

**TALLINNA  SADAM**

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**Consolidated annual report  
for the financial year ended  
on 31 December 2017**

*Translation of the Estonian Original*

**AS TALLINNA SADAM**

**AS TALLINNA SADAM****CONSOLIDATED ANNUAL REPORT 2017**

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<b>Beginning of financial year</b>	<b>1 January</b>
<b>End of financial year</b>	<b>31 December</b>
<b>Legal form</b>	<b>Limited company (AS)</b>
<b>Auditor</b>	<b>AS Deloitte Audit Eesti</b>

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## MANAGEMENT REPORT

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

### 1. ABOUT THE COMPANY

Through the 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 harbours and vice versa. Although the history of Tallinn's ports and harbours dates back thousands of years, AS Tallinna Sadam is a young company. Founded as a state-owned enterprise in April 1992, Tallinna Sadam was reorganised into a limited company (*aktsiaselts* (AS)) in 1996.

AS Tallinna Sadam is the largest complex of cargo and passenger harbours in Estonia. Its harbours are navigable and easily accessible through the year and deep enough to receive all vessels passing through the Danish Straits. Estonia's geographical location creates favourable conditions for handling both north-south and east-west passenger and cargo flows.

The Tallinn–Helsinki (Finland) route is one of the busiest international passenger ferry routes in the world. Besides the route to Finland, AS Tallinna Sadam handles regular international passenger ferry traffic to Sweden (Stockholm) and Russia (St. Petersburg). The number of cruise liners and passengers calling at the harbours of AS Tallinna Sadam has been growing year by year. Nearly 300 ship calls per cruise season is an outstanding achievement among European cruise ports. In addition, the passenger traffic areas belonging to AS Tallinna Sadam in the heart of Tallinn (the harbour-city community) offer unique opportunities for real estate development. A long-term plan for the redevelopment of the harbour area in the centre of Tallinn, Masterplan 2030, created by the internationally renowned architecture firm Zaha Hadid Architects, was completed at the end of 2017.

Imports into and exports from Estonia account for roughly half of the cargo throughput of AS Tallinna Sadam, with transit making up the rest. Due to Estonia's geographical location, handling north-south cargo flows and developing related opportunities (handling cargo traffic between the Nordic countries and Southern Europe) has strong prospects. Particularly, as the starting point of the Rail Baltic rail connection which is being planned is at Muuga Harbour. East-west cargo transit through Estonia also continues to account for a major share of cargo throughput. Thus, in the cargo business, AS Tallinna Sadam competes not only with other Estonian ports but also with other Baltic Sea ports that handle transit cargo flows. In addition to competition between ports, there is also competition between transit corridors (e.g. the Baltic Sea corridor competes with the Caspian Sea–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.

The volume and importance of adding value to cargo flows passing through the ports increases year by year as operators and logistics companies operating on the port's premises offer more specialised services to an increasingly broader customer base. To support this, AS Tallinna Sadam has created the necessary infrastructure around its main cargo ports – industrial parks in Muuga Harbour and Paldiski South Harbour. AS Tallinna Sadam contributes to digitising the documentation and processes related to marine cargo traffic through Estonian ports so that it would be possible to offer quicker and more convenient service to cargo owners.

At the end of 2012, AS Tallinna Sadam entered a new field of business, icebreaking, for which it acquired a multi-functional icebreaking vessel from the secondary market. Since the beginning of 2013, the vessel *Botnica* has been used under a 10-year contract with the state to provide icebreaking services to Estonian ports on the Gulf of Finland. During the off-season the multi-functional icebreaker is leased out for different maritime support operations.

In October 2016, AS Tallinna Sadam set up a new business line – domestic ferry service between mainland Estonia and the largest two islands (Saaremaa and Hiiumaa). The service is provided under a public passenger transport service contract signed with the state for 10 years (1 October 2016 to 30 September 2026) after winning the procurement at the end of 2014. The last two of the four ferries built in the Remontowa Shipyard in Poland and the Sefine Shipyard in Turkey were completed by the end of the first quarter of 2017. Until the completion and delivery of all the four ferries, the service was provided with temporarily leased substitute ferries.

The core business of AS Tallinna Sadam, the parent of the group, is provision of port services as a landlord port whose task is to manage and develop infrastructure and organise vessel traffic in the port basin. The parent owns five harbours: Old City Harbour (a passenger harbour) along with the Old City Marina (was opened for small vessels in 2010) in the heart of Tallinn, Estonia's largest cargo harbour in Muuga, a cargo harbour in Paldiski (Paldiski South Harbour), a harbour in Saaremaa designed mostly for receiving cruise liners, and a former cargo harbour in Paljassaare which currently mainly serves shipyards. Cargo flows in the harbours are handled by cargo operators that own the buildings, infrastructure and equipment necessary for cargo handling. The buildings and infrastructure necessary for providing passenger services belong to AS Tallinna Sadam.

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia. Similarly to other limited companies, the activities of AS Tallinna Sadam are governed by 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 with funds generated from operating activities. Where necessary for major investments, the company may take a loan or issue debt securities. AS Tallinna Sadam contributes to the state budget through taxes and dividends.

As at the end of 2017, AS Tallinna Sadam group comprised the parent and the following companies:

Name of the company	Interest	Core business
OÜ TS Shipping	100%	Provision of icebreaking and other maritime support services with the multi-functional icebreaker Botnica
OÜ TS Laevad	100%	Provision of ferry service

In 2017, the parent AS Tallinna Sadam merged with its wholly-held subsidiary OÜ TS Energia and the business of providing energy supply and associated network services in ports was transferred back to the parent. The purpose of the merger was to streamline and align the services and the development activities constantly carried out in the harbour area, and to improve the fluidity of everyday processes.

## 2. ECONOMIC ENVIRONMENT

The global economy is estimated to have grown by 4.8% in 2017 which, in contrast to several previous years, exceeds both the rate expected a year earlier (3.4%) and the rate of 2016 (3.2%). As growth exceeded expectations and was more broad-based than anticipated, particularly in Europe and Asia, the growth forecast for 2018 is also more optimistic: 3.9%. Risks to global growth are expected to be balanced in the near term but skewed to the downside over the medium term. In the near term, the pickup in economic activity and easier financial conditions are expected reinforce each other and create a positive effect. On the downside, rich asset valuations and compressed premiums may lead to a financial market correction which could dampen growth and confidence. A possible trigger is a faster-than-expected increase in inflation and interest rates as demand accelerates. Inward-looking policies, geopolitical tensions and political uncertainty also pose downside risks.<sup>1</sup> According to preliminary estimates, the Estonian economy grew by around 4% in 2017, which exceeded the rates projected the year before (2.2-2.6%) and proved faster than in the five previous years. Growth was supported by positive developments in the global economy. Growth was driven by the construction sector and supported by a rise in domestic consumption. In 2018, growth is expected to continue based on both the relatively strong indicators of the countries of the European Union and the strong indicators of Finland and Sweden which are Estonia's main trading partners. The Estonian economy is expected to grow by around 3.5%, driven by domestic consumption and investment by companies. In 2017, consumer prices rose by 3.4%, which the past five years' highest rate. Prices were influenced by commodity and food price upswings in the external environment as well as increases in various excise duty rates. In 2018, the price increase is expected to decelerate and level off at around 3% assuming that further oil price increases are not considerable.<sup>2</sup>

The improvement in the economic environment in 2017 also influenced the group's quantitative performance indicators: the turnover of ro-ro and containerised cargo, which is closely related to economic activity, increased and the number of passengers continued to grow. For most of the year the oil price was low, which reduced the turnover of liquid bulk terminals as a low oil price reduces demand for the terminals' value-adding services. Also, due to low oil prices and the western countries' sanctions against Russia, the offshore services market remained in a slump and the group was unable to find additional profitable summer employment for icebreaker Botnica.

### 2.1. Competitive position - passengers

In terms of vessel traffic, the Baltic Sea is one of the busiest inland seas in the world. Vessels are one of the main means of transport for internal tourists in the area. It is estimated that in the eastern part of the Baltic Sea, over 40 million passengers a year travel across the Baltic Sea, which is why international passenger ferry traffic in this area is the busiest in the Baltic Sea. Tallinn is one of the busiest passenger ports in the area, after Helsinki and Stockholm. The largest ferries of the Baltic Sea, mostly designed for passenger traffic, also travel between those ports.

Compared to other areas of the Baltic Sea, busy vessel traffic between Estonia, Finland and Sweden is supported by the fact that the distance between the destination ports is optimal for passenger vessel traffic as well as the fact that most of the traffic is between the countries'

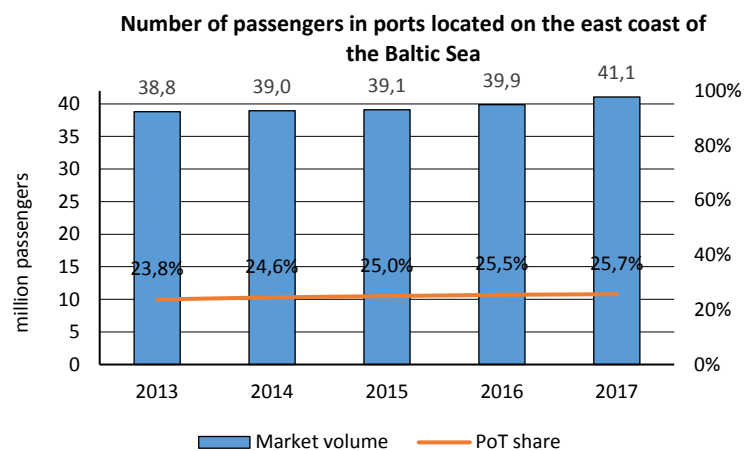
<sup>1</sup> IMF World Economic Outlook Update, January 2018

<sup>2</sup> Statistics Estonia, Eesti Pank (central bank of Estonia), Ministry of Finance, SEB

capitals which are all located on the coast. Other contributing factors are close economic relations and the region's growing attractiveness for Asian tourists who increasingly travel between neighbouring countries by sea. Accordingly, international passenger ferry traffic between Tallinn and its main destination ports – Helsinki and Stockholm – accounts for a significant share of the business of AS Tallinna Sadam.

