PORT OF TALLINN

Consolidated Annual Report for the Financial Year ended on 31 December 2014

Translation of the Estonian Original

PORT OF TALLINN

(AS Tallinna Sadam)

AS TALLINNA SADAM

CONSOLIDATED ANNUAL REPORT 2014

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

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MANAGEMENT REPORT

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 and 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. The state-owned enterprise AS Tallinna Sadam was founded in April 1992; in 1996 it was reorganised into a limited company defined as *aktsiaselts* (AS) under Estonian law.

AS Tallinna Sadam is the largest complex of cargo and passenger harbours in Estonia. Its harbours 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's key competitors are other Baltic Sea ports servicing east-west transit cargo flows. 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. 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 foster the above tendencies, AS Tallinna Sadam has created necessary infrastructure for the areas adjacent to its main cargo harbours – developed industrial park areas in Muuga and Paldiski South Harbour.

The Tallinn-Helsinki route is one of the busiest passenger ship routes in the world. In addition to the passenger ship route to Finland, AS Tallinna Sadam also provides regular passenger ship services on the routes to Sweden and Russia (St. Petersburg). The number of cruise liners calling at 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 city which are owned by AS Tallinna Sadam (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. Since the beginning of 2013 icebreaker Botnica has been used under a 10-year contract for rendering icebreaking services to the state of Estonia for Estonian ports in the Gulf of Finland. Off icebreaking season the multi-functional icebreaker is leased out for various maritime support operations.

As a result of winning the tender, AS Tallinna Sadam signed a contract with the state of Estonia at the end of 2014 for rendering a ferry connection service between the Estonian mainland and major islands. The contract was concluded for a period of ten years from 1 October 2016 to 30 September 2026. Contracts were also signed with two shipbuilding yards for construction of four new passenger ferries – two ferries for the Kuivastu-Virtsu and two for the Rohuküla-Heltermaa route.

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 vessel traffic in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour, currently a harbour servicing mostly ship repair companies, in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour); and the harbour in Saaremaa meant 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 *aktsiaselts*, 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 2014, 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 in ports and harbours
OÜ TS Shipping	100%	Rendering icebreaking and other maritime support services with multi-functional icebreaker Botnica
OÜ TS Laevad	100%	Organising passenger ferry traffic

2. ECONOMIC ENVIRONMENT

Global economic growth in 2014 is predicted to be 3.3%, which is again slightly less than expected a year before (3.7%); however, this also means being at the same level as in 2013. In 2015 growth is projected at 3.5%; however, this indicates some downward revisions reflecting the sharp drop in oil prices in the last quarter of 2014 (to the lowest level in recent 6 years) and the adverse impact this is likely to have on the economy as a whole. The United States is the only major economy for which growth projections have been raised while weaker growth is expected in China, Russia, the euro area, and Japan as well as in some major oil exporters. One of the reasons for the decline in oil prices is considered to be weak economic performance and near-term projections of major economies (except for the USA), which will presumably reduce the demand for oil. All in all, the adverse impact which weakening growth expectations in major economies has on global growth is projected to offset the positive effect of cheaper oil. Uncertainty about the underlying drivers of the sharp change in oil prices as well as increased geopolitical tensions have added a new risk dimension to the global growth outlook while risks related to extremely low inflation in advanced economies, the debt burden increased during the depression and bouts of financial and capital market volatility also persist. Also, the need to keep the monetary policy rather moderate persists in order to further encourage upward trends the survival of which still calls for structural reforms in many economies.[1]

Global oil demand increased 0.7% in 2014 which was below the expectations a year before (1.4%) representing also the smallest growth within the last five years. Growth in demand in 2015 is estimated at 1.0%. Growth in demand in 2014 remained low almost globally with an exception of the USA. The growth projection for 2015 is based on the assumption of somewhat improved macroeconomic circumstances while the potential impact of low oil prices is regarded rather limited.[2]

According to preliminary flash estimates, Estonian economic growth in 2014 was 1.8% which again remains below the forecast of about 3% made a year ago based on stable external demand and growing domestic demand. The weaker than expected growth resulted from a certain decline in both investments and exports, compensated by increased private consumption. Economic growth in 2015 is projected at about 2%. As in 2014 increase in private consumption is expected to contribute significantly to economic growth in 2015 which is jeopardised by major export partners' weakened outlook for growth in Russia as well as European countries. Growth prospects are also restricted by increased geopolitical tensions. Consumer prices went down 0.1% in 2014 which meant a fall from the growth of 2.8% a year before, also a considerable difference compared to the forecast of 3% growth made a year ago, resulting mostly from changes in the prices of energy carriers (electricity and fuel). Inflation in 2015 is expected to remain below 2%, mostly on account of a favourable impact of fuel and food product prices as a result of external environment in the first half of the year[3].

The economic environment in 2014 also had an impact on the expenses of AS Tallinna Sadam due to decreased energy prices as well as outsourced services and personnel expenses; however, the impact of the two last factors was more diverse.

2.1. Developments in Russia

Russian economic growth slowed to 0.6% in 2014, although a year before the growth had been expected to accelerate compared to previous 1.4%. For 2015 the Russian Ministry of Economic Development has predicted a fall by 3% (assuming an oil price of USD 50 per barrel), which is less than estimated by international agencies (fall around 5-6%). Economic growth was slowed by a sharp decline in the prices of energy carriers in the global market, economic sanctions imposed by western states and the inflation accelerating together with a falling rouble. Inflation reached 7.8% compared to 6.5% a year before. In 2015 inflation is projected to be near 16%.

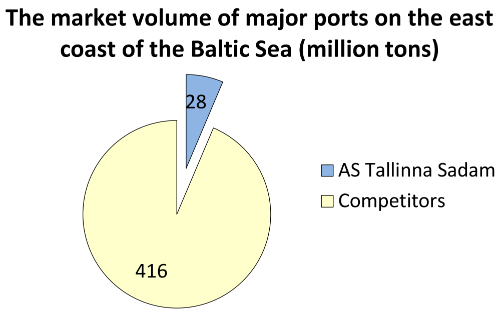
[1] IMF *World Economic Outlook Update*, January 2015
[2] IEA, *Oil Market Report*, 16 January 2015
[3] Statistics Estonia, Bank of Estonia, Ministry of Finance, Estonian Institute of Economic Research, Swedbank

Oil production in Russia increased by 0.7% to a record of 527 million tons and coal production by 1.7% to 353 million tons. Coal exports increased by 8.3% to 149 million tons which is expected to rise further because of deteriorating domestic sales due to weakened rouble. Oil product exports also increased (11%) while exports of crude oil declined (-5.6%). Production and exports of fertilizers grew 6% and 10% respectively. Cargo volumes at Russian ports increased by 5.7% to 623 million tons including 223 million tons (growth 3.4%) handled by the ports at the Baltic Sea region. Volumes of containerised cargo decreased by 3%. Weakening of the rouble resulted in people's declined spending power. Sales of new passenger cars decreased by 10% and for 2015 a decline by about 25% has been forecast.

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 recent years has been in Ust-Luga. The competitiveness of Russian ports was also indirectly fostered by a 60% decline in the exchange rate of the Russian rouble to the euro during the year (mostly within the last two months).

2.2. Competitive position

On assessing our competitive position, the 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 competing for handling transit cargo mostly transported from or to Russia. In 2014, the total cargo turnover of major ports on the east coast of the Baltic Sea amounted to a record of 444 million tons, i.e. growth by 3.8% (in 2013, the market volume was 428 million tons with growth of 1.3%).



Adding the cargo volumes of other Estonian ports (15.7 million tons), the market cargo volume of AS Tallinna Sadam and its competitors was 460 million tons in 2014, up on 2013 by 17 million tons, i.e. 3.8%.

The competitive position of ports in 2014 was most characterised by increased volumes in Russian ports, but also in Riga and in ports of Poland. The rise in market volumes resulted the most from dry bulk (10.0 million tons, i.e. 9%) and general cargo (4.3 million tons, i.e. 3.8%). The rise in dry bulk resulted from fertilizers and grain; as regards coal, the break-down of volumes by port changed. In terms of general cargo, the volume of containerised cargo increased by 4.0 million tons (6.7%), i.e. by 63 thousand TEUs (1%) amounting to a record of 7.0 million TEUs. The volume of liquid bulk increased by 2 million tons (1.0%).

Cargo volumes of major ports on the east coast of the Baltic Sea mostly either increased or remained at the previous year's level; only the cargo volumes of Primorsk, Ventspils and HaminaKotka decreased. The biggest change in terms of growth in cargo volumes was that of Ust-Luga port (by total of 13.1 million tons, i.e. 21%), largely again on account of liquid bulk. In terms of growth, Ust-Luga was followed by Riga with growth of 5.6 million tons (16%) and St. Petersburg with growth of 3.2 million tons (5.5%). The growth of Riga resulted from liquid and dry bulk (fertilizers and coal); the growth of St. Petersburg was achieved on account of dry bulk (fertilizers and scrap metal). The steepest decline in cargo volumes was that of Primorsk (by 10.2 million tons, i.e. 16%) on account of liquid bulk, and Ventspils (by 2.6 million tons, i.e. 9%) on account of dry bulk (coal). Changes in other ports were less significant. As a result of the changes, mostly the market share of Estonian and Russian ports declined on account of the grown market share of Latvian ports. The market share of Russian ports was 58.2% (2013: 58.3%), Latvian ports 18.9% (2013: 18.6%), Estonian ports 11.5% (2013: 11.7%) and Lithuanian ports 11.4% (2013: 11.4%).

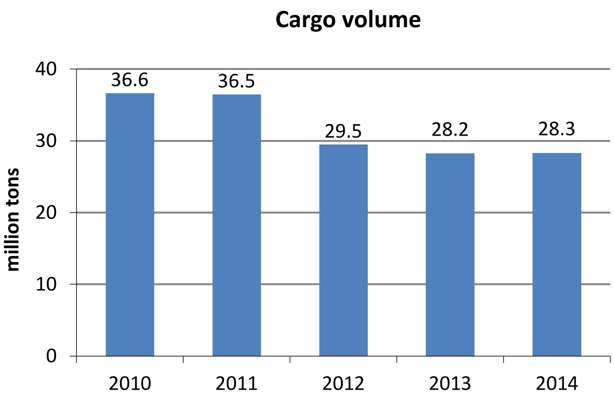
The title of the largest port on the east coast of the Baltic Sea went from Primorsk (market share 11.7%) to Ust-Luga (16.5%) followed by St. Petersburg (13.3%). Ust-Luga achieved a cargo volume of 75.7 million tons outpacing St. Petersburg with 14.5 million tons. The port of Primorsk (third after Ust-Luga and St. Petersburg) has a crude oil pipeline connection with the Transneft pipeline system with 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 largest oil export volume in Russia. AS Tallinna Sadam shifted from eighth position to seventh with a market share of 6.2% (2013: 6.4%) outpacing Ventspils due to decline in cargo volume of the latter.

3. OPERATING PERFORMANCE

In 2014 the cargo volume of AS Tallinna Sadam slightly increased (by 0.1 million tons, i.e. 0.3%) which meant stabilisation after three years of decline. The volumes of Ro-Ro and container cargo increased, the impact of which exceeded that of decreased dry bulk volumes, with containerised cargo reaching a new record level of 260 thousand TEUs. Another record-breaking level was also achieved by the number of passengers amounting to 9.57 million on account of the grown number of line passengers. Multi-functional icebreaker Botnica generated revenue both in the icebreaking season, rendering services to the state, and off-season, carrying out offshore operations in the oil and gas fields in the Kara Sea, which resulted in a remarkable increase in income. Revenue also increased in terms of income from traditional port activities. All this resulted in a record revenue of EUR 111 million, the highest ever earned by AS Tallinna Sadam. As a whole, operating income increased by 8%, operating expenses by 3%, and profit before income tax by 7%; however, net profit decreased by 3% (due to increased income tax expense on the dividend). The dividend distributed to the shareholder in 2014 amounted to a record of EUR 42 million, plus income tax expense of EUR 11.3 million (2013: EUR 25.3 million and EUR 6.7 million respectively).

