302 shares. The par value of a share is EUR 1. All shares of the limited company are held by the Republic of Estonia. The shares are held and the shareholder's right is exercised by the Ministry of Economic Affairs and Communications. At the general meetings of shareholders the Ministry is represented by the Minister of Economic Affairs and Communications.

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association is 664,000,000 (in the comparative year 2012: 664,000,000). As at 31 December 2013 and in the comparative period as at 31 December 2012, all shares issued had been fully paid for.

Share capital was increased on 17 September 2013 when 1,320,730 new ordinary shares were issued at par value of EUR 1. The shares were paid for by non-monetary contributions of registered immovables held by the Republic of Estonia in Viimsi municipality and the city of Tallinn.

Note 19 continued

In the comparative year 2012 share capital was increased as follows: 2 ordinary shares were issued at par value of EUR 1 which were paid for by non-monetary contributions of registered immovables in Muuga Harbour that were built in water by AS Tallinna Sadam and held by the Republic of Estonia; 9,000 ordinary shares were issued at par value of EUR 1 which were paid for by a non-monetary contribution of pollution recovery vessel "Vares".

Earnings per share

	2013	**2012**
Weighted average number of shares (pcs)	184,322,545	183,874,051
Consolidated net profit for the reporting period (in thousands of euros)	39,643	32,819
Basic earnings and diluted earnings per share (in euros)	0.22	0.18

Unrestricted equity

As at 31 December 2013, the unrestricted equity of the parent (taking into account the statutory requirement to transfer 1/20 of the net profit for each financial year to the statutory capital reserve) amounted to EUR 172,283 thousand; in 2012, the respective figure was EUR 158,032 thousand. As at the reporting date, EUR 136,104 thousand could be distributed as dividends to the shareholder and the income tax on dividends would amount to EUR 36,179 thousand. The respective figures in 2012 were EUR 124,845 thousand and EUR 33,187 thousand.

The following table provides the basis for calculating unrestricted equity, potential dividend amount and related income tax on dividends:

In thousands of euros

At 31 December	**2013**	**2012**
Retained earnings	172,415	158,033
Statutory capital reserve (5%)	-132	-1
Unrestricted equity	**172,283**	**158,032**
Income tax on distributing the whole unrestricted equity (21%)	36,179	33,187
Potential net dividend	**136,104**	**124,845**

Statutory capital reserve

In 2013 the statutory capital reserve of AS Tallinna Sadam was increased by EUR 1 thousand; in the comparative year 2012: by EUR 580 thousand.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (note 8).

In thousands of euros	**2013**	**2012**
Hedge reserve at beginning of year	**-2,672**	**-2,574**
Change in derivative's market value	1,723	-98
Hedge reserve at end of year	**-949**	**-2,672**

Note 19 continued

Dividends

In thousands of euros	2013	2012
Dividends declared and paid in the reporting period	25,260	33,803
Dividends per share	0.14	0.18

Income tax on dividends

In thousands of euros	2013	2012
Accrued	6,715	8,958
Paid, incl.		
In cash	*6,715*	*8,825*
Set off against VAT	*0*	*133*
Total paid	6,715	8,958

20. REVENUE

In thousands of euros	2013	2012
Port charges and fees	55,999	52,031
Cargo charges	9,134	9,161
Passenger fees	10,438	9,791
Rental income (note 13)	11,413	9,625
Charter income	6,733	0
Sale of electricity	6,530	6,529
Sale of other services	1,911	1,441
Total revenue	**102,158**	**88,578**

Revenue by geographical area

In thousands of euros

	2013	2012
The Republic of Estonia	99,683	88,578
The Federal Republic of Germany	2,475	0
Total revenue by geographical area	**102,158**	**88,578**

21. OPERATING EXPENSES

In thousands of euros	2013	2012
Fuel, oil and energy costs	6,345	5,679
Technical maintenance and repairs of non-current assets	8,096	7,211
Services purchased for infrastructure	1,832	2,020
Tax expenses	3,190	3,387
Incl. land tax	*2,732*	*2,900*
Consultation and development expenses	592	902
Incl. research and development expenses	*390*	*672*
Services purchased	2,940	2,699
Incl. mooring charge	*1,144*	*1,128*
reception of ship-generated waste	*1,695*	*1,446*
Acquisition and maintenance of insignificant items	523	502
Advertising expenses	316	662
Rental expenses	488	484
Insurance expenses	380	169
Other operating expenses	2,075	1,256
Incl. expenses on doubtful receivables	*406*	*151*
Total operating expenses	**26,777**	**24,971**

Personnel expenses

In thousands of euros	2013	2012
Wages and salaries	9,028	6,809
Social security charges	3,031	2,319
Total personnel expenses	**12,059**	**9,128**
Incl. short term benefits of members of management and supervisory boards of group companies	335	255
Incl. social security charges on members of management and supervisory boards of group companies	111	84
Total expenses accrued on members of management and supervisory boards of group companies	**446**	**339**

Under the valid contracts as at 31 December 2013 AS Tallinna Sadam has the obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration. In return for observing the prohibition of competition, the group has the obligation to pay monthly compensation during 12 months as of the expiry of the contract in the amount equal to 25% of the management board member's remuneration.