The chart below reflects the dynamics in the number of passengers passing through ports located on the east coast of the Baltic Sea, including all major passenger ports as well as ports considered as competitors to AS Tallinna Sadam in cargo handling. Ports where most of the number of passengers results from short voyages (lasting <1h) have been excluded. Nor do the figures include Mariehamn port on which complete data was not available.

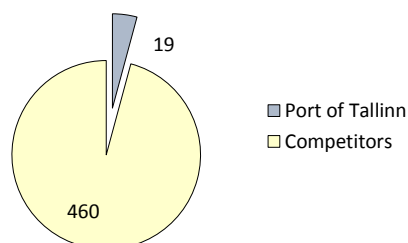
In the past five years, the reference group's number of passengers grew by 2.3 million, i.e. 6%. During the same period, the number of passengers passing through the port of Tallinn grew by 1.3 million (14%), i.e. at the fastest pace which increased its share of the region's total number of passengers. In 2017, the largest port in terms of the number of passengers was Helsinki (12.3 million passengers), followed by Stockholm (11.8 million passengers) and Tallinn (10.6 million passengers). On the whole, in the past five years the development of the number of passengers passing through major ports on the east coast of the Baltic Sea was relatively stable.



## 2.2. Competitive position - cargo

In assessing AS Tallinna Sadam's position in cargo handling, the competitors include all major ports on the east coast of the Baltic Sea and Finnish ports on the Gulf of Finland most of which compete with AS Tallinna Sadam in the handling of east-west transit cargo. Among Russian ports, the main competitors are the St Petersburg and Ust-Luga ports. In 2017, the total cargo turnover of major ports on the east coast of the Baltic Sea amounted to 479 million tonnes, an upswing of 23 million tonnes, i.e. 5%, on the record made the year before (2016: 456 million tonnes and growth of 0.8%).

**The market volume of major ports on the east coast of the Baltic Sea (million tonnes)**



Together with the cargo volumes of other Estonian ports (9.0 million tonnes), in 2017 the cargo market volume of AS Tallinna Sadam and its competitors was 488 million tonnes, 23.5 million tonnes up on 2016.

In terms of cargo types, the biggest change occurred in the volume of dry bulk cargo that grew by 17.1 million tonnes (13.3%), mainly through growth in the volume of coal (growth 11 million tonnes, i.e. 21%) and fertilizers (growth 3.1 million tonnes, i.e. 9%). The volume of general cargo grew by 12 million tonnes, i.e. 10%, mostly through growth in containerised cargo (growth in both tonnes and TEUs 13%) and ro-ro cargo (growth 13%). The volume of liquid bulk cargo decreased by 5.7 million tonnes, i.e. 2.6%.

In terms of ports, the biggest growth in cargo volumes was achieved by Ust-Luga (growth of 9.9 million tonnes, i.e. 10.6%) and St. Petersburg (5.0 million tonnes, i.e. 10.3%). The rise in cargo volumes stemmed mainly from growth in the volume of dry bulk and general cargo. Cargo volumes declined the most in the ports of Primorsk (-6.8 million tonnes), Riga (-3.4 million tonnes) and Tallinn (-0.9 million tonnes) due to a decrease in the volume of oil and oil products.

As a result of the changes, in the comparison of the ports of Russia and the Baltic states the market shares of Russian and Lithuanian ports increased while the market share of Latvian ports decreased. The market share of Estonian ports remained at the same level. The market share of Russian ports was 62.4% (2016: 61.9%), Lithuanian ports 13.3% (2016: 12.9%), Latvian ports 15.2% (2016: 16.1%) and Estonian ports 9.1% (2016: 9.1%).

The largest ports on the east coast of the Baltic Sea were Russian ports - Ust-Luga (market share 21.2%), Primorsk (11.8%) and St. Petersburg (11%), followed by Klaipeda-Butinge (10.8%). AS Tallinna Sadam dropped from the seventh position to the ninth with a 3.9% (2016: 4.3%) market share because the cargo volumes of both Gdynia and Ventspils ports grew in 2017.

### 3. OPERATING RESULTS

2017 was a busy year for AS Tallinna Sadam. In port operations, the number of passengers grew and passenger vessel traffic remained strong while cargo volume ended up in decline. As a result of growth in the number of line passengers, the number of passengers hit a new record of 10.6 million. It also contributed to growth in revenue from the line and cruise passenger business. Cargo volume decreased by 0.9 million tonnes, i.e. by 5% to 19.2 million tonnes. In terms of cargo types, only the volume of liquid bulk cargo decreased (by 2.0 million tonnes) whereas the volumes of all other cargoes grew. Growth was the strongest for ro-ro and dry bulk cargo (0.5 million tonnes and 0.4 million tonnes respectively and 11% both).

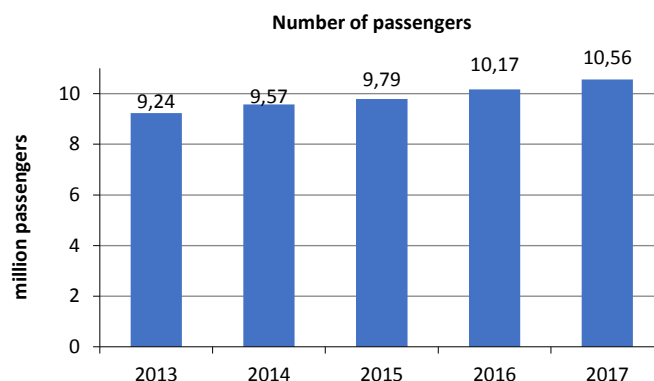
At the end of the first quarter of 2017, OÜ TS Laevad, the subsidiary which operates the two domestic ferry routes between mainland Estonia and the largest islands, finally received from shipyards the last two of its four new ferries. In connection with the delay in the delivery of the new ferries the company earned income from penalty fees charged from the shipyards. This covered the rise in operating expenses, caused by the use of temporary substitute ferries due to the delayed delivery of the new ferries.

As the special vessels chartering market was still in a slump, the multi-functional icebreaker Botnica did not find profitable employment outside the icebreaking season when it provides services to Estonian ports on the coast of the Gulf of Finland under a contract with the Estonian Maritime Administration.

Revenues and expenses of 2017 were influenced the most by the new business line started in October 2016: provision of domestic ferry service between mainland and the largest islands. Revenue grew by EUR 18.1 million (18%) to EUR 121.3 million, which is the group's highest ever revenue figure. Operating expenses grew by EUR 23.6 million, i.e. 38% (excluding the impact of growth in one-off impairment losses by EUR 5.7 million, expenses for 2017 grew by EUR 17.9 million, i.e. 29%), operating profit decreased by EUR 8.6 million, i.e. by 18%, and net profit decreased by EUR 13.1 million, i.e. by 33%. In 2017, AS Tallinna Sadam paid the owner a record-large dividend of EUR 48.0 million which gave rise to income tax expense of EUR 12.0 million (2016: EUR 35.0 million and EUR 8.75 million respectively).

An important accomplishment of the year was the completion of a comprehensive long-term development plan for the Old City Harbour created by the internationally renowned architecture firm Zaha Hadid Architects. The plan will be used to redevelop the large and currently sparsely built-up harbour area into an attractive urban space. In the A-terminal area of the Old City Harbour, the group implemented an innovative electronically controlled traffic solution for passenger and freight vehicles along with renovated waiting and traffic areas, which should make the process of getting on and off vessels faster and more convenient for passenger cars and freight traffic. To reduce lorry-traffic on the Tallinn-Helsinki route operated from the Old City Harbour, in October a regular Muuga-Vuosaari cargo route was launched, which reduces daily lorry traffic through Tallinn city centre.

### 3.1. Number of passengers



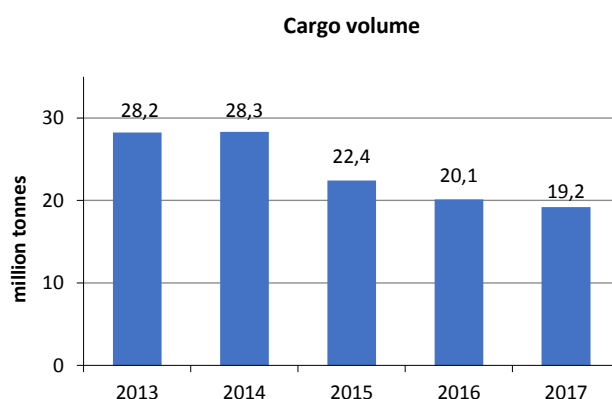
In 2017, the number of passengers passing through the harbours belonging to AS Tallinna Sadam grew by 387 thousand, i.e. 3.8%, hitting a new record of 10.56 million (2016: 10.17 million passengers, growth 3.9%). The steady rise in the number of passengers reflects the increasingly closer connections between Estonia and Finland, both in the field of tourism and economy, which have not been significantly affected by changes in the economic environment. Frequent and increasingly more available and convenient international ferry service contributes by making travelling easier.

The growth in the number of passengers mainly resulted from growth in the number of line passengers on the largest and busiest Tallinn-Helsinki route (by 312 thousand passengers, i.e. 4%) to 8.8 million. The number of passengers also grew on the Stockholm route (by 49 thousand passengers, i.e. 5%), reaching 1 million for the first time, but decreased on the St Petersburg route (by 80 thousand, i.e. 49%) in connection with the change of the operator of the route and a decrease in the number of calls. The number of traditional cruise passengers grew by 92 thousand, i.e. 19%, to a record-high 0.57 million, and the number of traditional cruise vessel calls was a remarkable 316 (2016: 272). The Baltic Sea area has still the reputation of being a rapidly developing and the world's fastest-growing cruise tourism region.

In the line passenger business, the main developments of 2017 were the addition of a new LNG ferry Megastar to the Tallinn-Helsinki route operated by Tallink and the addition of a fast catamaran to the Tallinn-Helsinki route operated by Viking Line (for the summer season). The addition of the new vessels made a substantial contribution to growth in the number of passengers. On the whole, the number of international ferry calls increased.

The high season of cruise vessel calls lasts from May to September. The seasonality in the number of passengers is regular by nature and, therefore, has no exceptional impact on the financial performance of AS Tallinna Sadam.