The extension of the container terminal in Muuga Harbour commenced handling containerised cargo in the middle of 2014 as planned. The biggest investment was completion of a new cruise quay in the Old City Harbour in spring by the beginning of the cruise season which allows to receive ships with the length of up to 340 metres. This increased the harbour's capacity for simultaneous service of large cruise liners since due to the liners' dimensions growing year by year the current quay line was too short for that. Another significant achievement of AS Tallinna Sadam was winning a public procurement (through its subsidiaries). As a result, AS Tallinna Sadam will operate passenger ferry connection on the Kuivastu-Virtsu and Rohuküla-Heltermaa routes for the next ten years starting from autumn 2016. By 1 October 2016 four new passenger ferries will be built to provide the service.

3.1. Cargo volume

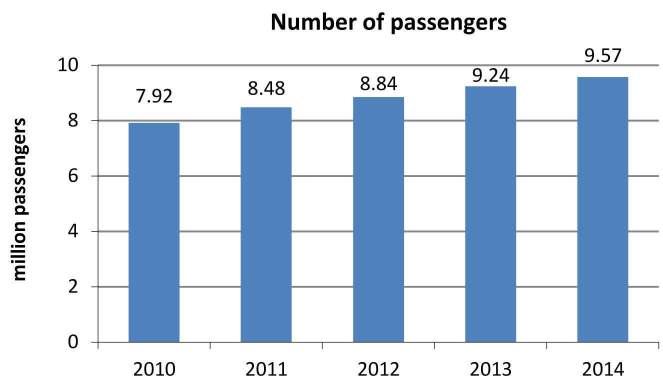


In 2014 the cargo volumes passing through the ports of AS Tallinn Sadam did not change significantly growing by 74 thousand tons (i.e. 0.3%) to 28.3 million tons. The volume of Ro-Ro and containerised cargo increased by 0.3 million tons (9%) and 0.2 million tons (11%) respectively. The volume of containerised cargo in terms of TEUs increased by about 7 thousand (3%) reaching a record of 260 thousand TEUs. The volume of dry bulk declined by 0.45 million tons, i.e. 14%. The volume of liquid bulk, the cargo having the largest proportion in total cargo volumes, remained at the level of 2013; however, the volume serviced under the vessel-terminal-vessel scheme increased more than 70% to a record of 12.8 million tons which accounted for 45% of the total cargo volume in 2014. The volume of liquid bulk transported to the port via railway decreased by about 5 million tons which may be attributed to the grown cargo volumes of Ust-Luga port. In 2014 volumes of containerised cargo kept growing. Growth in the volumes of containerised and Ro-Ro cargo primarily attributable to the consumption on the east coast of the Baltic Sea and the area beyond has been fostered by a growing trend in the trade sector to deliver goods in containers. A more significant change in terms of transport directions was that of decreased export transit volumes with an equal increase in import transit volumes. The volumes of both export and import cargo increased but the changes were insignificant.

In terms of types of cargo, liquid bulk with 67% (2013: 67%) accounted for the major part of cargo volumes; Ro-Ro accounted for 14% (2013: 13%), dry bulk for 10% (2013: 11.5%) and containers for 7% (2013: 6.3%) of the cargo volumes. In the near future, the structure of the types of bulk cargo (liquid bulk and dry bulk) will depend on further utilisation of Russia's port capacities. As regards Ro-Ro and containerised cargo, the structure of cargo types will mostly depend on the development of the region's economic environment and geopolitical tensions influencing it. A terminal built on the infrastructure extension of the container terminal in Muuga Harbour, which was finished at the end of 2010, allows to receive large ocean-going vessels thus enabling the harbour to become a hub. In terms of transport directions, transit accounted for 74% (2013: 75%), exports for 13.3% (2013: 12%) and imports for 12.8% (2013: 13%) of cargo volumes.

Cargo transit through AS Tallinna Sadam is not seasonal by nature. The cargo volume passing through ports 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 edge over the northward and eastward ports where even more difficult ice conditions may result in more expensive and time-consuming transport of goods. Fluctuations in cargo volumes are usually subject to changes in market conditions (including changes in global market prices of transported cargo; domestic consumption in Russia; and such factors influencing exports as export duties, tariffs and export capacities).

3.2. Number of passengers



In 2014 the number of passengers passing through the ports of AS Tallinn Sadam increased by 333 thousand, i.e. 3.6%, reaching a record number of 9.57 million passengers (2013: 9.24 million passengers with growth of 4.5%). Once again such a large number of passengers exceeded the expectations in the context of economic recession in the region.

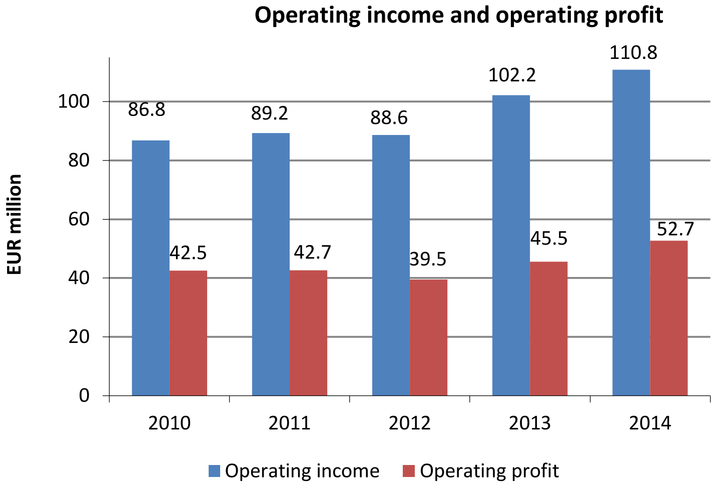
The Tallinn-Helsinki route (growth by 386 thousand passengers, i.e. 5%), the greatest in proportion, accounted for the major part of the growth in the number of line passengers which in turn was the main driver for the growth in total passenger numbers. The number of passengers on the Stockholm route increased by 20 thousand passengers, i.e. 2%. However, the number of passengers on the St. Petersburg route and the number of cruise passengers decreased by 37 thousand (i.e. 20%) and 40 thousand (i.e. 7.4%) respectively. AS Tallinna Sadam again rendered a turnaround service, quite a new service for the company, which means being the departure and destination port of a cruise. Rendering the turnaround service resulted in an increase in service volumes primarily for our local partners outside the harbour. The Baltic Sea region maintains its reputation as a rapidly developing area and the fastest growing region of the global cruise tourism. For 2015 we forecast a certain decline in the number of cruise passengers resulting from more stringent environmental requirements applied to marine fuel and the impact this has in terms of rising cruise prices.

Movements in 2014 as regards line passenger ships were as follows: on the Tallinn-Helsinki route operator Tallink replaced Silja Europa, the largest passenger ship in the Baltic Sea, with Baltic Queen (earlier operating on the Stockholm route, replaced in turn by Romantika); ships Gabriella and Mariella operated by Viking Line made calls on the Tallinn-Helsinki route in summer (on account of the idle time on the Stockholm-Helsinki route). The changes were fostered and caused by a continuously growing number of passengers.

A major part of a season of cruise liner calls lasts 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 2014 amounted to a record of EUR 110.8 million, up by EUR 8.6 million, i.e. 8.4% (2013: revenue of EUR 102.2 million and increase of 15%). AS Tallinna Sadam, the parent of the consolidation group, earned 82% of the group's income; TS Shipping OÜ earned 12% and TS Energia OÜ 6% of the income.

In terms of the source of income, revenue from the charter fees attributable to icebreaker Botnica increased the most amounting to EUR 13.1 million. Income from charter fees was earned on both rendering icebreaking services to the state and carrying out specialised vessel offshore operations off season, that resulted in an increase by EUR 6.3 million (94%) in total charter income. In terms of traditional sources of income, income from port charges and fees increased the most (by EUR 1.9 million, i.e. 3.5%). Income from line passenger ships, tankers and container ships increased as a result of an increase in the number of calls and the total capacity of cargo ships. In addition, indexation of port charges and fees tariffs had an effect on income. Also, income from leasing out land and other assets (income from rights of superficies and rental income) increased by EUR 1.2 million, i.e.11%, mostly attributable to increased income from the extension of the container terminal in Muuga Harbour. Income from passenger fees increased by EUR 0.8 million, i.e. 7.3% as a result of both an increase in the number of passengers and a change in the revenue tariff. Income from cargo charges decreased by EUR 1.1 million, i.e. 12%, mostly as a result of increased proportion of vessel-terminal-vessel cargo in liquid cargo as income from cargo charges earned on such cargo is smaller. All in all, the risk posed on the current revenue base by the growth of Ust-Luga port was mitigated by income earned on a new business line, i.e. vessel charter.

Expenses related to operating activities (operating expenses; personnel expenses; and depreciation, amortisation and impairment losses) totalled EUR 58.1 million, up on 2013 by EUR 1.5 million, i.e. 2.6%. Of the above expenses, expenses incurred on depreciation, amortisation and impairment losses increased the most (EUR 1.3 million, i.e. 7%), mostly due to a one-off impairment and write-off expense on non-current assets in the amount of EUR 1.46 million. Personnel expenses increased by EUR 1.2 million, i.e. 10%, mostly due to a longer charter period of offshore operations for icebreaker Botnica. Operating expenses decreased EUR 1.0 million, i.e. 3.8%. Fuel and energy costs decreased the most (by EUR 1.0 million, i.e. 15%) which resulted from both decline in energy prices and decrease in volumes of resold electricity. Expenses incurred on repair of non-current assets decreased by EUR 0.3 million, i.e. 4%, mostly against the high expenses in 2013. Consultation and development expenses increased by EUR 0.17 million, i.e. 29%, mostly as a result of activities carried out for developing new promising business opportunities. Changes in other operating expenses were less significant.

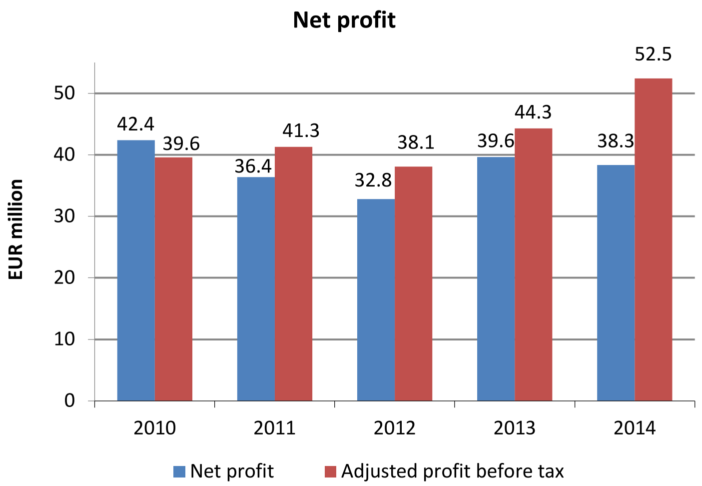
3.4. Operating profit, operating margin and EBITDA

Operating profit for 2014 (earnings before other income and other expenses) amounted to an all-time record of EUR 52.7 million, up on 2013 by EUR 7.1 million, i.e. 16%, 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, went up from 44.6% to 47.6%. Increased operating profit resulted mostly from improved results of subsidiary OÜ TS Shipping, but also on account of the parent company. Since the results of OÜ TS Shipping largely depend on income earned on offshore work carried out off icebreaking season which may vary considerably from year to year, this also has an impact on the company's performance indicators.

Port extension projects that have recently 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 a coal terminal opened in Muuga in 2005, Saaremaa Harbour opened in 2006, and the infrastructure of the extension of the container terminal in Muuga Harbour completed in 2010. We forecast a certain decline in operating margin in the upcoming years.

EBITDA (profit before interest income and expenses; income tax; and depreciation, amortisation and impairment) for 2014 was also an all-time record amounting to EUR 71.4 million compared to EUR 67.5 million in 2013, up by EUR 3.9 million, i.e. 6%. The smaller increase as compared to the increase in operating profit resulted mostly from a decrease in other operating income and increase in other operating expenses.