22. OTHER INCOME AND EXPENSES

Other income

In thousands of euros	2013	2012
Gain on sale of non-current assets	2,061	3,677
Fines, interest on arrears*	1,819	2,916
Income from government grants (note 18)	679	371
Other income	202	1
Total other income	**4,761**	**6,965**

*Including contractual penalties of EUR 1,738 thousand for a contract partner's failure to achieve the minimum cargo volume set for 2013; in the comparative year 2012: EUR 2,239 thousand.

Other expenses

In thousands of euros	2013	2012
Fines, interest on arrears	15	109
Expenses on doubtful receivables	206	1,181
Compensation to former employees	62	61
Other expenses	141	319
Total other expenses	**424**	**1,670**

23. FINANCE INCOME AND FINANCE COSTS

Finance income

In thousands of euros	2013	2012
Interest income on bank accounts and deposits	34	199
Other interest income	81	230
Other finance income	1	0
Total finance income	**116**	**429**

Finance costs

In thousands of euros	2013	2012
Interest expense on loans and borrowings:		
Interest expense on loans	740	1,302
Interest expense on debt securities	1,077	905
Interest expense on derivatives	1,644	1,198
Total Interest expense on loans and borrowings	***3,461***	***3,405***
Foreign exchange loss	5	3
Other finance costs	240	115
Total finance costs	**3,706**	**3,523**

24. RELATED PARTY TRANSACTIONS

In thousands of euros	**2013**	**2012**
Transactions with joint venture		
Revenue	126	68
Operating expenses	1,749	1,506
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	34	30
Other income	0	13
Operating expenses	81	73
Transactions with government agencies and companies in which the state has control		
Revenue	4,971	498
Other income	15	37
Operating expenses	3,422	4,847
Other expenses	1	65
Acquisition of property, plant and equipment	2	5

In thousands of euros At 31 December	**2013**	**2012**
Trade receivables from and payables to joint venture		
Receivables (note 9)	16	7
Payables (note 15)	119	121
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Receivables	4	8
Payables	1	6
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	641	660
Payables	467	1,175

All related party transactions were made on an arm's length basis.

The amount of benefits payable to the members of the management and supervisory boards is disclosed in note 21 to these financial statements.

25. COMMITMENTS

As at 31 December 2013, contractual liabilities related to acquisition of property, plant and equipment, repairs, research and development expenditures totalled EUR 5,161 thousand; as at 31 December 2012, EUR 1,903 thousand.

26. EXPLANATIONS TO THE CASH FLOW STATEMENT

Acquisition of property, plant and equipment

In thousands of euros	2013	2012
Cash flows	**-12,373**	**-57,961**
Offsets	-32	-66
Reclassifications	0	-205
Government grants settled by intermediaries	0	-3,432
Non-monetary contributions (note 19)	-1,321	-9
Paid for previous year	1,205	888
Outstanding balance at end of year (note 15)	-919	-1,205
Total adjustments	*-1,067*	*-4,029*
Acquisition and reconstruction (note 11)	**13,440**	**61,990**

Acquisition of intangible assets

In thousands of euros	2013	2012
Cash flows	**-177**	**-165**
Paid for previous year	5	22
Outstanding balance at end of year (note 15)	-4	-5
Total adjustments	*1*	*17*
Acquisition and reconstruction (note 12)	**176**	**148**

27. CONTINGENT LIABILITIES

The tax authorities may inspect the group's tax accounting records for up to 6 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate nor conduct any tax inspections at the group companies or single-case inspections in the reporting period or in the comparative period. According to the group management's estimate no circumstances occur that could result in significant additional tax imposed on the group companies by the tax authorities.

The loan agreements concluded by the group set out certain limits to the group's consolidated financial indicators. The set limits have not been exceeded.

From 2003, the group had a contractual obligation to prepare a plot of land for construction of a terminal for its partner with the deadline on 31 December 2006. As at 31 December 2013, the group had not started preparing the plot for the terminal and pursuant to valid contracts, this may lead to an obligation to pay contractual penalties. As according to the estimates of the group management contractual penalties are not likely to be applied since the circumstances have changed and the customer is still interested in potential cooperation, no provision has been established for settling potential contractual penalties.