### 3.2. Cargo volume



In 2017, cargo volumes passing through the harbours of AS Tallinna Sadam declined by 0.9 million tonnes (5%) to 19.2 million tonnes. In terms of cargo types, the volume of liquid bulk decreased by 2.0 million tonnes, i.e. 21%; the decline was the steepest for liquid bulk handled using the vessel-terminal-vessel scheme (a decrease of 1.9 million tonnes). The total volume of other cargo types increased by 1.1 million tonnes, most of all the volume of ro-ro cargo (by 0.5 million tonnes, i.e. 11%) and dry bulk (by 0.4 million tonnes, i.e. 11%). The volume of ro-ro cargo reached a record level of 5.1 million tonnes. The volume of containerised cargo grew by 0.1 million tonnes, i.e. 7%, and in terms of TEU by 13 thousand, i.e. 7% to 215.5 thousand TEUs. Continuously low oil price does not favour growth in liquid bulk cargo, arriving with

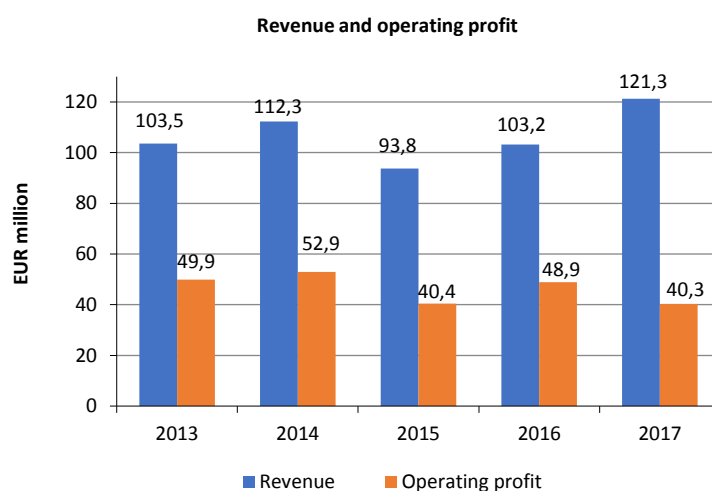


vessels, because it lowers both demand for and the profitability of the terminals' value-adding services. Most of the ro-ro cargo moved on the north-south route. The rise in the volume of containerised cargo is attributable to consumption growth, brought about by an improvement in the region's economic indicators and a rise in Estonian exports and imports. In terms of transport directions, the most significant change was a decrease in the volume of transit and growth in the volume of Estonian exports and imports by 0.6 million tonnes, i.e. 13%, and by 0.2 million tonnes, i.e. 6%, respectively.

In terms of the main cargo types, liquid bulk accounted for 39% (2016: 47%), ro-ro for 26% (2016: 23%), dry bulk for 22% (2016: 19%) and containerised cargo for 10% (2016: 9%) of the total cargo volume. In terms of transport directions, transit accounted for 52% (2016: 58%), exports for 27% (2016: 23%) and imports for 21% (2016: 19%) of the total cargo volume.

Cargo throughput at the harbours of AS Tallinna Sadam is not seasonal by nature. It may be influenced by extended cold weather which causes shipping routes on the Gulf of Finland to freeze over and subsequent icebreaking operations that may slow down vessel and cargo traffic. The last time when ice conditions were exceptionally harsh was at the beginning of 2003. However, difficult ice conditions in the Gulf of Finland may give AS Tallinna Sadam a competitive edge over the ports to the north and east of it where even more difficult ice conditions make cargo transport even more costly and time-consuming. In general, fluctuations in cargo volumes result from changes in market conditions (including changes in the world market prices of the cargo).

### 3.3. Income and expenses



The group's consolidated revenue for 2017 amounted to EUR 121.3 million, up by EUR 18.1 million, i.e. 18% (2016: revenue of EUR 103.2 million and an increase of 10%). In October 2016, AS Tallinna Sadam started providing a new service through its subsidiary OÜ TS Laevad: domestic ferry transport on two routes between the mainland and largest islands of Estonia under a public passenger transport service contract with the state. Thus, consolidated revenue for 2017 includes the two routes' whole-year revenue whereas the figure for 2016 only includes their fourth quarter revenue. As the shipyards delivered the four new passenger ferries with a delay, from October 2016 to spring 2017 the two routes were operated using temporary substitute ferries. Use of substitute ferries caused a rise in operating expenses that was covered with penalty fees charged from the shipyards both in 2016 and 2017 for late delivery of the ferries, which was recognised as other income.

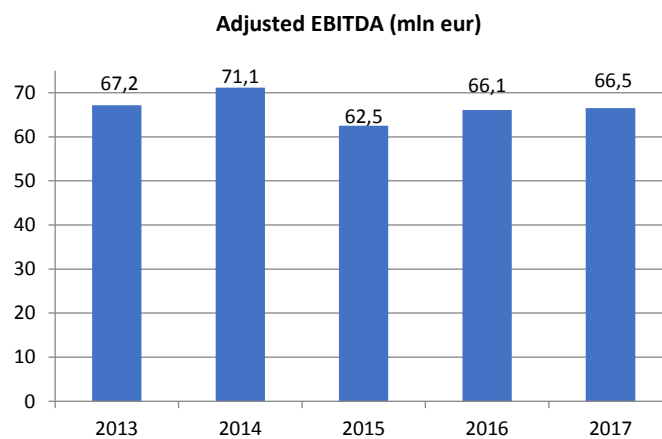
AS Tallinna Sadam, the parent of the group, generated 74% of the group's revenue, the contributions of TS Laevad OÜ and TS Shipping OÜ were 22% and 4%.

In terms of revenue types, the biggest change was growth in domestic ferry service revenue which increased by EUR 20.3 million to EUR 26.6 million. The rise is attributable to the fact that the provision of the service and generation of relevant revenue began in the fourth quarter of 2016. Revenue from cargo charges and vessel dues decreased slightly (by EUR 1.3 million and EUR 1.2 million respectively). Revenue from cargo charges declined because the volume of liquid bulk throughput decreased and Muuga Coal Terminal went bankrupt. Revenue from vessel dues also decreased due to the decline in the volume of liquid bulk throughput. However, the decrease was partly offset by an increase in revenue from the vessel dues of ferries and cruise ships. Passenger fee revenue grew by around EUR 0.6 million, i.e. 3.5%, which is comparable to growth in the number of passengers. Changes in other revenues were less significant.

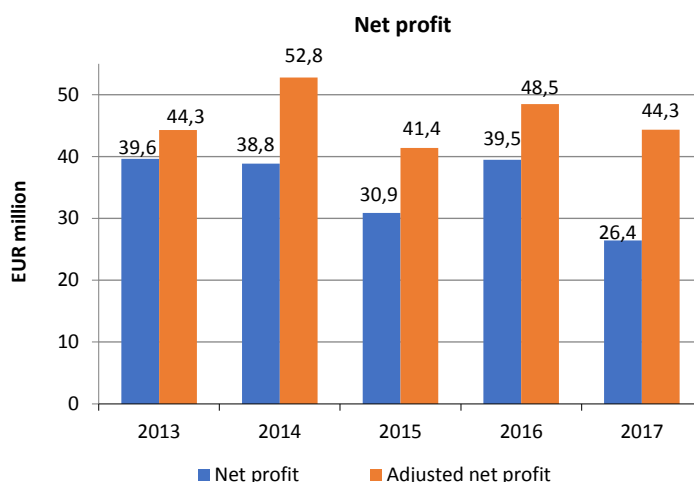
In the composition of other income, income from penalties and late payment interest decreased by EUR 3.1 million, mainly because penalties charged from shipyards in connection with the business of OÜ TS Laevad declined from EUR 6.9 million in 2016 to EUR 3.8 million in 2017. Expenses related to operating activities (operating expenses, personnel expenses, and depreciation, amortisation and impairment losses) totalled EUR 85.4 million, EUR 23.6 million, i.e. 38%, up on 2016. Excluding growth in one-off impairment losses by EUR 5.7 million in 2017 (including an impairment loss of EUR 5.9 million recognised for icebreaker Botnica in 2017), expenses increased by EUR 17.9 million, i.e. 29%. Expenses increased mostly due to expenses related to the provision of domestic ferry service. In terms of expense classes, operating expenses increased the most, rising by EUR 10.7 million, i.e. 35%, of which EUR 4.6 million resulted from growth in fuel costs, EUR 1.5 million from growth in port charges and EUR 1.4 million from growth in the lease expenses of substitute ferries. For the most part, all the changes may be attributed to domestic ferry service. Within operating expenses, maintenance and repair costs on property, plant and equipment increased by EUR 1.5 million, mostly on the side of port activities. Depreciation, amortisation and impairment losses grew by EUR 9.1 million. The largest items were the impairment loss on icebreaker Botnica of EUR 5.9 million (note 10) and the commencement of the depreciation of the new ferries. Personnel expenses grew by EUR 3.8 million, i.e. 27%, also in connection with the domestic ferry service. On the whole, expenses increased mostly due to the provision of the domestic ferry service (full-year expenses in 2017 in contrast to the expenses of one quarter in 2016) and, to a lesser extent, due to maintenance and repair costs on property, plant and equipment and consultancy fees incurred in regular port operations as well as the impairment loss on icebreaker Botnica. Other operating expenses declined. Other expenses decreased by EUR 0.2 million, mostly because in 2016 the group incurred penalties of EUR 0.4 million due to breach of the conditions of the domestic ferry service contract (use of smaller substitute ferries until the implementation of the new ferries). In 2017, similar expenses were not incurred.

#### 3.4. Operating profit, operating margin and EBITDA

Operating profit for 2017 amounted to EUR 40.3 million, decreasing by EUR 8.6 million, i.e. 18%, because growth in expenses exceeded growth in income. Excluding the growth in one-off impairment losses of EUR 5.7 million, operating profit decreased by EUR 2.9 million, i.e. 6%. As a result of the changes, operating profit margin (operating profit divided by revenue) which reflects the operating efficiency of AS Tallinna Sadam decreased from 44% to 32% (adjusted operating profit margin decreased from 44.2% to 36.7%). The decline in operating profit resulted from the impairment of the icebreaker Botnica (belongs to the subsidiary OÜ TS Shipping), a decrease in profit on regular port operations and the addition of the domestic ferry service. Due to a different business model, provision of the domestic ferry service is more cost intensive than port operations (high operating expenses, e.g. fuel, etc.), which is why its operating margin is lower.



Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and impairment losses, and adjusted for amortisation of government grants) for 2017 was EUR 66.5 million, EUR 0.4 million, i.e. 1%, up on the EUR 66.1 million earned in 2016. The increase compared to the decrease in operating profit resulted mostly from the impact of growth in depreciation, amortisation and impairment losses on operating profit (note 3).

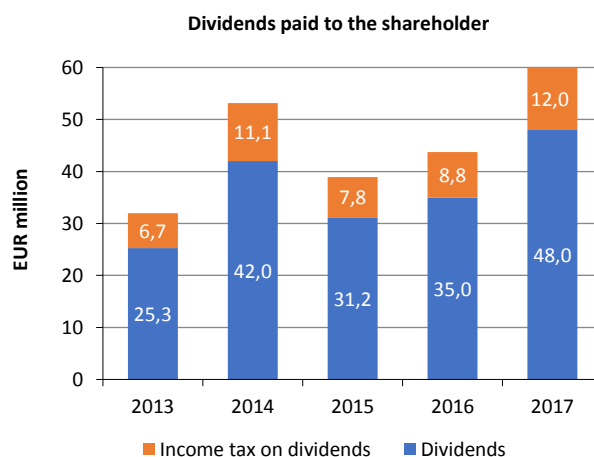
**3.5. Net profit**

Net profit was additionally influenced by finance income and costs, and income tax on dividends. Finance income did not change significantly and did not have an impact on net profit. Finance costs increased by EUR 1.24 million, i.e. 116%, mostly due to the capitalisation of interest expenses related to the financing of the ferries (during the construction period) in an amount of EUR 0.95 million in 2016 and EUR 0.14 million in 2017. Although at the end of 2017 the amount of interest-bearing liabilities was EUR 10.5 million smaller than at the end of 2016, the annual average balance for 2017 was higher which also increased interest expenses. Profit before income tax amounted to EUR 38.4 million, a decrease of EUR 9.8 million, i.e. 20%, compared to 2016.

The group's net profit for 2017 amounted to EUR 26.4 million, EUR 13.1 million, i.e. 33%, down from 2016. The decrease resulted from both the decrease in operating profit and growth in interest expenses and income tax expense on dividends (dividend distribution increased from EUR 35 million to a record-high EUR 48 million).

In presenting the group's net profit for different years, net profit is adjusted for significant one-off income and expenses and income tax expense on dividends.

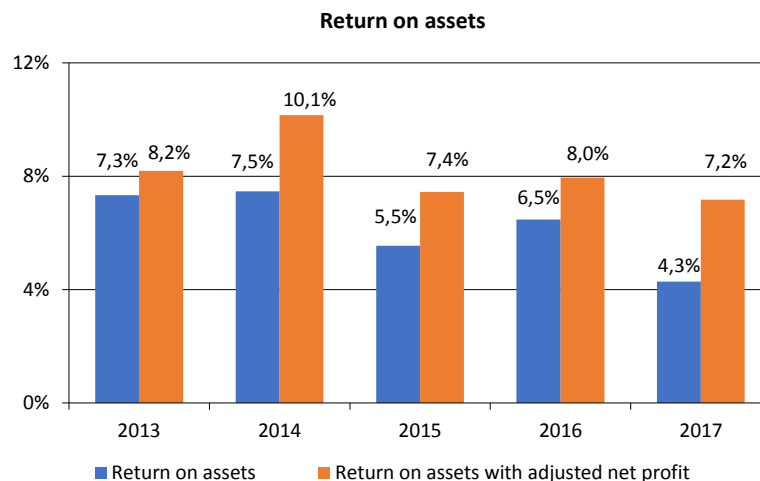
Adjusted net profit for 2017 amounted to EUR 44.3 million (net profit for the year after adjustment for income tax expense on dividends of EUR 12.0 million and one-off impairment losses of EUR 5.95 million). Adjusted net profit for 2016 amounted to EUR 48.5 million (net profit for the year after adjustment for income tax expense on dividends of EUR 8.75 million and one-off impairment losses of EUR 0.27 million). The decrease in adjusted net profit (by EUR 4.2 million) resulted from a decrease in operating profit in different business lines, as described above, and growth in interest expenses.

**3.6. Dividends**

In 2017, the group paid the shareholder a dividend of EUR 48.0 million plus income tax on dividends of EUR 12.0 million, EUR 60.0 million in total. For further details, see note 19 to the financial statements. The respective figures for 2016 were dividends of EUR 35.0 million plus income tax on dividends of EUR 8.8 million, EUR 43.8 million in total.

The decision on the distribution of dividends by AS Tallinna Sadam is made by the government of Estonia based on the proposal of the Minister of Finance. As a rule, the proposal takes into account the financial performance of AS Tallinna Sadam, the financial criteria specified in the owner's expectations to the company, and the dividend capacity determined based on the group's development plans. Group entities' dividend distributions to the parent are decided on a case by case basis after the entities' results for the year have been approved, taking into account the entities' development needs and capitalisation.

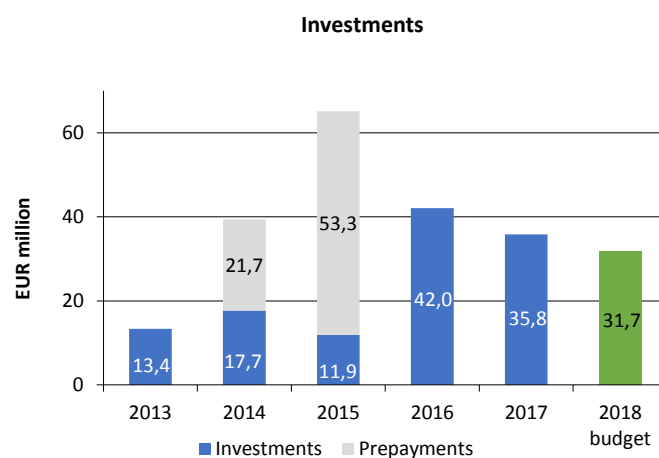
### 3.7. Return on assets



AS Tallinna Sadam's return on assets (net profit divided by average total assets for the year) was 4.3% and return on assets based on adjusted net profit before income tax was 7.2%. The decrease in return in 2017 is mainly attributable to a decrease in adjusted net profit before income tax (by 9%) and growth in average total assets (by 1%).

In 2017, AS Tallinna Sadam's adjusted return on equity (adjusted net profit before income tax divided by average total equity for the year) was 13.2%. Return on equity also decreased compared to the 14.1% in 2016 (also based on adjusted net profit before income tax). The impact of a decrease in adjusted net profit before income tax (by 9%) was lessened by a slight decrease in average total equity (by 2.5%).

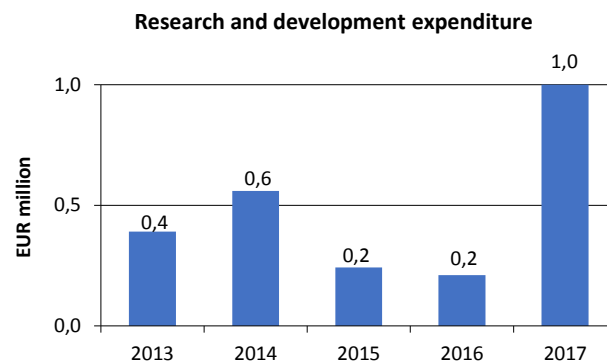
## 4. INVESTMENT AND DEVELOPMENT OUTLOOK



In 2017, the group's capital expenditures totalled EUR 35.8 million, of which expenditures on new infrastructure assets, acquisition of property, plant and equipment, and improvement of existing infrastructure assets amounted to EUR 15.8 million. Expenditures on the construction of ferries and information and access systems necessary for providing the domestic ferry service totalled EUR 20.1 million.

In 2017, the largest infrastructure investments were again made in the Old City Harbour where the group continued to improve vessel reception and passenger service facilities and to build utility networks and a new traffic solution, mainly on the premises of the D-terminal. Relevant expenditures totalled EUR 11.0 million. The new traffic solution creates a new layout for traffic areas along with automated traffic control and access points for vehicles getting on and off vessels. Investments made in other harbours were less significant and were made mostly in the reconstruction of berths, vessel reception equipment and utility networks.

Around EUR 23 million of the capital expenditures planned for 2018 will be spent on improving passenger service in the Old City Harbour. Major projects include starting the reconstruction of the D-terminal and the construction of automated mooring equipment for ferries, a footbridge for connecting passenger terminals across the Admiralty canal, and a cruise terminal, and building connecting roads for the port. The purpose of the capital investments is to create a modern and convenient environment for continuously increasing passenger traffic.



In addition to making capital investments, each year AS Tallinna Sadam incurs substantial research and development expenditures which in 2017 amounted to EUR 1.0 million. Research and development expenditures were related to exploring the environmental, constructional and economic feasibility of various projects. Also, the technical condition of the berths is surveyed on a regular basis. Most research projects are related to preparing the necessary preliminary and detailed plans for both new and existing but unused port areas, carrying out environmental studies and monitoring use of mineral resources, and assessing and monitoring other impacts of port operations.

The predominantly largest project of 2017 was the preparation of a long-term plan for redeveloping the Old City Harbour, particularly those areas which so far have found little use, by the internationally recognised architecture firm Zaha Hadid Architects. The group is planning to implement the areas gradually (within 10-15 years), particularly to improve busy passenger traffic and integrate the port area more closely into the city.

## 5. OBJECTIVES AND POLICIES FOR MITIGATING FINANCIAL RISKS ARISING FROM FINANCIAL INSTRUMENTS

The main financial liabilities of AS Tallinna Sadam are loans and debt securities issued to finance the operations of the company (including investment activities) and maintain an optimal capital structure in line with the owner's expectations to the company. The company's statement of financial position also includes cash and term deposits with a short maturity, trade and other receivables, and trade payables. The group's risk management is underpinned by the policy that risks must be taken in a balanced manner, by taking into account the company's internal rules and applying risk mitigation measures appropriate in the circumstances, in order to ensure stable profitability of the company and maintain the value of the shareholder's assets.

The company defines financial risk as the risk which arises directly from operating activities and investing activities, including market risk, liquidity risk and credit risk, and threatens the company's financial capacity and/or the value of its assets.