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 2.8 million, down on the period a year ago by EUR 2.0 million. Other income comprised mostly of income of EUR 1.7 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; and foreign exchange gains. While in 2013 a one-off gain on sale of non-current assets amounted to EUR 2.1 million, in 2014 no such gain occurred. Other expenses totalled EUR 3.0 million, up by EUR 2.6 million. The increase resulted from a one-off expense recognised as a provision for covering a potential liability of EUR 2.8 million which may arise on early termination of contracts (note 22). Finance income did not change significantly. Finance costs decreased mostly as compared to a higher cost base in 2013 resulting from an early repurchase of an interest rate risk hedging instrument. The volume of interest-bearing liabilities edged up; however, market interest rates that kept falling helped to reduce the interest expense. All in all, net finance costs decreased by EUR 0.6 million, i.e. 17%. Profit before income tax was EUR 49.7 million, up by EUR 3.3 million.

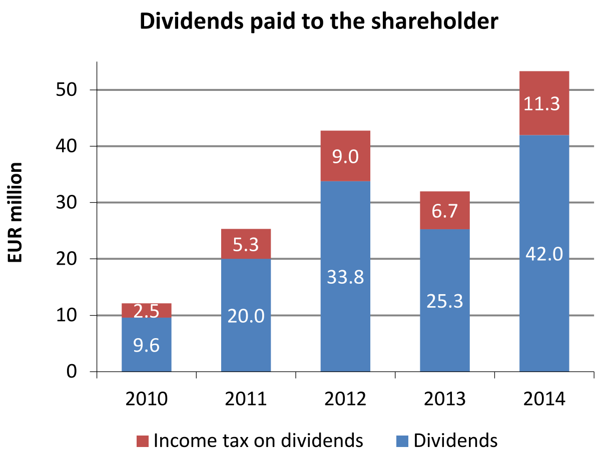
The group’s net profit for 2014 amounted to EUR 38.3 million, down on 2013 by EUR 1.3 million, i.e. 3%. The decrease resulted from an increase in income tax expense due to the amount of dividend distribution rising from EUR 25.3 million to a record of EUR 42.0 million.

In order 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 dividend distribution.

Adjusting the net profit for 2014 by the income tax expense on dividends in the amount of EUR 11.3 million and expenses related to a one-off provision of EUR 2.8 million recognised for charges on early termination of contracts, the result is an all-time record of EUR 52.5 million of adjusted profit before tax. Adjusting the net profit for 2013 by the income tax expense on dividends of EUR 6.7 million and the gain of EUR 2.1 million on sale of non-current assets, the result is adjusted profit before tax of EUR 44.3 million. The increase in adjusted profit (by EUR 8.2 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.

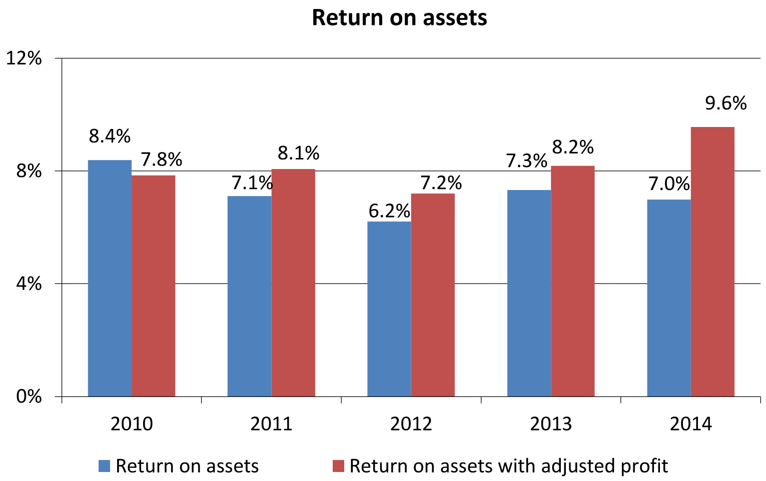
3.6. Dividends



In 2014, the shareholder was paid EUR 42.0 million as dividends plus income tax on dividends of EUR 11.3 million, a total of EUR 53.3 million. For further details see note 19 to these financial statements. The respective figures for 2013 were dividends of EUR 25.3 million plus income tax on dividends of EUR 6.7 million, a total of EUR 32.0 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, generally 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 dividend distribution 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.

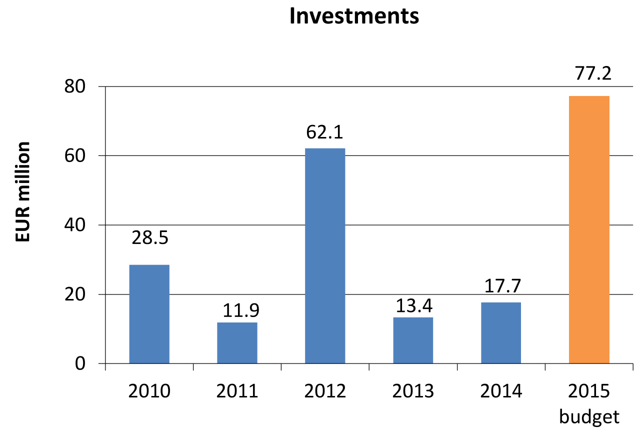
3.7. Return on assets



AS Tallinna Sadam's return on assets (net profit divided by the average total assets of the year) was 7.0%, slightly down on the level of 2013. However, return on assets based on adjusted profit before income tax increased to 9.6%. The increase in 2014 resulted mostly from an increase in adjusted profit before income tax on account of increased operating profit which also exceeded the impact of growth by 4% in total assets. A decline in return on assets in past years was partly anticipated, as it resulted from increased 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 2014.

AS Tallinna Sadam's adjusted return on equity (adjusted profit before income tax divided by the average total equity of the year) for 2014 was 14.1%. Return on equity also increased compared to 12.1% in 2013 (also based on adjusted profit before income tax), resulting from the increase in adjusted profit before income tax, but also from a decrease in equity (by 1%).

4. INVESTMENTS AND DEVELOPMENT OUTLOOK

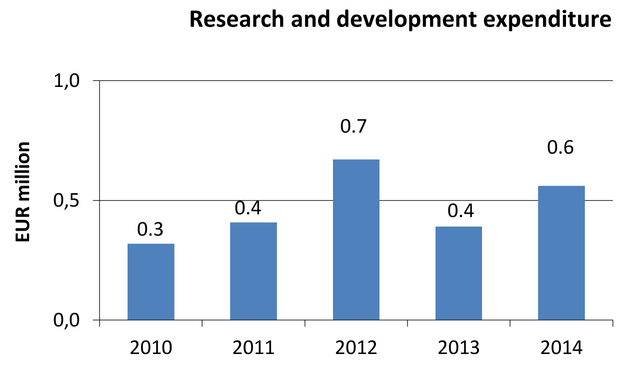


In 2014, the group's total investment in new infrastructure assets, acquisition of non-current assets and improvement of existing infrastructure assets amounted to EUR 17.7 million which slightly exceeded the total investment in 2013.

Major investments made in 2014 were quite equal in volumes with most of the investment in the total amount of EUR 8.7 million made to enhance passenger ship traffic in the Old City Harbour as follows: part of the cost of the reception equipment and passenger gallery on berth No. 16 in the northern area of the Old City Harbour in the amount of EUR 2.3 million; completion of the construction of a new cruise quay (commenced in 2013) in the amount of EUR 2.1 million; part of the cost of the construction of the new traffic solution in the northern area in the amount of EUR 2.1 million; a new passenger gallery on berth No. 12 in the amount of EUR 2.1 million. Other major investments included dredging the aquatory in Paldiski South Harbour in the amount of EUR 2.5 million and multi-functional icebreaker Botnica related investments of EUR 2.0 million.

The major part of the remainder of investments in the amount of EUR 2.2 million was related to reconstruction of quays in various harbours. Investments in IT hardware and software amounted to EUR 0.2 million. Other investments were mostly related to commencing construction of passenger ferries; improvement of buildings; construction of networks necessary for rendering public utility services and enhancing the reliability of supply of those services.

The major investment planned for 2015 will be part of the cost of construction of passenger ferries needed as from autumn 2016 for ferry connection between the mainland and major islands in the amount of EUR 52.2 million. Construction of passenger ferries will be completed in 2016.



In addition to investments, each year AS Tallinna Sadam bears substantial research and development expenses. In 2014 those expenses amounted to EUR 0.6 million. Research and development expenditures are 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 harbours; preparing necessary preliminary and detailed plans; also at environmental studies and monitoring of exploitation of mineral resources; and at assessing and monitoring other impacts arising from port operations.

In the Old City Harbour under-exploited areas are planned to be leased out (property development) primarily so that to improve 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 (the parent company) has been certified as being in compliance with the requirements of international standards ISO 9001 and ISO 14001. In March 2014 certification agency Bureau Veritas Eesti performed a follow-up audit in accordance with ISO 9001:2008 and ISO 14001:2004 requirements. Major objectives of the development of the quality and environmental management systems of AS Tallinna Sadam were as follows: continue with IT innovations to enhance the efficiency of core business lines; continue implementing asset management and strategic planning software in order to enhance the quality of asset management and strategic planning; continue improvement of document management and paper free accounting; develop the project management system; and improve the system of air quality monitoring 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 (CSR) in the company's day-to-day activities. In 2014 AS Tallinna Sadam responded, for a second successive year, to Estonian Corporate Sustainability and Responsibility Index questionnaire organised by Responsible Business Forum. According to the questionnaire results AS Tallinna Sadam was awarded 74.4 points out of a possible maximum of 100 points. Compared to 2013 AS Tallinna Sadam improved its result by 9.7 points and received CSR quality label at the bronze level.

Based on the results derived from the responses to the CSR Index questionnaire, CSR activities of AS Tallinna Sadam were mapped and compared with the last year's results by category as follows: 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 the company's CSR activities.

For sustainable operations of AS Tallinna Sadam the welfare and interests of our key stakeholders (employees, local community, customers) are important; therefore, in addition to main business activities the company aims at offering added value to the stakeholders. In 2014 main activities aimed at stakeholders included the following:

- Employees – events for the whole staff (a health week, sporting Shrove Tuesday, team training in summer, year-end celebration); regular sport events (Maijooks (May run), basketball, badminton, SEB Tallinn Marathon); various training courses for the staff (courses in management, environment, safety at work, plus foreign languages and computer courses);
- Local community – regular round tables with leaders of local authorities and other similar discussions with representatives of local communities in order to have a dialogue; various informative events in the vicinity of harbours (Viimsi Safety Day, Maardu Fair); and excursions in harbours. In addition, large public events were held at the premises of the Old City Harbour (Jazzkaar, Maritime Days). We also participated in community engagement projects and projects contributing to young people's education;
- Customers – regular customer information days; co-organised conferences (the LNG conference) and shared displays at international fairs (Hanseboot, TransRussia, Cruise Shipping Miami, Boot Düsseldorf).

In February 2015 AS Tallinna Sadam joined the Responsible Business Forum in Estonia in order to address CSR issues on a more systematic basis and contribute to promoting the attitude in Estonia.

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. Based on the observable indicators the following significant observations and trends in respect of 2014 may be outlined:

- 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; however, usage of quays and berths declined compared to 2013. Number of discrepancies decreased compared to 2013;
- Personnel and development performance indicators showed a decrease in the number of personnel voluntarily leaving employment. On the other hand, the proportion of the hours of personnel in-service training decreased while expenses incurred on research and development increased;
- Customer feedback was constantly monitored with the help of business line managers. Customer satisfaction surveys are not conducted each year (last in 2013). Suggestions made by customers were taken into account on setting divisions' objectives for 2014.

5.3. Environmental protection activities

In 2014 environmental protection expenses and investments of AS Tallinna Sadam amounted to EUR 0.9 million of which the maintenance costs of the ports' pollution recovery vessels accounted for EUR 0.64 million remaining within the same range as in 2013. In 2014 software application Mairis, a system designed to provide prompt information and notification to oil operators, was developed with an aim to prevent exceeding the permitted limits of outdoor air pollutants in Muuga Harbour. The total investment in the IT application amounted to EUR 32 thousand. Environmental research and consulting expenses totalled EUR 0.05 million (2013: EUR 0.03 million), and waste-water treatment charges amounted to EUR 0.06 million (2013: EUR 0.05 million).