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

28. ADDITIONAL INFORMATION ON THE PARENT

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

Statement of financial position

In thousands of euros

At 31 December	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	10,855	9,254
Bank deposits with maturities of more than 3 months	0	1,620
Available-for-sale financial assets	182	182
Current portion of finance lease receivable	335	319
Trade and other receivables	16,509	19,023
Inventories	5	4
Total current assets	**27,886**	**30,402**
Non-current assets		
Investments in subsidiaries	11,395	11,395
Investments in joint venture	132	132
Non-current portion of finance lease receivable	5,272	5,607
Other long-term receivables	53,098	50,759
Property, plant and equipment	437,152	440,109
Intangible assets	671	772
Total non-current assets	**507,720**	**508,774**
Total assets	**535,606**	**539,176**
LIABILITIES		
Current liabilities		
Loans and borrowings	11,720	18,186
Derivatives	949	2,672
Provisions	838	752
Government grants	655	343
Trade and other payables	5,322	6,207
Total current liabilities	**19,484**	**28,160**
Non-current liabilities		
Loans and borrowings	115,686	131,156
Government grants	23,408	23,752
Other payables	61	1
Total non-current liabilities	**139,155**	**154,909**
Total liabilities	**158,639**	**183,069**
EQUITY		
Share capital at par value	185,203	183,882
Statutory capital reserve	18,388	18,387
Hedging reserve	-949	-2,672
Retained earnings	131,250	122,875
Profit for the year	43,075	33,635
Total equity	**376,967**	**356,107**
Total liabilities and equity	**535,606**	**539,176**

Note 28 continued

Income statement and statement of comprehensive income

Income statement

In thousands of euros	**2013**	**2012**
Revenue	88,210	81,618
Other income	4,958	7,222
Operating expenses	-19,899	-20,869
Personnel expenses	-7,843	-7,588
Depreciation, amortisation and impairment losses	-13,570	-13,291
Other expenses	-393	-1,663
Operating profit	**51,463**	**45,429**
Finance income and finance costs		
Finance income	2,028	688
Finance costs	-3,701	-3,524
Net finance costs	**-1,673**	**-2,836**
Profit before income tax	**49,790**	**42,593**
Income tax expense	-6,715	-8,958
Profit for the year	**43,075**	**33,635**

Statement of comprehensive income

In thousands of euros	**2013**	**2012**
Profit for the year	**43,075**	**33,635**
Other comprehensive income		
Revaluation of hedging instruments	1,723	-98
Total other comprehensive income	**1,723**	**-98**
Total comprehensive income for the year	**44,798**	**33,537**

Note 28 continued

Statement of cash flows

In thousands of euros	**2013**	**2012**
Cash receipts for sales of goods or services	92,200	84,809
Cash receipts related to other income	2,819	1,840
Cash paid to suppliers	-24,829	-24,896
Cash paid to and on behalf of employees	-6,666	-6,027
Cash payments related to other expenses	-140	-920
Income tax paid on dividends	-6,715	-8,825
Net cash from operating activities	**56,669**	**45,981**
Acquisition of property, plant and equipment	-10,807	-56,973
Acquisition of intangible assets	-138	-165
Proceeds from sale of property, plant and equipment	4,384	8,032
Proceeds from government grants related to non-current assets	491	0
Loans granted	-8,789	-10,589
Repayment of loans granted	8,775	7,763
Dividends received	76	102
Interest received	265	597
Net change in term deposits with maturities of more than 3 months	1,620	380
Net cash used in investing activities	**-4,123**	**-50,853**
Proceeds from issue of debt securities	0	45,000
Redemption of debt securities	-18,650	-4,900
Proceeds from loans received	10,000	0
Repayment of loans received	-13,286	-13,286
Dividends paid	-25,260	-33,803
Interest paid	-3,529	-3,545
Other payments related to financing activities	-220	-111
Net cash used in financing activities	**-50,945**	**-10,645**
NET CASH INFLOW/OUTFLOW	**1,601**	**-15,517**
Cash and cash equivalents at beginning of year	9,254	24,771
Increase/decrease in cash and cash equivalents	1,601	-15,517
Cash and cash equivalents at end of year	10,855	9,254