Market risk is the risk that changes in market prices will affect the fair value of the company's financial instruments. The company's financial instruments which are most exposed to changes in market prices are loans and debt securities issued. The main factor affecting those financial instruments is interest rate risk. Interest rate risk is the risk of changes in the future cash flows of financial instruments arising from changes in market interest rates. Changes in market interest rates mostly influence the company's long-term floating-rate loans and debt securities issued. The company has mitigated the interest rate risk of some of those instruments by fixing the interest rate using floating-to-fixed rate swaps. Due to the low level of interest rates and market expectations that interest rates will remain low for the next few years, at 31 December 2017 about a fifth of the company's borrowings had fixed interest rates.

Term deposits are made at a fixed interest rate and their future cash flows are not exposed to interest rate risk.

Liquidity risk arises from potential changes in the financial position which may reduce the company's ability to meet its liabilities in a timely and orderly manner. The risk will realise when the company does not have enough funds to service its borrowings, meet its working capital needs, make capital investments and/or distribute dividends declared. The company has taken a cautious approach in liquidity risk management and retains a sufficient amount of monetary funds and short-term deposits or credit lines to be able to meet its financial liabilities at any time. Regular cash flow planning and control are the key elements of liquidity risk management.

In capital management, the company's objective is to ensure long-term sustainable operations; therefore, the company is rather prudent in raising debt capital. According to the owner's expectations to the company, the company's optimal equity to assets ratio is 60%.

Credit risk is the risk arising from counterparties' inability to meet their obligations to the company. The company's exposure to credit risk arises mostly from its operating activities (trade and other receivables) and transactions with financial institutions, including cash in current accounts and term deposits with a short maturity. In line with its risk management policies, the group's short-term funds may be deposited in current accounts and overnight and term deposits with credit institutions with high credit ratings only. The company prevents decreases in cash inflows arising from credit risk and minimises the risk by monitoring and managing customers' settlement behaviour on a daily basis, which enables it to apply appropriate measures in a timely manner. The group immediately contacts customers whose accounts become past due in order to resolve the situation.

#### **5.1. Risks arising from changes in foreign exchange rates, interest rates and stock market prices**

During the financial year and the period until these financial statements are authorised for issue, the company's exposure to risks arising from changes in foreign exchange rates, interest rates and stock market prices was insignificant.

Nearly 100% of the group's financial transactions are conducted in euros (EUR). Thus, there is practically no currency risk exposure.

During the year under review, interest rates continued to be low and are also expected to remain favourable for borrowers. The group is exposed to interest rate risk through floating-rate borrowings. Since during the financial year the interest rate environment was favourable for borrowers in Estonia as well as in the euro area and advanced economies in general, the company's exposure to interest rate risk during the reporting period may be considered insignificant, particularly taking into account the financial risk mitigation measures applied by AS Tallinna Sadam.

Changes in stock market prices have no influence on the company's operations and performance since the company does not have any assets or liabilities exposed to changes in stock market prices.

Further information on the group's exposure to financial risks and measures applied to mitigate and hedge those risks is provided in notes 4, 6 and 17 to the financial statements.

### **6. QUALITY AND ENVIRONMENTAL MANAGEMENT AND SOCIAL RESPONSIBILITY**

Since 2003 AS Tallinna Sadam (the parent) has applied an integrated management system that complies with the requirements of international quality and environmental management standards ISO 9001 and ISO 14001. In March 2017, Bureau Veritas Eesti OÜ that has performed certification and verification audits on the management system of AS Tallinna Sadam since 2009, carried out a verification audit in accordance with ISO 9001:2008 and ISO 14001:2004. The key objective of developing the quality and environmental management system was to develop the bases for determining and measuring indicators of the company's customer satisfaction model, reputation and employee engagement. In 2017, the group adopted a new motivation system for its key personnel and continued to streamline project management, implement asset management software and develop digitised document management and paper-free accounting.

In 2017, several innovative and sustainable projects were launched ("Smart Port" for implementing a smart vehicle registration and management system, "Single Window" for digitising the logistics chain and "Green Cruise" for designing a smart and environmentally friendly cruise terminal).

The key objectives of the environmental management system are monitoring air quality in the western part of Muuga Harbour and mapping the noise of Muuga Harbour and developing relevant mitigation measures. AS Tallinna Sadam is a responsible company and contributes to protecting the Baltic Sea by preventing vessels from discharging waste water into the sea. To solve the problem, AS Tallinna Sadam has built a system for collecting waste water from international passenger ferries and cruise liners to on-shore sewage network. The system has been recognised by international ferry operators and several international organisations and in 2017 received a special award in the Environmentally Friendly Company competition (in the category: environmentally friendly product or service, business and biodiversity). The waste water collection system, including the micro tunnel project, also won the first place in the environmental initiative category of the prestigious Seatrade Cruise Award competition. In addition, AS Tallinna Sadam's project for developing the cruise area of the Old City Harbour

won the first place in the Green Port/Terminal category of DPC Innovation Awards 2017. The award is given to the port or terminal which has been active and innovative in maintaining the natural environment and water quality, reducing air pollution, processing sediments, involving the community or other sustainable activities.

### 6.1. Corporate social responsibility

One of the priorities of AS Tallinna Sadam is to implement corporate social responsibility (CSR) policies in its everyday activities. Since February 2015 the company has been a member of the Responsible Business Forum in Estonia in order to address CSR issues on a more systematic basis and contribute to promoting corporate social responsibility in Estonia. For the sustainable operation of AS Tallinna Sadam, the welfare and interests of the key stakeholders (employees, local communities, customers) are important. Therefore, in addition to carrying out its core business the company seeks to provide added value specially in regard to these groups.

In 2017, the most significant activities aimed at the key stakeholders were as follows:

#### Employees

- Combining work and family life: flexible working hours, supporting childrens' participation in camps, a Christmas party for children
- Staff development: management, environmental, foreign language, computer skills, professional and safety training, staff days and seminars.
- Teambuilding: Shrove Tuesday event, summer teambuilding event, year-end party, concerts by the port's choir Laulude Lemmik, different theme weeks.
- Promoting a healthy lifestyle: health week, participation in sport events, supporting membership in sport clubs and participation in sports activities through the Sport ID environment.
- Enhancing social responsibility: organising and participating in the community activities day "Let's Do It!", organising an environmental week and enhancing the staff's awareness of environmental aspects and environmentally friendly activities, the annual Donor Day in the port, participating in the Donate Time initiative.
- Employee feedback: regular collection of employees' suggestions and ideas for developing the company.
- Recognition of employees: annual recognition of long-serving employees and selecting the Employees of the Year, recognition of employees' good ideas, recognition of teams whose projects won the Innovation Day award.
- The group paid the employees that participated in the Defence Force reservists' field exercise Okas their regular wages and included the time taken off for the field exercise in the time underlying the calculation of the annual holiday entitlement.

#### Local communities

- Cooperation with environmental authorities and oil operators to improve air quality at Muuga Harbour.
- Events for local communities: tours in Muuga Harbour in the framework of Viimsi Safety Day, public events: Maritime Days in the Old City Harbour, organising Winter Swimming World Cup Event in the Old City Harbour, organising open doors' days on board of the new ferries Töll, Piret and Tiiu.
- Involving local communities in development projects: The Old City Harbour Master Plan 2030 workshops and the City Forum.
- Educational programmes: introducing Muuga Harbour and organising tours in Muuga Harbour for pupils of various schools and age groups, introducing cruise tourism and the cruise area of the Old City Harbour, encouraging employees to be guest teachers in the Back to School programme, supervising students' bachelor's and master's theses, offering internship opportunities.
- Grants and support: the group decided to start supporting research and development activities in fields related to the activities of AS Tallinna Sadam.
- Organising conferences and offering local communities an opportunity to participate: Green Cruise conference, Open Seafront Forum: the new Old City Harbour, Smart Logistics seminar organised in cooperation with the innovation leaders club Level 11. To offer everyone an opportunity to follow the discussions, the innovation leaders' seminar and the City Forum were broadcast live via a website.
- Reflector campaign: handing out free reflectors in the port and providing information about the importance of reflectors to ensure traffic safety in the dark.
- Participating in organising the wall painting festival Mextonia by which the company contributed to the development of young Estonian street artists and helped share Estonian culture in a modern way.

## Customers

- Informing and involving customers: senior and line managers' meetings with the key customers, customer days to present the company's significant projects and investments, meetings with partners from the cruise network (feedback on the season and expectations to enhancing the attractiveness of the port area and addressing issues).
- Joint activities with customers: organising conferences (LNG conference, Green Cruise conference, Baltic Sea Ports & Shipping 2017, Maritime Conference), joint displays at international fairs (TransRussia, Cruise Shipping Miami, Boot Düsseldorf), community events (tours in Muuga Harbour, public events in the Old City Harbour, Donor Day).
- A survey carried out among the largest customers (terminal operators, shipping line operators, ship agencies, tenants) reflected their views about cooperation with AS Tallinna Sadam and assessments and expectations in different areas.
- A survey carried out among the customers of TS Laevad OÜ (a subsidiary) measured the satisfaction of private customers, business customers and helpdesk customers with the services of TS Laevad OÜ. The survey reflected that compared to a similar survey carried out in 2016, customer satisfaction has improved.
- Joint security and safety training events with customers and authorities – pollution recovery, fire drills, safety drills on board of vessels, etc., 18 drills in total.

The company's key personnel have identified the main stakeholder groups of AS Tallinna Sadam (22 different stakeholder groups in total) and the main tactics for involving them, which fall into four categories: engage, inform, care, monitor. In 2017, the company continued to identify stakeholders' expectations and impacts and to implement the involvement tactics.

AS Tallinna Sadam has assessed its responsibility and sustainability activities by completing the Corporate Social Responsibility Index questionnaire (offered by the Estonian Responsible Business Forum) in 2014, 2015 and 2017. Based on the results of 2015, AS Tallinna Sadam got 74.4 points out of 100 by which it achieved the bronze level of the Corporate Social Responsibility Index. In 2017, AS Tallinna Sadam got 91 points out of 100 (the 100-point limit was the best result achieved in 2017) by which it achieved the silver level of the Corporate Social Responsibility Index. The group is planning to participate in the questionnaire again in 2018.