Key environmental projects related to harbour development in 2014 were as follows:

- Development of software application Mairis for prompt information and notification system in order to prevent exceeding the permitted limits of outdoor air pollutants in Muuga harbour;
- Development of outdoor air monitoring in the western part of Muuga Harbour, and in cooperation with oil operators development of an environment management system (impact of oil terminals on atmosphere air pollution);
- Assessment of the environmental impact of the dredging of the aquatory and fairway in Paldiski South Harbour (approved);
- Provisional assessment of planning and environmental aspects of LNG bunkers in Muuga Harbour.

Environmental monitoring and assessment of environmental impact was performed in respect of construction and development activities in Muuga Harbour and Paldiski South Harbour in cooperation with competent experts.

6. SUBSIDIARIES AND JOINT VENTURES

As at year-end 2014, AS Tallinna Sadam held three subsidiaries (OÜ TS Energia, OÜ TS Shipping and OÜ TS Laevad) and one joint venture (AS Green Marine). No changes have been planned to be made in the structure of the consolidation group in 2015.

6.1. OÜ TS Energia

In the second half of 2004, AS Tallinn Sadam founded its subsidiary OÜ Tallinna Sadama Elektrivõrk. The new 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 harbour premises. Assets and employees required for rendering the above services were transferred from the parent to the subsidiary who became responsible for ensuring and developing the whole energy supply in harbour premises. On restructuring the subsidiary was renamed as OÜ TS Energia. The change did not have any impact on income and expenses at the group level.

[4] EVA: Economic Value Added

In 2014, the company continued investing in 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 harbour premises. Revenue from rendering of services in 2014 remained below the forecast level, partly due to a lower than expected electricity price. As a result, costs also remained below the expected, and as a whole, the financial performance exceeded expectations.

The remuneration of the subsidiary's management board and members of the supervisory board for 2014 amounted to EUR 47.9 thousand and EUR 9.0 thousand respectively. The remuneration of the management board for 2013 amounted to EUR 57.0 thousand including a bonus of EUR 11.4 thousand for the financial performance in 2013. The remuneration of the members of the supervisory board for 2013 amounted to EUR 9.9 thousand.

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 harbour 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. Until then OÜ Tallinna Sadama Veevõrk had had no actual economic activity. At the end of 2012 the company was renamed as 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 contract. 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. In 2014 Botnica continued providing services under the above ten-year icebreaking service contract; off icebreaking season Botnica was involved in offshore operations in the Kara Sea under an order by Karmorneftegaz SARL, a joint venture of Exxon Mobile and Rosneft. Botnica became the first vessel operating under the Estonian flag and with Estonian crew who had worked in polar oil and gas fields.

The remuneration of the subsidiary’s management board and members of the supervisory board for 2014 amounted to EUR 93.7 thousand and EUR 4.3 thousand respectively. The remuneration of the management board and members of the supervisory board for 2013 amounted to EUR 74.8 thousand and EUR 1.1 thousand respectively. A bonus for financial performance in 2014 may be added to the remuneration of the management board for 2014, which the supervisory board decides after the approval of the annual report.

6.3. OÜ TS Laevad

OÜ TS Laevad was established in 2014 in order to participate in a public tender for operating ferry connection between the mainland and major islands. The bid made together with OÜ TS Shipping was successful and in December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications for providing a passenger ferry connection service in the period from 1 October 2016 to 30 September 2026. In 2014 OÜ TS Laevad also signed contracts for the construction of four passenger ferries needed to provide the above service. The subsidiary’s management and supervisory boards were not remunerated in 2014.

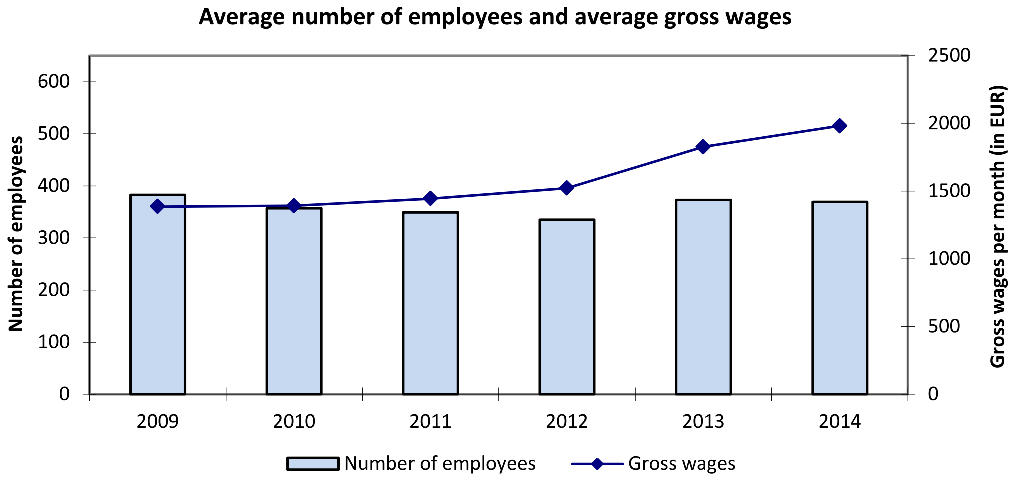
6.4. AS Green Marine

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 ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of the ports' aquatory and harbour premises. In 2014, 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 mobile liquid waste handling terminal, additional handling volumes were received from customers outside harbour premises. All in all, the company's income from customers not related to harbours demonstrates that the services offered are competitive. In 2014 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 2013 AS Green Marine distributed dividends in the same amount of EUR 150 thousand of which EUR 76.5 thousand was attributable to AS Tallinna Sadam.

7. ORGANISATION AND PERSONNEL

7.1. Employees



In 2014 the group’s average number of employees was 370 (2013: 373). Total remuneration of the employees amounted to EUR 8.79 million (2013: EUR 8.14 million). Average gross wages of the group’s employees in 2014 amounted to EUR 1,982 per month, i.e. 8.5% up on 2013 (EUR 1,826 per month). The rise in the group's average wages mostly resulted from the staff structure and remuneration of icebreaker Botnica.

Employee turnover in 2014 was 3.5% (2013: 2.6%). The average number of sick leave days in 2014 was 4.5 calendar days per employee (2013: 3.6 calendar days). AS Tallinna Sadam cares for its employees' work environment and is involved in raising its employees' awareness of work environment and job safety. The employer also fosters regular sport activities of the staff. In 2014 we had a health week during which we paid more than usual attention to the issues of employees' health, including healthy eating and physiotherapist's suggestions to the office staff. In addition, a blood donor day was organised for the group's staff and cooperation partners within the health week.

To enhance internal communication, publishing of an intra-group newsletter was continued in 2014. Also, information days were held during the year where such issues as the group's performance and objectives for the period, development and environment related activities and corporate social responsibility were discussed.

On average, in 2014 each group employee participated in 13.6 hours of training (2013: 17.7 hours). Investments in training in 2014 amounted to EUR 317 (2013: EUR 382) per employee. The largest portion of the entire training volume was covered by professional training (including specialised work, use of special equipment and engineering education) and marine and port related training (36% and 35% respectively). We continued with several job safety related training initiatives, e.g. in-service training for first aid providers and employee representatives in working environment, and courses in fire safety and use of fire-extinguishing appliances. Training in safety and health at work and first aid accounted for 9% of the total training volume.

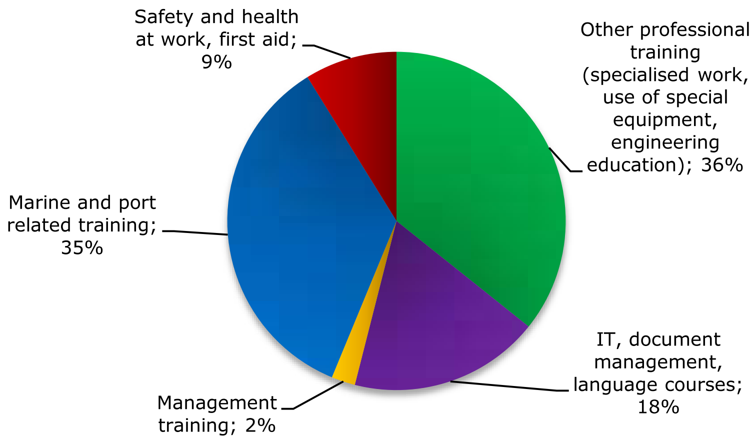


Diagram. Training activities in 2014, based on training hours

7.2. Management board

Due to the expiry of the term of office of the members of the management board a competition was held in 2014 to find two members of the management board. As a result of the competition, the previous management board will also continue for another five years. The supervisory board made a consensual decision to elect 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 2014 amounted to EUR 149.1 thousand. The remuneration of the members of the management board for 2013 amounted to EUR 189.1 thousand, including a bonus for financial performance in 2013 of EUR 47.3 thousand. A bonus for financial performance in 2014 may be added to the remuneration of the management board for 2014, 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 2014. In 2014 several changes were made in the membership of the supervisory board. With the sole shareholder's resolution of 3 June 2014 Vallot Mangus, Pille Parind and, based on a proposal from the Minister of Finance, Randel Länts were appointed members of the supervisory board. Tiit Riisalo, Andres Lume and Veiko Tischler were removed from the supervisory board. The remuneration of the members of the supervisory board for 2014 amounted to EUR 34.8 thousand (2013: EUR 34.8 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 on an ad hoc basis 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 technical communication equipment.

8.2. Management board

Pursuant to section 2.2.7 of the CGR, the following information about the amount of the remuneration of the members of the management board of AS Tallinna Sadam in 2014 and the scheme for determining severance package and additional bonuses and benefits are presented.

The remuneration of the chairman of the management board of AS Tallinna Sadam Ain Kaljurand for 2014 was EUR 79.9 thousand. The remuneration of the member of the management board Allan Kiil for 2014 was EUR 69.2 thousand. A bonus for financial performance in 2014 may be added to the remuneration of the management board for 2014, which the supervisory board decides after the approval of the annual report. The limits to the amounts of incentive payments 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 incentives payable to a member of the management board cannot exceed the amount equal to the management board member's four months' remuneration.

Under the valid agreements as at 31 December 2014 AS Tallinna Sadam has an 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 an obligation to pay monthly compensation during 12 months as of the expiry of the agreement 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 2014 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. Members of the supervisory board are 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 to the 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 2014, 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 auditors' 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 2014 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 21 to 63 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 (11 March 2015) 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

11 March 2015

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

At 31 December	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	**6**	11,871	10,856
Available-for-sale financial assets	**7**	0	182
Trade and other receivables	**9**	15,456	11,647
Inventories		194	152
Total current assets		**27,521**	**22,837**
Non-current assets			
Investments in joint venture	**10**	548	418
Other long-term receivables	**9**	1,772	3,098
Property, plant and equipment	**11**	529,880	510,292
Intangible assets	**12**	548	709
Total non-current assets		**532,748**	**514,517**
Total assets		**560,269**	**537,354**
LIABILITIES			
Current liabilities			
Loans and borrowings	**17**	23,933	11,720
Derivatives	**8**	747	949
Provisions	**14**	4,379	943
Government grants	**18**	1,363	690
Trade and other payables	**15,16**	11,341	6,616
Total current liabilities		**41,763**	**20,918**
Non-current liabilities			
Loans and borrowings	**17**	121,754	115,686
Government grants	**18**	23,781	24,716
Other payables	**15**	1,384	977
Total non-current liabilities		**146,919**	**141,379**
Total liabilities		**188,682**	**162,297**
EQUITY			
Share capital at par value	**19**	185,203	185,203
Statutory capital reserve	**19**	18,520	18,388
Hedging reserve	**19**	-747	-949
Retained earnings (prior periods)		130,283	132,772
Profit for the year		38,328	39,643
Total equity		**371,587**	**375,057**
Total liabilities and equity		**560,269**	**537,354**