Note 28 continued

Statement of changes in equity

In thousands of euros	**Share capital at par value**	**Statutory capital reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
Equity at 31 December 2011	**183,873**	**17,807**	**-2,574**	**157,258**	**356,364**
Profit for the year	0	0	0	33,635	**33,635**
Other comprehensive income	0	0	-98	0	**-98**
Total comprehensive income for the year	*0*	*0*	*-98*	*33,635*	***33,537***
Transfer to share capital	9	0	0	0	**9**
Dividends declared	0	0	0	-33,803	**-33,803**
Total transactions with the owner of the company	*9*	*0*	*0*	*-33,803*	***-33,794***
Transfer to capital reserve	0	580	0	-580	**0**
Equity at 31 December 2012	**183,882**	**18,387**	**-2,672**	**156,510**	**356,107**
Carrying amount of interests under control and significant influence	0	0	0	-11,395	**-11,395**
Value of interests under control and significant influence under the equity method	0	0	0	12,918	**12,918**
Adjusted unconsolidated equity at 31 December 2012	**183,882**	**18,387**	**-2,672**	**158,033**	**357,630**

In thousands of euros	**Share capital at par value**	**Statutory capital reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
Equity at 31 December 2012	**183,882**	**18,387**	**-2,672**	**156,510**	**356,107**
Profit for the year	0	0	0	43,075	**43,075**
Other comprehensive income	0	0	1,723	0	**1,723**
Total comprehensive income for the year	*0*	*0*	*1,723*	*43,075*	***44,798***
Transfer to share capital	1,321	0	0	0	**1,321**
Dividends declared	0	0	0	-25,260	**-25,260**
Total transactions with the owner of the company	*1,321*	*0*	*0*	*-25,260*	***-23,939***
Transfer to capital reserve	0	1	0	-1	**0**
Equity at 31 December 2013	**185,203**	**18,388**	**-949**	**174,325**	**376,967**
Carrying amount of interests under control and significant influence	0	0	0	-11,395	**-11,395**
Value of interests under control and significant influence under the equity method	0	0	0	9,485	**9,485**
Adjusted unconsolidated equity at 31 December 2013	**185,203**	**18,388**	**-949**	**172,415**	**375,057**

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

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholder of AS Tallinna Sadam

We have audited the accompanying consolidated financial statements of AS Tallinna Sadam, which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 20 to 67.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

The consolidated statement of financial position as at 31 December 2013 includes cargo transportation related items of property, plant and equipment of EUR 45.2 million, which, as described in note 4, management has tested for impairment. As a result of the impairment test the management board did not identify any need for impairment.

The estimates used by management in cash flow projections for near future are not supported by the cargo volumes up to now or the information we have obtained during the audit. Therefore, in our opinion material uncertainty exists in respect of the cash flow projections used in the test. We have not been able to obtain sufficient audit evidence on which to base the opinion on whether and to what extent the value of the above assets should be impaired. Accordingly, we are unable to and do not express an opinion on the value of the non-current assets at the carrying amount of EUR 45.2 million as at 31 December 2013.

Due to the above matter we also issued a report with a qualified opinion on the consolidated financial statements as at 31 December 2012.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the *Basis for Qualified Opinion* paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Sadam as at 31 December 2013, 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.

Tallinn, 7 March 2014

/Signature/

Andris Jegers
Authorized Public Accountant No 171

KPMG Baltics OÜ
Audit firm activity licence No 17
Narva mnt. 5, Tallinn 10117

STATEMENT OF THE SUPERVISORY BOARD

The supervisory board of AS Tallinna Sadam has approved the consolidated annual report of AS Tallinna Sadam as at and for the year ended 31 December 2013, which consists of the management report and the financial statements and which has been appended the independent auditors' report.

11 March 2014

Neinar Seli

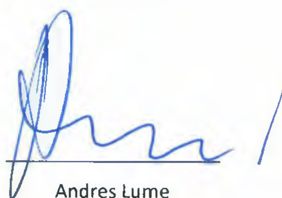
Kalev Lillo

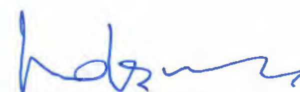
Tiit Riisalo

Veiko Tishler

Priit Paiste

Hillar Teder


Andres Lume


Remo Holsmer

PROFIT ALLOCATION PROPOSAL

As at 31 December 2013, the retained earnings of prior periods amounted to EUR 172,415,249 including profit for the year of EUR 39,643,157. Pursuant to section 77 subsection 1 of the State Assets Act the dividends payable by a company in which the state has at least the discretion is approved by the Government of Estonia at the proposal of the Minister of Finance. As at the date of approval of this profit allocation proposal the Government of Estonia has not made its decision on the dividend distribution by AS Tallinna Sadam. Based on the above, the management board proposes the allocation of the profit of EUR 42,000,000 based on the latest information available at the date of the proposal about the planned order by the Government of Estonia. The expected dividend per share is EUR 0.23.

Under section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 172,415,249 as at and for the year ended 31 December 2013 be allocated as follows:

Dividends	EUR 42,000,000
Statutory capital reserve	EUR 132,073
Retained earnings for prior periods	EUR 130,283,176

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board