## 6.2. Indicators

To facilitate a balanced analysis of the parent's results and their periodic monitoring, AS Tallinna Sadam (the parent) has developed indicators for measuring the financial, customer, process, personnel and development aspects. Based on observable indicators, the following significant trends and developments may be outlined in respect of 2017:

- Among financial performance indicators (EVA<sup>3</sup>, profit, cash flows, etc.) the indicators of return and profitability mostly decreased while the indicator of investments with expected returns increased slightly.
- Among process indicators, the number of passengers increased and cargo volume decreased, but the efficiency indicators of cargo handling mostly improved. The number of deviations decreased compared to 2016.
- Among personnel and development indicators the share of voluntarily leaving personnel decreased and the level of research and development expenditures increased, but the time spent on personnel training decreased.
- To monitor customer feedback, the company developed a customer satisfaction assessment model. Customer satisfaction was also monitored with the help of line managers. To assess customer satisfaction and obtain feedback, a survey was conducted among the following four customer groups: cargo operators, agents, shipping line operators and tenants. According to the survey the average result of the Customer Satisfaction Index was 4.76 (on a 6-point scale).

## 6.3. Environmental protection activities

In 2017, the group's environmental protection expenses and investments amounted to EUR 0.84 million including the maintenance costs of the ports' pollution recovery vessels and the costs of pollution recovery equipment of EUR 0.65 million, both figures remaining at the same level as in previous years. Environmental research and consulting expenditures totalled EUR 0.46 million, half of that of previous year. Waste water treatment charges amounted to EUR 0.06 million similarly to previous years.

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<sup>3</sup> EVA: Economic Value Added



In 2017, the key environmental projects related to port development were as follows:

- Monitoring ambient air in the western part of Muuga Harbour and implementing an e-noses project in cooperation with oil terminal operators in the framework of an extended ambient air monitoring project.
- Monitoring the western part of Muuga Harbour to prevent potential oil pollution.
- Strategic assessment of the environmental impacts of building an LNG terminal and bunker tanks in Muuga Harbour.
- Analysing noise in Muuga Harbour and implementing noise mitigation measures.
- Ensuring waste water reception capacity in the Old City Harbour in accordance with HELCOM and IMO requirements (including implementation of a micro-tunnel for receiving waste water and increasing reception capacity to 1,200 m<sup>3</sup>/h).
- Preparing for providing vessels in the Old City Harbour with onshore electricity, working out a solution for reducing air pollution and noise in the Old City Harbour.

## 7. SUBSIDIARIES AND JOINT VENTURES

At the end of 2017, AS Tallinna Sadam had two subsidiaries (OÜ TS Shipping and OÜ TS Laevad) and one joint venture (AS Green Marine).

In 2017, a decision was made to merge the subsidiary OÜ TS Energia with the parent. The merger took effect in December 2017. As a result of the merger, the activities and functions of OÜ TS Energia were transferred back to the parent. The core activities of OÜ TS Energia were electricity distribution, management of water and waste water networks and heat supply in the port area. Previously (in 2005 to 2011), the activities had been demerged from the parent to OÜ TS Energia. The purpose of the merger was to streamline and align the services and the development activities constantly carried out in the harbour area, and to improve the fluidity of everyday processes. The change did not have any impact on the income and expenses of the group as a whole.

As at the reporting date, there are no plans for changing the structure of the group in 2018.

### 7.1. OÜ TS Shipping

The subsidiary (originally OÜ Tallinna Sadama Veevõrk) was established in the second half of 2005 in order to separate, at a future date, the provision of water, waste water and heat supply services on port premises from port services and streamline the provision of the services as far as possible. However, the subsidiary did not start operating. At the end of 2012 the company was renamed for OÜ TS Shipping, and the parent transferred to it icebreaker Botnica together with the obligation to fulfil a 10-year icebreaking services contract with the state, acquired by winning a relevant procurement. The subsidiary's business was changed for activities related to owning and operating vessels. From the beginning of 2013 the company began providing icebreaking services under the 10-year service contract. Also, work began to prepare both the crew and the vessel for special purpose offshore operations during the off season in icebreaking activities.

In 2017 the performance of the 10-year service contract continued. However, no employment was found for the vessel during the off season in icebreaking activities because a long-term charter agreement concluded in 2013 was cancelled due to western countries' economic sanctions against Russia and low oil prices caused a slump in the special vessels market.

The remuneration of the subsidiary's management board and supervisory board for 2017 amounted to EUR 97.2 thousand and EUR 4.3 thousand, respectively. The management board may also receive a bonus for the company's financial performance in 2017, which will be decided by the supervisory board after the approval of the annual report. In 2016, the remuneration of the subsidiary's management board and supervisory board amounted to EUR 102.8 thousand and EUR 4.3 thousand, respectively.

### 7.2. OÜ TS Laevad

OÜ TS Laevad was established in 2014 in order to participate in a public tender for operating a domestic ferry service between the mainland and the largest islands of Estonia. The tender 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 domestic ferry service from 1 October 2016 to 30 September 2026. At the end of 2014, OÜ TS Laevad also signed contracts for the construction of four new passenger ferries for providing the passenger transport service.

2017 was the first full year in providing the domestic ferry service. As shipyards ran late in delivering the new passenger ferries, the company continued to use substitute ferries until the last one of the new ferries which had been built began operating in March. At the end of September, the company discontinued renting P/L Hiiumaa as a substitute ferry. The rise in operating expenses, which resulted from the lease of substitute ferries, was covered with penalty fees charged from the shipyards for the delay in the delivery of the ferries.

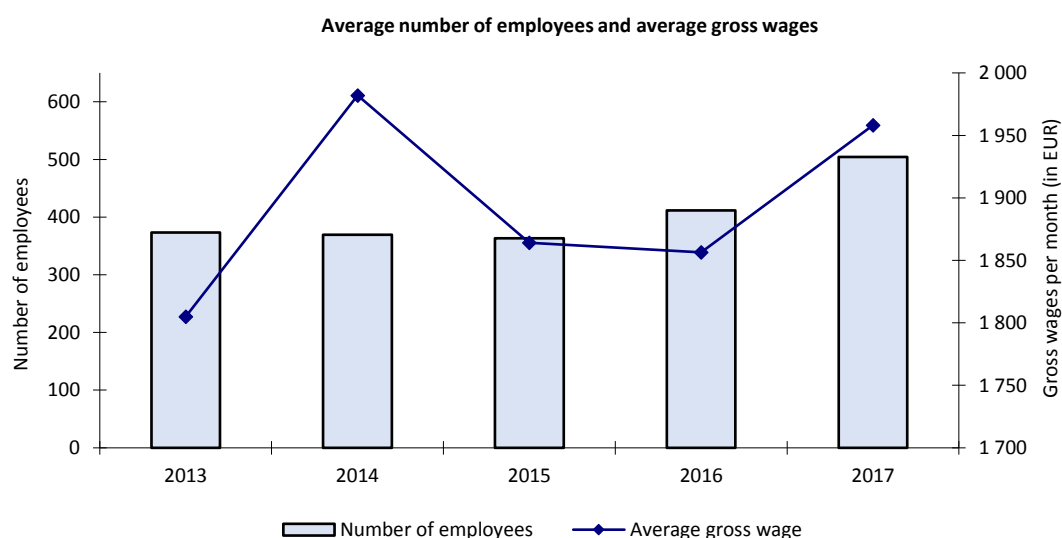
The remuneration of the subsidiary's management board and supervisory board for 2017 amounted to EUR 120.2 thousand and EUR 1.4 thousand, respectively. The management board may also receive a bonus for the company's financial performance in 2017, which will be decided by the supervisory board after the approval of the annual report. In 2016, the remuneration of the subsidiary's management board amounted to EUR 120.7 thousand including a bonus of EUR 19.1 thousand for the results of 2016 and the remuneration of the supervisory board amounted to EUR 1.4 thousand.

### 7.3. AS Green Marine

AS Green Marine is a joint venture engaged in waste management. The company was founded by AS Tallinna Sadam and AS NT Marine at the end of 2003 and is under the shareholders' joint control. The activities of AS Green Marine include management of waste generated in ports; management, administration and operation of hazardous ship-generated waste and waste water treatment plants; and cleaning and maintenance of port basins and premises. In 2017, the company continued receiving and handling ship-generated waste under an agreement signed with AS Tallinna Sadam. To increase the utilisation of the processing capacity of the mobile liquid waste treatment terminal, the company also handles waste received from customers located off the port premises. In 2017, AS Green Marine distributed dividends of EUR 350 thousand of which AS Tallinna Sadam received EUR 178.5 thousand. AS Green Marine did not distribute dividends in 2016.

## 8. ORGANISATION AND PERSONNEL

### 8.1. Employees



In 2017, the group's average number of employees was 504 (2016: 411). The number increased in connection with the addition of new employees hired during the year by the subsidiary TS Laevad OÜ. Employee remuneration expenses totalled EUR 11.8 million (2016: EUR 9.2 million). In 2017, the average gross wage of the group's employees was EUR 1,958 per month, 5.5% higher than in 2016 (EUR 1,856 per month). The rise in the average gross wage resulted from an increase in the number of the group's employees (TS Laevad OÜ) and pay rises provided to some employees due to a change in work arrangement or an increase in workload.

Employee turnover was 3.4% (2016: 3.4%). The average number of sick leave days per employee was 7.4 calendar days (2016: 3.4 calendar days). The number of sick leave days increased mainly through longer-term certificates of incapacity for work and also among service staff. Work environment issues are important for the group. Therefore, it consistently invests in raising its employees' awareness of work environment matters and safety at work. The group also encourages the staff's regular and consistent sport activities. In 2017, AS Tallinna Sadam continued to work with the Sport ID environment which enables its employees to visit various sport clubs and choose between a wide range of training options. The group offers each employee a monthly sport allowance of EUR 35.

In 2017, the group held its traditional health week which focused on various topics related to employee health such as physical activity, a healthy diet and various therapies. Similarly to previous years, the week included a blood donor day for the staff and business partners.

On 13 December 2017, the merger of TS Energia OÜ and AS Tallinna Sadam took effect. The merger was carried out to offer the customers of AS Tallinna Sadam complete solutions in development and management processes and thus improve the customers' satisfaction with port

services. The merger was in line with the policy of centralising the group's support structures with a view to streamlining the internal support services and optimising their costs.