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

In thousands of euros	Note	2014	2013
Revenue	**20**	110,773	102,158
Other income	**22**	2,759	4,761
Operating expenses	**21**	-25,752	-26,777
Personnel expenses	**21**	-13,292	-12,059
Depreciation, amortisation and impairment losses	**11,12**	-19,040	-17,778
Other expenses	**22**	-3,039	-424
Operating profit		**52,409**	**49,881**
Finance income and finance costs			
Finance income		54	116
Finance costs	**23**	-3,017	-3,706
Net finance costs		**-2,963**	**-3,590**
Share of profit/loss of equity-accounted investees	**10**	206	67
Profit before income tax		**49,652**	**46,358**
Income tax expense	**19**	-11,324	-6,715
Profit for the year		**38,328**	**39,643**
Basic earnings and diluted earnings per share (in euros)	**19**	0.21	0.22
Basic earnings and diluted earnings per share – continuing operations (in euros)		0.21	0.22

Consolidated statement of comprehensive income

In thousands of euros	Note	2014	2013
Profit for the year		**38,328**	**39,643**
Other comprehensive income			
Amounts that may be reclassified subsequently to profit or loss			
Revaluation of hedging instruments	**8**	202	1,723
Total other comprehensive income		**202**	**1,723**
Total comprehensive income for the year		**38,530**	**41,366**

CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD)

In thousands of euros	Note	2014	2013
Cash receipts for sale of goods or services		116,380	106,305
Cash receipts related to other income		1,641	2,819
Cash paid to suppliers		-32,490	-33,143
Cash paid to and on behalf of employees		-11,608	-10,728
Cash payments related to other expenses		-280	-153
Income tax paid on dividends	**19**	-11,144	-6,715
Net cash from operating activities		**62,499**	**58,385**
Acquisition of property, plant and equipment	**26**	-36,669	-12,373
Acquisition of intangible assets	**26**	-108	-177
Proceeds from sale of property, plant and equipment		1,025	4,406
Connection fees received		26	0
Proceeds from government grants related to non-current assets		906	491
Dividends received	**10**	76	76
Interest received		31	116
Net change in term deposits with maturities of more than 3 months		0	1,620
Net cash used in investing activities		**-34,713**	**-5,841**
Redemption of debt securities	**17**	-2,500	-18,650
Proceeds from loans received	**17**	32,000	10,000
Repayment of loans received	**17**	-11,220	-13,286
Dividends paid	**19**	-42,000	-25,260
Interest paid	**17**	-3,006	-3,529
Other payments related to financing activities		-45	-220
Net cash used in financing activities		**-26,771**	**-50,945**
NET CASH FLOW		**1,015**	**1,599**
Cash and cash equivalents at beginning of year	**6**	10,856	9,257
Increase in cash and cash equivalents		1,015	1,599
Cash and cash equivalents at end of year	**6**	11,871	10,856

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 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**
Profit for the year		0	0	0	38,328	**38,328**
Other comprehensive income	**8,19**	0	0	202	0	**202**
Total comprehensive income for the year		*0*	*0*	*202*	*38,328*	***38,530***
Dividends declared	**19**	0	0	0	-42,000	**-42,000**
Total transactions with the owner of the company		*0*	*0*	*0*	*-42,000*	***-42,000***
Transfer to capital reserve	**19**	0	132	0	-132	**0**
Equity at 31 December 2014		**185,203**	**18,520**	**-747**	**168,611**	**371,587**

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 2014 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 vessel traffic in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour); and the newest harbour in Saaremaa, built for receiving cruise liners (opened in 2006). The group’s subsidiaries render services that support port services in the above harbours, an icebreaking service and other maritime support services, and are involved in organising passenger ferry traffic.

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
OÜ TS Laevad	The Republic of Estonia	100	Organising passenger ferry traffic

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 11 March 2015. 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 2014 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 subsection *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 amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated financial statements:
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IAS 27 (2011) *Separate Financial Statements*
IAS 28 (2011) *Investments in Associates and Joint Ventures*
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 27 *Investment Entities*
Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2014 and have not been applied in preparing these financial statements:
Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The group does not expect the amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

IFRIC 21 *Levies*

Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.

The interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by a government. In accordance with the interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The interpretation sets out that an entity cannot have

Note 2 continued

a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the interpretation, when initially applied, will not have a material impact on the group's financial statements, since it does not result in a change in the group's accounting policy regarding levies imposed by governments.

Annual improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the group.

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 initially recognised 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.

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 date of the transaction. 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.

Note 2 continued

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.

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 initially recognised 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 initially recognised 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.

Note 2 continued

Changes in the fair value of available-for-sale financial assets are recognised through equity. When available-for-sale securities 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.

At the inception of the transaction the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, 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.

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 is recognised in equity. The gain or loss attributable 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 attributable 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.

Note 2 continued

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 past due).

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, transport 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 group's operations and are expected to be used for more than one year. Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

a) Cost

An item of property, plant and equipment is initially recognised at cost, which comprises the purchase price and any costs directly attributable to 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 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.

Note 2 continued

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 structures	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: a ship itself and dry dock expenses as a separate part. Calculations are based on the common practice in the shipping sector. The depreciation charge for either part of a 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 expenditures (costs attributable to designing and testing of new or improved products) are 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.

Development expenditures are 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

Note 2 continued

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 accumulated losses previously recognised in other comprehensive income to the income statement.

If the amount of an impairment loss decreases and the decrease can be objectively attributed 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.

Financial liabilities

Financial liabilities (trade payables, loans, accrued expenses, debt securities issued and other short- and long-term loans and borrowings) are initially measured at fair value. The fair value of financial liabilities other than those carried at fair value through profit or loss also includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method. Amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are stated in 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 20/80 (as from 1 January 2015) of the net dividend distribution. Up to 31 December 2014 income tax was calculated as 21/79 (up to 31 December 2013, 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.

Note 2 continued

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 leaves) where the absence is expected to occur within 12 months after an employee has rendered the related service; and additional remuneration that is due to be settled within 12 months after the end of the period in which an employee renders the related services.

When an employee has rendered services during the accounting period in exchange for which a benefit may be expected to be paid, 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 management estimates as required to settle the obligation at the reporting date or to transfer it to a third party at that time. If an obligation has to be settled later than 12 months after the reporting date, the provision is recognised at the present value of the expected future cash flows.

A provision is used 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 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 the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Note 2 continued

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 for each call of the vessel;
- Waste fee is calculated on the basis of the gross tonnage of the vessel 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 has 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.

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 fees

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

Sale of electricity

- Accounting for sale 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

  On 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 a service is not stated in the contract, 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.

Note 2 continued

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 measured reliably. 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 initially recognised 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.

Government grants related to assets are initially recognised at cost, the amount of the grant received for acquiring assets is recognised as a liability under deferred income from the 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; the companies, joint venture, and 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 volatility 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 writing 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 the 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 or receivables denominated in any other currency. All outstanding long-term loans and borrowings are denominated in euros; therefore, they are considered as liabilities not exposed to currency risk.

In 2014 nearly all receipts were denominated in euros with the proportion of receipts denominated in other currencies remaining below 7.2%. In the comparative year 2013 only 0.01% of all receipts were denominated in other currencies. 97.7% of expenditures (operating expenses, investments, financial costs, etc.) were denominated in the euro; 0.8% in the US dollar; 1.3% in the Norwegian krone; and 0.2% in other currencies. In the comparative year 2013, about 99.1% of expenditures were denominated in the euro; 0.5% in the US dollar; and about 0.4% in other currencies.

Due 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.

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 2014, the proportion of loans and borrowings with rates fixed through derivative transactions was 43% (31 December 2013: 50%) of the portfolio. Thus, 57% 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 in the market interest rate. If the market interest rate as at 31 December 2014 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 827 thousand greater/smaller assuming all other variables remained constant. As at 31 December 2013, 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 638 thousand.

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. As at 31 December 2014, the group's balances of receivables exposed to credit risk totalled EUR 28,217 thousand; as at comparative 31 December 2013: EUR 25,116 thousand.

Note 3 continued

In thousands of euros At 31 December	2014	2013
Current accounts and bank deposits with maturities of less than 3 months (note 6)	11,852	10,853
Receivables from customers* (note 9)	14,469	11,050
Other receivables (note 9)	1,896	3,213
Total	**28,217**	**25,116**

*Impairment losses are deducted from receivables from customers

To decrease customer related credit risk exposure, prepayments or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, a customer background survey is performed prior to concluding any major contracts. 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 are disclosed 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 as at the reporting date amounted to 64.2% (2013: 78.2%) of the receivables from customers. Trade receivables written down amounted to 9.3% (2013: 19.2%) of the receivables from customers. Further details on receivables from customers are disclosed in note 9 to these financial statements.

Liquidity risk

For the purposes of liquidity risk management, the group applies two-level liquidity monitoring. The first level liquidity reserve is used to meet the group's obligations arising from prompt settlement of liabilities incurred in the ordinary course of business. The reserve comprises receivables from overnight deposits at banks and receivables from shares 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 2014, the group’s liquidity reserve amounted to EUR 11.9 million; in the comparative year as at 31 December 2013: EUR 25.9 million.

Movements in the liquidity reserve forecast for 2015 are as follows:

In thousands of euros	EUR
Opening balance	**11,871**
Cash flows from operating activities	61,673
Cash flows used in investing activities	-78,687
Interest payments	-1,916
New loan/debt security emission	70,000
Dividend payments	-31,192
Debt security redemption and loan repayments	-23,933
Closing balance	**7,816**

Note 3 continued

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 interest accrued 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 of Euribor forecast for liquidity risk estimate as follows: for year-end 2014 as at 10 February 2015; for year-end 2013 as at 29 January 2014.

Liquidity analysis

In thousands of euros	**Loans drawn**	**Debt securities issued**	**Trade and other payables**	**Derivatives**	**Total**
At 31 December 2014					
< 6 months	17,508	1,542	10,050	39	**29,138**
6-12 months	4,439	1,614	0	162	**6,215**
1-5 years	31,185	55,165	0	838	**87,188**
> 5 years	41,952	0	0	-9	**41,943**
Total	**95,084**	**58,321**	**10,050**	**1,030**	**164,484**
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**

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 dividend amount payable by AS Tallinna Sadam into the state budget is established by the order of the Government of the Republic of Estonia.

Leverage

In thousands of euros At 31 December	**2014**	**2013**
Loans and borrowings (note 17)	145,687	127,406
Cash and cash equivalents (note 6)	11,871	10,856
Net debt	**133,816**	**116,550**
Total equity	371,587	375,057
Total capital	**505,403**	**491,607**
Leverage ratio	**26%**	**24%**

As at 31 December 2014, the leverage ratio of AS Tallinna Sadam, i.e. the ratio of external funds to total capital was 26%. Compared to 2013, the leverage ratio has increased by 2 percentage points with the net debt increased by 15% and total capital increased by 3%.

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 2014, the net value of the group's property, plant and equipment amounted to EUR 529,880 thousand; depreciation for the year was EUR 17,291 thousand; as at 31 December 2013, the respective figures were EUR 510,292 thousand and EUR 17,415 thousand (note 11). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and net profit would increase by EUR 1,729 thousand; in the comparative year 2013: by EUR 1,741 thousand.

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 is recognised or the previously recognised impairment loss is reversed either in part or in full.

Assets are tested for impairment on an ad hoc basis 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 2014 include quays, berths and premises related to cargo transport at the carrying amount of EUR 44,299 thousand; quays, berths and premises related to passenger transport at the carrying amount of EUR 6,565 thousand and territories adjacent to harbour premises at the carrying amount of EUR 4,990 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 and territories have infinite useful lives, extremely long-term cash flow projections (up to 50 years) have been created 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 the upcoming years or 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 592 thousand on the above passenger transport related assets and EUR 366 thousand on territories adjacent to harbour premises. 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 would not have incurred any impairment loss.

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 2014. Future developments seem to depend mostly on the sustainability of the indications of economic growth supported by liquidity increasing measures which

Note 4 continued

are intended to improve the financing conditions; also, application of more immediate economic reforms, if necessary.

Assessment of doubtful receivables

Based on its historical experience, the group has set a rule according to which receivables which are more than 90 days past due are generally classified as doubtful receivables. 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 past due may not be written down whereas some receivables that are less than 90 days past due may be written down. As at 31 December 2014, the group's doubtful receivables amounted to EUR 1,484 thousand. As at 31 December 2013, the group's doubtful receivables amounted to EUR 2,625 thousand (note 9).