In 2017, the company started implementing a new performance management system. In 2017, it applied to the group's key personnel only but in 2018 it will be extended to all managers and specialists of the parent company. According to the performance management system, the company has three core goals and approximately 30 sub-goals. During the goal-setting interview at the beginning of the year, the manager and the employee set the employee's individual goals for the year based primarily on the company's 3+30 goals. Management analyses the achievement of the company's 3+30 goals in each quarter and provides feedback during a staff meeting arranged for all employees. The objectives of the performance management system are as follows: to provide feedback on performance (achievement of individual goals) in the previous period; to agree individual goals, proportions and indicators for the coming year; to obtain information on the employee's development potential; and to analyse personal development wishes and needs.

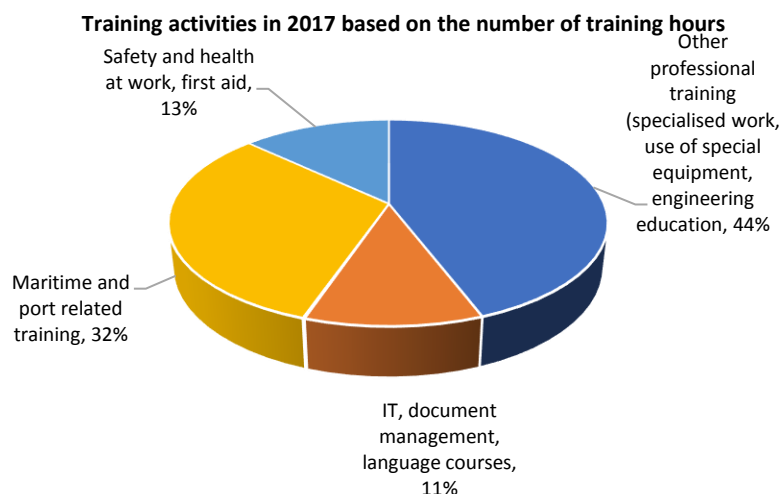
AS Tallinna Sadam organised several staff days where the group's results, goals, organisational development and environmental activities were discussed and the new performance management system and management policies were introduced.

In 2017, a new series of events, Aatriumivisioon (Atrium Vision) was launched, which is part of the group's action plan for promoting its values. At the events, professionals and opinion leaders from different fields share their insights and experience. In 2017, the employees could listen to transit and economics expert Raivo Vare, communication expert Raul Rebane and IT entrepreneur Kristel Kruustük. The events are broadcast on the internet and can also be viewed later.

To improve internal communication and make essential information available to each employee irrespective of where they work, the group continued to publish an internal newsletter.

On average, in 2017 each group employee participated in 15.14 hours of training (2016: 21.84 hours). Training expenses per employee amounted to EUR 331 (2016: EUR 315). In 2017, the share of group training was slightly smaller and there was more responsibilities-based individual training. Other professional training (including specialised work, use of special equipment and engineering education, 44% of total training time) and maritime and port related training (32% of total training time) accounted for the largest share of total training time. Training in safety, health at work and first aid accounted for 13% of training time and IT skills, document management and language training for 11%. Employees improved their knowledge of safety and health at work by attending training courses in first aid (further training), fire safety and use of fire-extinguishing equipment.

In 2017, AS Tallinna Sadam and the Estonian Maritime Academy again organised a maritime basics course, which was attended by 37 people. The training is designed for people working in ports or in the maritime sector who wish to expand their maritime knowledge. The group cooperated with the Estonian Maritime Academy also in other areas, e.g. in carrying out mooring simulation training.



### 8.1. Management board

In 2017, the management board had three members. Since 1 March 2016, the chairman of the management board has been Valdo Kalm. The other members of the management board are Marko Raid (CFO) and Margus Vihman (CCO).

The remuneration of the members of the management board for 2017 amounted to EUR 305.0 thousand. The members of the management board may also receive a bonus for the company's financial performance in 2017, which will be decided by the supervisory board after the approval of the annual report. The remuneration of the members of the management board for 2016 amounted to EUR 287.3 thousand, including a bonus for financial performance in 2016 of EUR 72.0 thousand.

### 8.3. Supervisory board

In 2017, the supervisory board of AS Tallinna Sadam held 8 meetings and 2 meetings were held without calling a meeting. In 2017, changes were made in the composition of the supervisory board. Based on the resolution of the sole shareholder of 8 September 2017 according to which the term of office of the members of the supervisory board was changed for 3 years, Mart Luik, Merike Saks and Agris Peedu were removed from the supervisory board and Ahti Kuningas, Kati Kusmin and Raigo Uukkivi were appointed as new members of the supervisory board. In addition, to harmonise the terms of office, Aare Tark, Üllar Jaaksoo and Urmas Kaarlep were reappointed to the supervisory board. The remuneration of the members of the supervisory board for 2017 amounted to EUR 40.5 thousand (2016: EUR 28.8 thousand).

## 9. CORPORATE GOVERNANCE REPORT

In resolving matters related to the group's management, AS Tallinna Sadam mostly observes the Corporate Governance Recommendations promulgated by the Nasdaq Tallinn Stock Exchange (hereafter: the CGR). However, in addition to the guidance of the CGR, the group also observes the requirements of the State Assets Act (hereafter: the SAA) because AS Tallinna Sadam is wholly owned by the Republic of Estonia. Due to the ownership of AS Tallinna Sadam and the consequent differences in its management at the level of the general meeting and the supervisory board, AS Tallinna Sadam does not follow some of the guidelines of the CGR. The provisions of the CGR (the section of the CGR together with a brief description) which the group does not comply with and the explanation for non-compliance are presented below.

However, it should be noted that even though AS Tallinna Sadam does not observe some of the guidelines of the CGR, protection of shareholders' and creditors' interests and their equal treatment in organising the activities of AS Tallinna Sadam is ensured. Non-compliance with the guidelines of the CGR mostly relates to the calling and procedure of the general meeting and the appointment of members of the supervisory board which are 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.

### 9.1. General meeting

AS Tallinna Sadam does not observe the following sections of the CGR in holding general meetings:

Section 1.2.1 – Notice 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 complying 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 or 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 costly for the Issuer.

The above guidelines of the CGR are not followed because 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 by the Minister of Economic Affairs and Infrastructure. Exercise of the shareholder's rights and the powers of the representative are set out in the SAA; the general meeting is called and its participants are determined on an ad hoc basis and subject to the agreement of the sole shareholder. Based on the above, AS Tallinna Sadam does not consider it practical to appoint an independent chair of the general meeting or make participation in the meeting possible by means of technical communication equipment.

### 9.2. Management board

The management board of AS Tallinna Sadam is a governing body that represents and manages the company in its daily operations in accordance with the law and the articles of association of AS Tallinna Sadam. The management board must act in the best interests of the

company. According to the articles of association, the management board has 1 to 5 members who are elected by the supervisory board for a period of up to five years.

The management board consists of three members:

- Valdo Kalm, the chairman of the management board, with powers until 28 February 2021;
- Marko Raid, a member of the management board, CFO, with powers until 17 April 2021;
- Margus Vihman, a member of the management board, CCO, with powers up until 31 October 2021.

Service contracts have been signed with all members of the management board. In the reporting period AS Tallinna Sadam conducted single small-scale transactions with parties related to the members of the management board which are disclosed in note 24 to the financial statements. All the transactions resulted from ordinary business activity and were carried out on an arm's length basis.

AS Tallinna Sadam is represented by the chairman of the management board and one member of the management board acting together. In line with section 2.2.7 of the CGR, the following information about the remuneration of the members of the management board of AS Tallinna Sadam for 2017 and the bases for their termination benefits and additional remuneration are presented below.

Total remuneration of the members of the management board for 2017 amounted to EUR 305.0 thousand (2016: EUR 215.3 thousand), breaking down as follows: the remuneration of Valdo Kalm, the chairman of the management board, EUR 120.0 thousand (1 March 2016 to 31 December 2016: EUR 100.0 thousand); Marko Raid, a member of the management board, EUR 96.0 thousand (2016: EUR 83.7 thousand); Margus Vihman, a member of the management board, EUR 89.0 thousand (1 November 2016 to 31 December 2016: EUR 16.0 thousand). In addition to remuneration for 2017, the management board may receive a performance bonus for 2017, which is decided by the supervisory board after the approval of the annual report. The bonus paid to the management board for 2016 amounted to EUR 72.0 thousand of which EUR 40.0 thousand was paid to Valdo Kalm and EUR 32.0 thousand was paid to Marko Raid. The limits to the amounts of additional remuneration and termination benefits that can be paid to a member of the management board are set out in section 86 subsections 2 and 3 of the SAA, according to which the total amount of additional remuneration paid to a member of the management board may not exceed fourfold average monthly remuneration paid to the member of the management board in the previous financial year and the amount of termination benefits paid to a member of the management board may not exceed the management board member's three months' remuneration at the time of his/her removal.

Under the service contracts in force at 31 December 2017, on the removal of the members of the management board AS Tallinna Sadam has to pay the members of the management board termination benefits equal their three months' remuneration. For observing the prohibition on competition, AS Tallinna Sadam has to pay the members of the management board monthly compensation in an amount equal to 50% of the management board member's remuneration. The compensation has to be paid for 12 months after the expiry of the contract.

As at the date the annual report for 2017 is authorised for issue, the members of the management board of AS Tallinna Sadam have not notified the group of any conflicts of interest during the financial year.

### 9.3. Supervisory board

The supervisory board plans the activities of AS Tallinna Sadam, organises the management of the company and supervises the activities of the management board. According to the articles of association, the supervisory board has 6 to 8 members. In the financial year the supervisory board had 6 members; the composition of the supervisory board changed as follows: Merike Saks, Agris Peedu and Mart Luik were removed from the supervisory board and Kati Kusmin, Ahti Kuningas and Raigo Uukkivi were appointed as new members of the supervisory board. In line with section 81 of the SAA and based on a proposal made by the nomination committee to the minister that controls the shares, from 8 September 2017 the supervisory board has the following members: Aare Tark (chairman), Ahti Kuningas, Kati Kusmin, Raigo Uukkivi, Urmas Kaarlep and Üllar Jaaksoo. The current members of the supervisory board have powers up to 8 September 2020. During the year the supervisory board held 8 meetings and 2 meetings were held without calling a meeting.