5. FINANCIAL INSTRUMENTS

5.1. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros	**Receivables and loans**	**Available-for-sale assets**	**Total**
At 31 December 2014			
Cash and cash equivalents (note 6)	11,871	0	11,871
Trade and other receivables (note 9)*	16,394	0	16,394
Total financial assets	**28,265**	**0**	**28,265**
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**

* 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 2014			
Trade and other payables * (note 15)	0	11,927	11,927
Loans and borrowings and debt securities (note 17)	0	145,687	145,687
Derivatives (note 8)	747	0	747
Total financial liabilities	**747**	**157,614**	**158,361**
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**

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

Note 5 continued

Fair value

According to the group's estimates, the fair value of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts stated in the group’s consolidated statement of financial position as at 31 December 2014 and 31 December 2013. For the purposes of disclosure, the fair value of the loans and borrowings is found by discounting future 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 the loans and borrowings stated 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 any 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*.

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 the 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 in current accounts and deposits by rating*

In thousands of euros

At 31 December	**2014**	**2013**
Aa3	856	3,797
A1	10,996	4,048
Baa1	0	3,008
Total in current accounts and deposits	**11,852**	**10,853**

*The remaining balance in the statement of financial position entry “*Cash and cash equivalents*” consists of cash on hand.

Trade receivables by customer group*

In thousands of euros

At 31 December	**2014**	**2013**
New customers (up to 6 months)	117	129
Current customers (more than 6 months) with no or little contractual delinquency	10,030	10,461
Current customers (more than 6 months) with frequent contractual delinquency	99	97
Total trade receivables by customer group (note 9)	**10,246**	**10,687**

* Includes only receivables not past due nor impaired as at the reporting date.

6. CASH AND CASH EQUIVALENTS AND DEPOSITS

In thousands of euros At 31 December	2014	2013
Cash on hand	19	3
Current accounts with banks	8,852	4,372
Short-term deposits	3,000	6,481
Total cash and cash equivalents (notes 3 and 5)	**11,871**	**10,856**

Cash and cash equivalents by currency

In thousands of euros At 31 December	2014	2013
Euro	11,827	10,856
US dollar	44	0
Total cash and cash equivalents	**11,871**	**10,856**

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

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2014 AS Tallinna Sadam did not hold any available-for-sale financial assets. In the comparative period as at 31 December 2013 shares of EUR 182 thousand were recognised as available-for-sale financial assets.

8. DERIVATIVE INSTRUMENTS

In thousands of euros	2014	2013
Base amount at 31 December	63,000	63,650
Fair value at beginning of year (negative)	**-1,315**	**-3,077**
Incl. market value of derivative	*-949*	*-2,672*
interest payable	*-366*	*-405*
Change in derivative's market value (note 19)	202	1,723
Change in interest payable	273	39
Fair value at end of year (negative)	**-840**	**-1,315**
Incl. market value of derivative (note 5)	*-747*	*-949*
interest payable	*-93*	*-366*

As at 31 December 2014, AS Tallinna Sadam had effective interest rate swap transactions to fix the interest rates of long-term loans in the nominal value of EUR 63,000 thousand. As at 31 December 2013, the respective amount was EUR 63,650 thousand. All terms and conditions and maturities of interest rate swap transactions follow the repayment schedule of the loan hedged and the swap transactions are classified as cash flow hedging instruments.

As at 31 December 2014, AS Tallinna Sadam had entered into 3 derivative transactions to hedge interest rate risk with maturities from 5 to 7 years and with outstanding maturities ranging from 3.5 to 6.7 years as at 31 December 2014. The floating interest rate swapped by all derivative transactions is 6 month Euribor.

Note 8 continued

The fair value of derivative instruments is based on the quotes of Nordea Bank Finland Plc and Swedbank AS. The payments related to derivative instruments are made in euros.

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 2014 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 month Euribor); the payments are 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.

As at 31 December 2014, the weighted average fixed interest rate was 0.668% (31 December 2013: 2.46%); the floating interest rate is based on the Euribor. Gains and losses on interest rate swap transactions included within the hedging 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	2014	2013
Receivables from customers	15,953	13,675
Incl. for non-current assets	*3,558*	*4,574*
Allowance for doubtful receivables	-1,484	-2,625
Prepaid taxes (note 16)	525	226
Outstanding government grants	5	9
Other prepayments	309	231
Receivables from joint venture (note 24)	24	16
Other receivables	1,896	3,213
Total trade and other receivables	**17,228**	**14,745**
Incl. short-term receivables	15,456	11,647
long-term receivables	1,772	3,098

All long-term receivables will fall due within 12 years as from the reporting date.

Note 9 continued

Receivables from customers by maturity

In thousands of euros At 31 December	**2014**	**2013**
Receivables not due nor impaired* (note 5.2)	10,246	10,687
Receivables past due but not impaired*, incl.	*4,223*	*363*
1-30 days	474	*36*
31-60 days	3	*112*
61-120 days	1,893	*29*
121-180 days	1,721	*0*
181-360 days	128	*182*
more than 360 days	4	*4*
Receivables not due but impaired**	0	349
Receivables past due and impaired**	*1,484*	*2,276*
1-30 days	0	*2*
31-60 days	0	*2*
61-120 days	19	*9*
121-180 days	5	*6*
181-360 days	341	*781*
more than 360 days	1,119	*1,476*
Total receivables from customers by maturity	**15,953**	**13,675**

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

****** As at 31 December 2014, receivables written down amounted to EUR 1,484 thousand; as at 31 December 2013: EUR 2,276 thousand. Impairment allowances for the reporting period have been disclosed in the table below. Based on the historical experience, the group has set a rule according to which receivables more than 90 days past due 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 impairment allowances for doubtful receivables

In thousands of euros	**2014**	**2013**
Impairment allowance at beginning of year	-2,625	-3,081
Items deemed doubtful during the year	-554	-1,133
Previously written-down items collected during the year	71	283
Adjustment to impairment allowances	0	232
Doubtful receivables deemed irrecoverable	1,624	1,074
Impairment allowance at end of year (note 4)	**-1,484**	**-2,625**

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

Written-down items 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	2014	2013
Euro	12,044	13,675
US dollar	3,909	0
Total receivables from customers by currency	**15,953**	**13,675**

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

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 ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of ports' aquatory and harbour premises.

The financial statements of AS Green Marine 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

At 31 December	2014	2013
Carrying value at beginning of year	418	427
Share in profit under the equity method	206	67
Dividends paid	-76	-76
Carrying value at end of year	**548**	**418**

Joint venture

In thousands of euros At 31 December	2014	2013
Current assets	783	695
Non-current assets	2,119	2,127
Current liabilities	950	887
Non-current liabilities	879	1,116
Operating income	3,849	3,385
Operating expenses	3,372	3,177
Net profit	402	129

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	Prepayments	Total
At 31 December 2012						
Cost	570,694	97,888	6,689	1,851	0	**677,122**
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**
Reclassified at carrying amount	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**
Changes in 2014						
Acquisition and reconstruction (note 26)	341	2,113	197	14,916	21,463	**39,030**
Disposed at carrying amount	-726	0	0	0	0	**-726**
Depreciation charge	-11,654	-5,187	-450	0	0	**-17,291**
Impairment loss	-1,246	-176	-1	-37	0	**-1,460**
Other adjustments	35	0	0	0	0	**35**
Reclassified at carrying amount	15,213	633	0	-15,846	0	**0**
At 31 December 2014						
Cost	580,214	100,841	7,030	6,912	21,720	**716,717**
Accumulated depreciation and impairment losses	-150,764	-30,712	-5,361	0	0	**-186,837**
Carrying amount at 31 December 2014	**429,450**	**70,129**	**1,669**	**6,912**	**21,720**	**529,880**

The group’s assets have not been pledged.

As at 31 December 2014 the cost of fully depreciated items still in use amounted to EUR 21,412 thousand; as at 31 December 2013: EUR 20,552 thousand.

Impairment tests of non-current assets 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.

As at 31 December 2014 capitalised borrowing costs of EUR 37 thousand and consultation and owner supervision service expenses of EUR 435 thousand were recognised under the non-current asset group *"Assets under construction"* (note 14). In the comparative year 2013 no borrowing and other costs were capitalised.

In 2014 items of property, plant and equipment were written down in the amount of EUR 806 thousand which is recognised under *"Impairment loss"*. The write-down resulted from the conservation and discontinued use for business purposes of an office building in Paljassaare Harbour and demolition of a warehouse in the Old City Harbour at the beginning of 2015. In the comparative year 2013 items of property, plant and equipment were not written down.

Note 11 continued

In 2014 items of property, plant and equipment were written off in the amount of EUR 654 thousand (in the comparative year 2013: EUR 124 thousand) which is recognised under *"Impairment loss"*.

Impairment losses are recognised in the consolidated income statement under *"Depreciation, amortisation and impairment losses"*.

12. INTANGIBLE ASSETS

In thousands of euros	Computer software	Assets under construction	Total
At 31 December 2012			
Cost	1,046	81	**1,127**
Accumulated amortisation and impairment losses	-355	0	**-355**
Carrying amount at 31 December 2012	**691**	**81**	**772**
Changes in 2013			
Acquisition and reconstruction (note 26)	71	105	**176**
Amortisation charge	-239	0	**-239**
Reclassified at carrying amount	186	-186	**0**
At 31 December 2013			
Cost	1,303	0	**1,303**
Accumulated amortisation and impairment losses	-594	0	**-594**
Carrying amount at 31 December 2013	**709**	**0**	**709**
Changes in 2014			
Acquisition and reconstruction (note 26)	128	0	**128**
Amortisation charge	-289	0	**-289**
At 31 December 2014			
Cost	1,431	0	**1,431**
Accumulated amortisation and impairment losses	-883	0	**-883**
Carrying amount at 31 December 2014	**548**	**0**	**548**

13. OPERATING LEASES

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

At 31 December In thousands of euros	**2014**	**2013**
Land	57,380	56,429
Incl. with right of superficies	*46,691*	*46,483*
Buildings	9,884	11,193
Plant and equipment	91	95
Other items of property, plant and equipment	796	899
Total carrying amount of non-current assets leased out under operating lease	**68,151**	**68,616**

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

In thousands of euros	**2014**	**2013**
Buildings	663	736
Plant and equipment	5	5
Other items of property, plant and equipment	102	106
Total depreciation charge on non-current assets leased out under operating lease	**770**	**847**

Note 13 continued

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

In thousands of euros	**2014**	**2013**
Land	8,322	6,863
Buildings	4,041	4,294
Plant and equipment	97	104
Other items of property, plant and equipment	180	152
Total rental income from non-current assets leased out under operating lease (note 20)	**12,640**	**11,413**

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

In thousands of euros At 31 December	**2014**	**2013**
< 1 year	11,435	10,772
1-5 years	46,266	45,256
> 5 years	353,621	349,390
Total rental income in subsequent periods under non-cancellable operating lease contracts	**411,322**	**405,418**

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. Operating lease rentals are generally 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). Improvements to a leased asset made by a lessee are generally not compensated by the lessor at the end of the lease term.

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. Payments for a right of superficies are generally 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 generally not covered by guarantees. At expiry of a contract the superficiary generally 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	**2014**	**2013**
< 1 year	428	483
1-5 years	809	793
> 5 years	1	3
Total rentals payable in subsequent periods under non-cancellable operating lease contracts	**1,238**	**1,279**

Note 13 continued

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 generally 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	**2014**	**2013**
At beginning of year	**943**	**1,015**
Recognised and revalued	1,170	965
Used	-969	-1,037
At end of year	**1,144**	**943**

Other provision

In thousands of euros	**2014**	**2013**
At beginning of year	**0**	**66**
Recognised and revalued	3,235	-66
At end of year	**3,235**	**0**
Total provisions	**4,379**	**943**

The provision for bonuses includes estimated bonuses 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. Payment of bonuses to the members of group companies' management boards is decided by the supervisory boards after the annual reports of the respective companies for the year ended 31 December 2014 have been approved.

Other provision has been recognised for a liability of EUR 2,800 thousand arising from planned early termination of two contracts (note22), and for consultation and owner supervision services in the amount of EUR 435 thousand attributable to signing contracts for construction of ferries, and to the construction of the ferries (note 11).

15. TRADE AND OTHER PAYABLES

In thousands of euros

At 31 December	**2014**	**2013**
Trade payables	4,549	2,803
Incl. for property, plant and equipment (note 26)	*2,693*	*919*
for intangible assets (note 26)	*24*	*4*
Payables to employees	757	521
Interest payable	493	697
Accrued tax payable on remuneration	365	330
Taxes payable (note 16)	619	1,239
Advances for goods and services	798	877
Payables to joint venture (note 24)	120	119
Other payables	5,024	1,008
Total trade and other payables	**12,725**	**7,594**
Incl. current liabilities	11,341	6,616
non-current liabilities	1,384	977

16. TAXES PAYABLE

In thousands of euros At 31 December	2014	2013
Value added tax	66	777
Personal income tax	155	126
Corporate income tax	27	26
Pollution charge	3	3
Social security tax	299	250
Unemployment insurance contributions	22	16
Funded pension contributions	11	8
Excise duty	36	33
Total taxes payable (note 15)	**619**	**1,239**

As at 31 December 2014, prepaid taxes amounted to EUR 525 thousand; in the comparative period as at 31 December 2013: EUR 226 thousand. Prepaid taxes are disclosed in note 9 to these financial statements.

17. LOANS AND DEBT SECURITIES

In thousands of euros At 31 December	2014	2013
Current portion		
Loans and borrowings	21,433	9,220
Debt securities	2,500	2,500
Total current portion	**23,933**	**11,720**
Non-current portion		
Loans and borrowings	68,104	59,536
Debt securities	53,650	56,150
Total non-current portion	**121,754**	**115,686**
Total loans and borrowings (note 5)	**145,687**	**127,406**

Interest paid

In thousands of euros	2014	2013
On debt securities issued	879	1,140
On loans and borrowings	788	705
On derivatives	1,339	1,684
Total interest paid	**3,006**	**3,529**

Interest expense is recognised in the income statement under "*Finance costs*" and disclosed in note 23 to these financial statements.

Issue and redemption of debt securities

In previous periods, AS Tallinna Sadam had three debt security issues with maturities in 2017 and 2018. The issues have not been listed. The debt securities have been issued in euros and with floating interest rate (with the base interest rate of 3 month or 6 month Euribor).

Note 17 continued

In 2014, AS Tallinna Sadam redeemed debt securities in line with the redemption schedules in the total amount of EUR 2,500 thousand. In the comparative year 2013 redemption payments amounted to EUR 18,650 thousand, including early redemption of debt securities issued in 2009 in the amount of EUR 13,750 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 2014 was 1.328% (as at 31 December 2013: 1.964%).

Loans

All loan agreements are denominated in euros and are based on a floating interest rate (the base interest is either 1 month or 6 month Euribor). As at 31 December 2014, the weighted average interest rate on drawn loans was 1.007% (in the comparative year 2013: 1.098%). Considering the effect of derivative transactions used to hedge the interest rate risk, the average interest rate on loans as at 31 December 2014 was 1.255% (as at 31 December 2013: 2.631%).
Commitments arising from the 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 the loan agreements which concern meeting special terms, obligation of notice and minimum requirements set to the company's financial ratios.
In 2014 a short-term loan agreement was signed with SEB for a credit line up to EUR 20 million with a maturity of 4 months. The agreement will expire in 2015. In 2014, EUR 15 million of the loan amount was drawn down. In 2014 also an overdraft agreement with a maturity of 4 months was signed with Danske Bank A/S Estonian branch with a limit of up to EUR 5 million (of which EUR 2 million was utilised in 2014). As at the reporting date the agreement had already expired. In the comparative year 2013 a loan agreement was signed with Nordic Investment Bank (NIB) for up to EUR 25 million with a maturity of 15 years. EUR 10 million of the loan amount was drawn in 2013, the remainder of the loan was utilised in 2014.
In 2014, loan repayments amounted to EUR 11,220 thousand; in the comparative 2013: EUR 13,286 thousand. The maturities of the loans outstanding fall into the years from 2014 to 2028.

Contractual maturities of loans and borrowings

In thousands of euros

At 31 December	**2014**	**2013**
< 6 months	18,633	6,420
6-12 months	5,300	5,300
1-5 years	82,159	80,725
> 5 years	39,595	34,961
Total loans and borrowings (note 3)	**145,687**	**127,406**

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	**2014**	**2013**
Carrying amount		
Debt securities	56,150	58,650
Loans and borrowings	89,537	68,756
Total carrying amount	**145,687**	**127,406**
Fair value		
Debt securities	55,607	58,577
Loans and borrowings	89,513	68,679
Total fair value	**145,120**	**127,256**

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

18. GOVERNMENT GRANTS

In thousands of euros	2014	2013
Non-current government grant liabilities at beginning 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 government grant advances at beginning of year	**24,716**	**25,101**
Grants received		
TEN-T Fund	238	203
European Regional Development Fund	5	11
Other foreign assistance	23	42
State budget of the Republic of Estonia	0	72
Total grants received	**266**	**328**
Grants repaid		
Cohesion Fund	0	-34
Total grants repaid	**0**	**-34**
Recognised as income		
Cohesion Fund	465	454
TEN-T Fund	81	160
European Regional Development Fund	5	11
Other foreign assistance	23	42
State budget of the Republic of Estonia	16	12
Total recognised as income (note 22)	**590**	**679**
Transferred grants (on disposal of assets)		
Cohesion Fund	611	0
Total transferred grants	**611**	**0**
Non-current government grant liabilities at end of year		
Cohesion Fund	23,386	24,462
TEN-T Fund	232	75
State budget of the Republic of Estonia	163	179
Total non-current government grant liabilities at end of year	**23,781**	**24,716**
Short-term government grant advances		
TEN-T Fund	1,323	656
Other foreign assistance	40	34
Total short-term government grant advances	**1,363**	**690**

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.

The outstanding balance of the project related government grant of EUR 23,781 thousand (31 December 2013: EUR 24,716 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2013: EUR 13,902 thousand).

Note 18 continued

European Regional Development Fund

Programme "Development of clusters" (2010-2015)

Estonian Logistics Cluster is a joint project that focuses on international marketing of its participants; acquainting target markets with logistical advantages of Estonia; product development deploying free resources; logistics-related educational issues; and cooperation of companies in IT issues.

AS Tallinna Sadam participated in the Estonian Logistics Cluster development project together with 22 companies, universities and professional associations.

In 2014 expenses incurred within the framework of the project amounted to EUR 10 thousand (2013: EUR 14 thousand) and the grant received amounted to EUR 5 thousand (2013: EUR 11 thousand).

TEN-T programme Motorways of the Seas

LNG in the Baltic Sea Ports (2011–2014)

According to the European Commission decision of 7 July 2012 AS Tallinna Sadam receives a grant for making preparations to invest in liquefied natural gas (LNG) bunker facilities and for international cooperation aimed at exploiting more environmentally friendly fuel. The project partnership involves the following ports: Aarhus, Helsingborg, Helsinki, Malmö-Copenhagen, Tallinn, Turku, Stockholm. The project was initiated by the Baltic Ports Organization (BPO). The grant received from the funds of the European Union covers 50% of the project's activities.

In 2014 expenses incurred within the framework of the project amounted to EUR 57 thousand (2013: EUR 104 thousand). In 2014 no grant was received (2013: EUR 96 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 West Harbour 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 2014 the investments within the framework of the project amounted to EUR 2,980 thousand and the expenses incurred amounted to EUR 151 thousand (2013: the investments of EUR 10 thousand and the expenses of EUR 3 thousand); an advance payment under the grant scheme was received in the amount of EUR 906 thousand (2013: EUR 419 thousand). There are no non-depreciable assets attributable to the project.

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

Project "Smart Port" - preliminary survey (2013-2014)

Within the framework of the project a pilot information technology solution was developed for creating an automatic check-in service for cars in passenger harbour terminals and devising an optimal traffic scheme.

In 2014 the expenses incurred within the framework of the project amounted to EUR 13 thousand (2013: EUR 24 thousand); the grant received amounted to EUR 18 thousand (2013: no grant was received).

Preparation Programme for EU Strategy for the Baltic Sea Region (EUSBSR Seed Money Facility)

Pilot project "*Green Cruise Port – Sustainable Development of Cruise Port Locations*" (2014)

The project was aimed at enhancing cooperation of cruise ports in the Baltic Sea Region on developing port facilities and services focusing on the aspects of environmentally friendly and economically beneficial solutions. The project partnership involves the ports of Hamburg, Klaipeda, Riga, Rostock and Kaliningrad. Within the project the sketch design and conceptual analysis for development of the Old City Harbour cruise area was ordered.

In 2014 the expenses incurred within the framework of the project amounted to EUR 12 thousand; the grant received amounted to EUR 5 thousand. There are no non-depreciable assets attributable to the project.

19. EQUITY

Share capital

As at 31 December 2014 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period as at 31 December 2013: 185,203,032 shares. The par value of a share is EUR 1. All shares of the limited liability 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 Infrastructure.

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association is 664,000,000 (in the comparative year 2013: also 664,000,000). As at 31 December 2014 and in the comparative period as at 31 December 2013, all shares issued had been fully paid for.

In 2014 share capital was not increased. In the comparative year 2013 share capital was increased 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.

Earnings per share

	2014	**2013**
Weighted average number of shares (pcs)	185,203,032	184,322,545
Consolidated net profit for the reporting period (in thousands of euros)	38,328	39,643
Basic earnings and diluted earnings per share (in euros)	0.21	0.22

Unrestricted equity

As at 31 December 2014, the unrestricted equity of the parent (taking into account the statutory requirement to transfer 1/20 of net profit for each financial year to the statutory capital reserve) amounted to EUR 168,611 thousand; in 2013, the respective figure was EUR 172,283 thousand. As at the reporting date, EUR 134,889 thousand could be distributed as dividends to the shareholder and the income tax on dividends would amount to EUR 33,722 thousand. The respective figures in 2013 were EUR 136,104 thousand and EUR 36,179 thousand.

The basis for calculating unrestricted equity, potential dividend amount and related income tax on dividends is disclosed in the table below:

In thousands of euros At 31 December	**2014**	**2013**
Retained earnings	168,611	172,415
Statutory capital reserve (5%)	0	-132
Unrestricted equity	**168,611**	**172,283**
Income tax on distributing all of the unrestricted equity (until 31 Dec. 2014: 21%; as from 1 Jan. 2015: 20%)	33,722	36,179
Potential net dividend	**134,889**	**136,104**

Statutory capital reserve

In 2014 the capital reserve of AS Tallinna Sadam was increased by EUR 132 thousand; in the comparative year 2013: by EUR 1 thousand.

Note 19 continued

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	2014	2013
Hedging reserve at beginning of year	**-949**	**-2,672**
Change in derivative's market value	202	1,723
Hedging reserve at end of year	**-747**	**-949**

Dividends

In thousands of euros	2014	2013
Dividends declared and paid in the reporting period	42,000	25,260
Dividends per share	0.23	0.14

Income tax on dividends and services delivered abroad

In thousands of euros	2014	2013
Income tax on dividends accounted for and paid in the Republic of Estonia	11,144	6,715
Income tax withheld on services delivered abroad	180	0

20. REVENUE

In thousands of euros	2014	2013
Port charges and fees	57,945	55,999
Cargo charges	8,003	9,134
Passenger fees	11,205	10,438
Rental income (note 13)	12,640	11,413
Sale of electricity	5,970	6,530
Charter fees	13,068	6,733
Sale of other services	1,942	1,911
Total revenue	**110,773**	**102,158**

Revenue by geographical area

In thousands of euros	2014	2013
The Republic of Estonia	102,051	99,683
The Federal Republic of Germany	0	2,475
The Russian Federation	8,722	0
Total revenue by geographical area	**110,773**	**102,158**

21. OPERATING EXPENSES

In thousands of euros	**2014**	**2013**
Fuel, oil and energy costs	5,361	6,345
Technical maintenance and repairs of non-current assets	7,765	8,096
Services purchased for infrastructure	1,930	1,832
Tax expenses	3,196	3,190
Incl. land tax	*2,796*	*2,732*
Consultation and development expenses	762	592
Incl. research and development expenses	*560*	*390*
Services purchased	2,929	2,940
Incl. mooring service	*1,048*	*1,144*
reception of ship-generated waste	*1,696*	*1,695*
Acquisition and maintenance of insignificant items	547	523
Advertising expenses	275	316
Rental expenses	438	488
Insurance expenses	407	380
Other operating expenses	2,142	2,075
Incl. expenses on doubtful receivables	*462*	*406*
Total operating expenses	**25,752**	**26,777**

Personnel expenses

In thousands of euros	**2014**	**2013**
Wages and salaries	9,971	9,028
Social security charges	3,321	3,031
Total personnel expenses	**13,292**	**12,059**
Incl. short term benefits of members of management and supervisory boards of group companies	406	335
social security charges on members of management and supervisory boards of group companies	134	111
Total expenses on members of management and supervisory boards of group companies	**540**	**446**

Under the valid agreements as at 31 December 2014 AS Tallinna Sadam has an 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 an obligation to pay monthly compensation during 12 months as of the expiry of the agreement in the amount equal to 25% of the management board member's remuneration.

22. OTHER INCOME AND EXPENSES

Other income

In thousands of euros	**2014**	**2013**
Gain on sale of non-current assets	0	2,061
Fines, interest on arrears*	1,717	1,819
Income from government grants (note 18)	590	679
Other income	452	202
Total other income	**2,759**	**4,761**

*Including contractual penalties of EUR 1,647 thousand for contract partners' failure to achieve the minimum cargo volume set for 2014; in the comparative year 2013: EUR 1,738 thousand.

Note 22 continued

Other expenses

In thousands of euros	2014	2013
Loss on sale of non-current assets	19	0
Fines, interest on arrears*	2,802	15
Expenses on doubtful receivables	0	206
Compensation to former employees	65	62
Other expenses	153	141
Total other expenses	**3,039**	**424**

*Incl. charges of EUR 2,800 thousand on early termination of contracts (note 14).

23. FINANCE COSTS

Finance costs

In thousands of euros	2014	2013
Interest expense on loans and borrowings:		
Interest expense on loans	831	740
Interest expense on debt securities	868	1,077
Interest expense on derivatives	1,066	1,644
Total interest expense on loans and borrowings	***2,765***	***3,461***
Foreign exchange loss	46	5
Write-down of investments	182	0
Other finance costs	24	240
Total finance costs	**3,017**	**3,706**

24. RELATED PARTY TRANSACTIONS

The shares of AS Tallinna Sadam are wholly owned by the Republic of Estonia.

In thousands of euros	2014	2013
Transactions with joint venture		
Revenue	153	126
Operating expenses	1,758	1,749
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	22	34
Other income	18	0
Operating expenses	86	81
Other expenses	16	0
Transactions with government agencies and companies in which the state has control		
Revenue	5,117	4,971
Other income	750	15
Operating expenses	2,281	3,422
Other expenses	3	1
Acquisition of property, plant and equipment	121	2

Note 24 continued

In thousands of euros At 31 December	**2014**	**2013**
Trade receivables from and payables to joint venture		
Receivables (note 9)	24	16
Payables (note 15)	120	119
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Receivables	7	4
Payables	7	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	771	641
Payables	408	467

All related party transactions have been 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.

Revenue and operating expenses attributable to related parties comprise only sold and purchased services.

25. COMMITMENTS

As at 31 December 2014, contractual liabilities related to acquisition of property, plant and equipment; repairs; research and development expenditures totalled EUR 98,189 thousand (incl. liabilities of EUR 92,806 thousand arising from contracts for construction of passenger ferries); as at 31 December 2013, the above liabilities amounted to EUR 5,161 thousand.

26. EXPLANATIONS TO THE CASH FLOW STATEMENT

Acquisition of property, plant and equipment

In thousands of euros	**2014**	**2013**
Cash flows	**-36,669**	**-12,373**
Offsets	-115	-32
Non-monetary contributions	0	-1,321
Paid for previous year	919	1,205
Outstanding balance at end of year (note 15)	-2,693	-919
Other adjustment	-472	0
Total adjustments	*-2,361*	*-1,067*
Acquisition and reconstruction (note 11)	**39,030**	**13,440**

Acquisition of intangible assets

In thousands of euros	**2014**	**2013**
Cash flows	**-108**	**-177**
Paid for previous year	4	5
Outstanding balance at end of year (note 15)	-24	-4
Total adjustments	*-20*	*1*
Acquisition and reconstruction (note 12)	**128**	**176**

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 group management's estimate no such 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.

Under several lease and right of superficies contracts, upon expiry of the contracts, AS Tallinna Sadam has an obligation to compensate the cost of the constructions built by the lessee or improvements made to the assets of AS Tallinna Sadam at the usual value of the respective construction or improvement. Taking into account the extended duration of these contracts (especially right of superficies contracts) and the fact that the constructions are mostly special purpose facilities (port terminals), no valid experience in measuring the usual value of such constructions upon expiry of the contracts exists. Based on the above, the value of those obligations could not be estimated reliably as at the 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 have been 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	**2014**	**2013**
ASSETS		
Current assets		
Cash and cash equivalents	5,826	10,855
Available-for-sale financial assets	0	182
Current portion of finance lease receivable	351	335
Trade and other receivables	20,535	16,509
Inventories	5	5
Total current assets	**26,717**	**27,886**
Non-current assets		
Investments in subsidiaries	11,398	11,395
Investments in joint venture	132	132
Non-current portion of finance lease receivable	4,921	5,272
Other long-term receivables	70,789	53,098
Property, plant and equipment	435,689	437,152
Intangible assets	519	671
Total non-current assets	**523,448**	**507,720**
Total assets	**550,165**	**535,606**
LIABILITIES		
Current liabilities		
Loans and borrowings	23,933	11,720
Derivatives	747	949
Provisions	3,766	838
Government grants	1,328	655
Trade and other payables	5,446	5,322
Total current liabilities	**35,220**	**19,484**
Non-current liabilities		
Loans and borrowings	121,754	115,686
Government grants	22,445	23,408
Other payables	30	61
Total non-current liabilities	**144,229**	**139,155**
Total liabilities	**179,449**	**158,639**
EQUITY		
Share capital at par value	185,203	185,203
Statutory capital reserve	18,520	18,388
Hedging reserve	-747	-949
Retained earnings (prior periods)	132,193	131,250
Profit for the year	35,547	43,075
Total equity	**370,716**	**376,967**
Total liabilities and equity	**550,165**	**535,606**

Note 28 continued

Income statement and statement of comprehensive income

Income statement

In thousands of euros	2014	2013
Revenue	90,818	88,210
Other income	2,489	4,958
Operating expenses	-19,750	-19,899
Personnel expenses	-8,217	-7,843
Depreciation, amortisation and impairment losses	-14,617	-13,570
Other expenses	-3,030	-393
Operating profit	**47,693**	**51,463**
Finance income and finance costs		
Finance income	2,007	2,028
Finance costs	-3,009	-3,701
Net finance costs	**-1,002**	**-1,673**
Profit before income tax	**46,691**	**49,790**
Income tax expense	-11,144	-6,715
Profit for the year	**35,547**	**43,075**

Statement of comprehensive income

In thousands of euros	2014	2013
Profit for the year	**35,547**	**43,075**
Other comprehensive income		
Revaluation of hedging instruments	202	1,723
Total other comprehensive income	**202**	**1,723**
Total comprehensive income for the year	**35,749**	**44,798**

Note 28 continued

Statement of cash flows

In thousands of euros	**2014**	**2013**
Cash receipts for sale of goods or services	94,628	92,200
Cash receipts related to other income	1,627	2,819
Cash paid to suppliers	-23,670	-24,829
Cash paid to and on behalf of employees	-6,931	-6,666
Cash payments related to other expenses	-211	-140
Receipt of finance lease principal	28	0
Receipt of interest on finance lease	22	0
Income tax paid on dividends	-11,144	-6,715
Net cash from operating activities	**54,349**	**56,669**
Acquisition of property, plant and equipment	-13,205	-10,807
Acquisition of intangible assets	-108	-138
Proceeds from sale of property, plant and equipment	951	4,384
Proceeds from government grants related to non-current assets	906	491
Acquisition of share capital in subsidiaries	-3	0
Loans granted	-30,524	-8,789
Repayment of loans granted	9,120	8,775
Dividends received	77	76
Interest received	172	265
Net change in term deposits with maturities of more than 3 months	0	1,620
Net cash used in investing activities	**-32,614**	**-4,123**
Redemption of debt securities	-2,500	-18,650
Proceeds from loans received	32,000	10,000
Repayment of loans received	-11,220	-13,286
Dividends paid	-42,000	-25,260
Interest paid	-3,006	-3,529
Other payments related to financing activities	-38	-220
Net cash used in financing activities	**-26,764**	**-50,945**
NET CASH OUTFLOW/INFLOW	**-5,029**	**1,601**
Cash and cash equivalents at beginning of year	10,855	9,254
Decrease/increase in cash and cash equivalents	-5,029	1,601
Cash and cash equivalents at end of year	5,826	10,855

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 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 thousands of euros	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
Equity at 31 December 2013	**185,203**	**18,388**	**-949**	**174,325**	**376,967**
Profit for the year	0	0	0	35,547	**35,547**
Other comprehensive income	0	0	202	0	**202**
Total comprehensive income for the year	*0*	*0*	*202*	*35,547*	***35,749***
Transfer to share capital	0	0	0	0	**0**
Dividends declared	0	0	0	-42,000	**-42,000**
Total transactions with the owner of the company	*0*	*0*	*0*	*-42,000*	***-42,000***
Transfer to capital reserve	0	132	0	-132	**0**
Equity at 31 December 2014	**185,203**	**18,520**	**-747**	**167,740**	**370,716**
Carrying amount of interests under control and significant influence	0	0	0	-11,398	**-11,398**
Value of interests under control and significant influence under the equity method	0	0	0	12,269	**12,269**
Adjusted unconsolidated equity at 31 December 2014	**185,203**	**18,520**	**-747**	**168,611**	**371,587**

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.

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INDEPENDENT AUDITORS' 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 consolidated statement of financial position as at 31 December 2014, the consolidated 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 21 to 63.

Management's Responsibility for the Consolidated 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.

Auditors' 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 judgement, 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 audit opinion.

Basis for Qualified Opinion

The consolidated statement of financial position as at 31 December 2014 includes cargo transport related items of EUR 44.3 million and quays, berths and premises related to passenger transport at the amount of EUR 6.6 million recognised under property, plant and equipment, which, as described in note 4 to the financial statements, management has tested to assess whether their recoverable amount may have fallen below their carrying amount. As a result of the tests the management board did not identify any need for impairment.

The estimates used by management in cash flow projections for upcoming years are not supported by current freight volumes or passenger transport related income nor any other information we have obtained during the audit. Therefore, in our opinion material uncertainty exists in respect of the future cash flow projections used in the tests. 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 50.9 million as at 31 December 2014.

Due to the above matter we also issued a report with a qualified opinion on the consolidated financial statements as at 31 December 2013.

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 2014, 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, 11 March 2015

/signed/

Andris Jegers
Certified Public Accountant No. 171

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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 2014, which consists of the management report and the financial statements and which has been appended the independent auditors' report.

31 March 2015

Remo Holsmer	Kalev Lillo	Pille Parind
Randel Länts	Priit Paiste	Hillar Teder
Vallot Mangus		Jaanus Tamkivi

PROFIT ALLOCATION PROPOSAL

As at 31 December 2014, the retained earnings of prior periods amounted to EUR 168,610,756 including profit for the year of EUR 38,327,581. 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 31,192,000 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 0.17.

Under section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 168,610,756 as at and for the year ended 31 December 2014 be allocated as follows:

Dividends	EUR 31,192,000
Retained earnings for prior periods	EUR 137,418,756

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board