The responsibilities of the supervisory board include approving the group's annual budget, annual report, strategy, goals and development directions. In addition, at its meetings the supervisory board discusses the risks the group is exposed to through its operating activities, regulatory and legal issues, investments and large-scale funding, and other matters related to the group's business.

In line with 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 2017 and the procedure for their remuneration are presented below.

The procedure for appointing and remunerating members of the supervisory board is set out in section 85 of the SAA. In accordance with the SAA, the limits of the remuneration and a detailed remuneration procedure 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 and Limits for the Remuneration of Members of the Supervisory Boards of State-owned Companies and Foundations*.

In accordance with the prescribed limits, the remuneration of a member of the supervisory board is determined by the minister controlling the shares based on the proposal of the nomination committee. According to the directive of the Minister of Economic Affairs and Infrastructure that controls the shares, until 7 September 2017 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. From 8 September 2017, the monthly remuneration of a member of the supervisory board has been EUR 750 and of the chairman EUR 1,500. Members of the supervisory board are remunerated once a month. Members of the supervisory board do not receive any remuneration for the month in which they did not participate in adopting resolutions of the supervisory board. The total remuneration of the members of the supervisory board for 2017 amounted to EUR 40.5 thousand (2016: EUR 28.8 thousand). AS Tallinna Sadam does not pay members of the supervisory board any termination benefits or additional remuneration besides the remuneration paid for participating in the work of the supervisory board.

AS Tallinna Sadam conducted single small-scale transactions with parties related to the members of the supervisory board which are disclosed in note 24 to the financial statements. All the transactions resulted from ordinary business activity and were carried out on an arm's length basis. As at the date the annual report for 2017 is authorised for issue, the members of the supervisory board of AS Tallinna Sadam have not notified the group of any conflicts of interest during the financial year. When a member of a supervisory board has had a conflict of interest, the member of the supervisory board has removed himself/herself from the discussion and resolution of the agenda item.

#### **9.4 Additional management bodies and committees**

In the company, the necessary procedures are regulated with rules and regulations, and for better risk assessment and management an internal auditor has been appointed who prepares regular reports for the supervisory board. In accordance with the Auditors Activities Act, the company has established an audit committee whose function is to monitor and analyse the processing of financial information, the efficiency of risk management and internal control, the process of auditing of the consolidated financial statements, the independence of the audit firm and the auditor who represents the audit firm on the basis of law, and to submit proposals and recommendations to the supervisory board in matters provided for by law. The audit committee has three members and from October 2015 to 16 October 2017 the members were Urmas Kaarlep, Agris Peedu and Mart Luik. On 17 October 2017, new members were elected to the audit committee: Urmas Kaarlep (chairman), Kati Kusmin and Raigo Uukkivi. The committee was elected for three years.

In 2017, a member of the audit committee was paid EUR 89 per month and the chairman of the audit committee was paid EUR 133 per month for participating in the activities of the audit committee.

#### **9.5 Disclosure of information**

Due to public interest, AS Tallinna Sadam as a state-owned company follows the policy of maximum openness in the disclosure of information. The company's main information channels are press releases and its website [www.ts.ee](http://www.ts.ee), which includes general information about the company, business opportunities in the ports and harbours belonging to AS Tallinna Sadam, and the contacts of the company's key personnel. The website also provides information about the company's strategic goals and financial results (including interim and annual reports). Every quarter, AS Tallinna Sadam publishes the key figures of its port operations, which include cargo flows by cargo type and the number of passengers passing through the ports owned by AS Tallinna Sadam by major routes.

#### **9.6. Financial reporting and auditing**

Preparation of financial statements is the responsibility of the management board of AS Tallinna Sadam. The company's consolidated financial statements are prepared in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The company releases its quarterly financial reports after they have been prepared and approved by the management board and its annual report as soon as the report has been signed by the supervisory board. The reports are released on the company's website.

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 of the draft contract for auditing services as the auditor is chosen using a procurement procedure, the contract is signed based on the procurement results and material terms and conditions of the contract (including the time schedule and responsibilities) have been agreed with the supervisory board

before the procurement is announced. In accordance with the guidelines of the Financial Supervision Authority of 24 September 2003 Rotation of Auditors of Certain Entities under State Supervision the company organises the rotation of auditors and ensures the independence of the auditor by changing the lead auditor at least every three years.


The auditor of AS Tallinna Sadam is AS Deloitte Audit Eesti and the independent auditors' report is signed by Veiko Hintsov. The contract for audit services has been made for three years (for auditing the financial statements for 2015-2017). The audit firm has not provided the company with any services that might compromise the auditor's independence.

## MANAGEMENT'S CONFIRMATION AND SIGNATURES

By authorising the consolidated annual financial statements as at 31 December 2017 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 25 to 86 and that

1. The consolidated financial statements have been prepared in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU);
2. The consolidated annual financial statements give a true and fair view of the financial position 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 (13 April 2018) have been properly recognised and disclosed in the consolidated financial statements; and
4. AS Tallinna Sadam and its subsidiaries are going concerns.

13 April 2018



Valdo Kalm

Chairman of the Management Board



Marko Raid

Member of the Management Board



Margus Vihman

Member of the Management Board



**CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 31 December 2017

in thousands of euros	Note	31.12.2017	31.12.2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	6,954	49,918
Trade and other receivables	8	9,271	17,276
Inventories		301	378
<b>Total current assets</b>		<b>16,526</b>	<b>67,572</b>
<b>Non-current assets</b>			
Investments in joint venture	9	1,256	1,086
Other long-term receivables	8	272	362
Property, plant and equipment	10	577,125	568,533
Intangible assets	11	1,958	1,155
<b>Total non-current assets</b>		<b>580,611</b>	<b>571,136</b>
<b>Total assets</b>		<b>597,137</b>	<b>638,708</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	16	21,989	118,018
Derivative financial instruments	17	609	1,008
Provisions	13	1,503	1,156
Government grants	18	303	917
Taxes payable	15	698	9,436
Trade and other payables	14	7,810	8,384
<b>Total current liabilities</b>		<b>32,912</b>	<b>138,919</b>
<b>Non-current liabilities</b>			
Loans and borrowings	16	213,611	128,035
Government grants	18	23,826	23,703
Other payables	14	996	1,083
<b>Total non-current liabilities</b>		<b>238,433</b>	<b>152,821</b>
<b>Total liabilities</b>		<b>271,345</b>	<b>291,740</b>
<b>EQUITY</b>			
Share capital		185,203	185,203
Statutory reserve capital		18,520	18,520
Hedge reserve		-609	-1,008
Retained earnings		96,253	104,775
Profit for the period		26,425	39,478
<b>Total equity</b>	19	<b>325,792</b>	<b>346,968</b>
<b>Total liabilities and equity</b>		<b>597,137</b>	<b>638,708</b>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

for the year ended 31 December 2017

**Consolidated statement of profit or loss**

in thousands of euros	Note	2017	2016 (Adjusted)
Revenue	20	121,295	103,152
Other income	22	4,808	8,099
Operating expenses	21	-41,041	-30,327
Personnel expenses	21	-17,957	-14,121
Depreciation, amortization and impairment	10, 11	-26,430	-17,358
Other expenses		-358	-550
<b>Operating profit</b>		<b>40,317</b>	<b>48,895</b>
<b>Finance income and costs</b>			
Finance income		33	32
Finance costs	23	-2,318	-1,075
<b>Finance costs - net</b>		<b>-2,285</b>	<b>-1,043</b>
Profit from investments in joint venture under equity method of accounting	9	348	376
<b>Profit before income tax</b>		<b>38,380</b>	<b>48,228</b>
Income tax expense	19	-11,955	-8,750
<b>Profit for the period</b>		<b>26,425</b>	<b>39,478</b>
Attributable to:			
Owners of the Parent		26,425	39,478
Basic earnings and diluted earnings per share (in euros)	19	0.14	0.21
Basic earnings and diluted earnings per share - continuing operations (in euros)		0.14	0.21

**Other comprehensive income**

in thousands of euros	Note	2017	2016
<b>Profit for the period</b>		<b>26,425</b>	<b>39,478</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges,	17	399	-177
<b>Total other comprehensive income</b>		<b>399</b>	<b>-177</b>
<b>Total comprehensive income for the period</b>		<b>26,824</b>	<b>39,301</b>
Attributable to:			
Owners of the Parent		26,824	39,301

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 December 2017

in thousands of euros	Note	2017	2016 (Adjusted)
Cash receipts from sale of goods and services		127,814	107,421
Cash receipts related to other income		450	286
Payments to suppliers		-48,658	-37,343
Payments to and on behalf of employees		-14,824	-11,939
Payments for other expenses		-744	-204
Income tax paid on dividends	19	-20,612	-7,763
<b>Cash flows from operating activities</b>		<b>43,426</b>	<b>50,458</b>
Purchases of property, plant and equipment (PPE)	26	-25,171	-39,208
Purchases of intangible assets	26	-1,346	-704
Proceeds from sale of PPE		524	726
Proceeds from government grants for non-current assets		349	346
Dividends received	9	178	0
Interest received		19	14
<b>Cash used in investing activities</b>		<b>-25,447</b>	<b>-38,826</b>
Issue of debt securities	16	105,000	75,000
Redemption of debt securities	16	-111,250	-2,500
Repayments of loans	16	-6,766	-23,210
Change in overdraft	16	2,565	0
Finance lease principal repayments	16	-3	-2
Dividends paid	19	-48,000	-35,000
Interest paid	16	-2,459	-1,884
Other payments related to financing activities		-30	-20
<b>Cash used in/from financing activities</b>		<b>-60,943</b>	<b>12,384</b>
<b>NET CASH FLOW</b>		<b>-42,964</b>	<b>24,016</b>
Cash and cash equivalents at beginning of the period		49,918	25,902
Change in cash and cash equivalents		-42,964	24,016
Cash and cash equivalents at end of the period		6,954	49,918

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2017

In thousands of euros	Note	Share capital	Statutory capital reserve	Cash flow hedging reserve	Retained earnings	Total equity attributable to the owners of the Parent
<b>Equity at 31 December 2015</b>		<b>185,203</b>	<b>18,520</b>	<b>-831</b>	<b>139,775</b>	<b>342,667</b>
Profit for the period		0	0	0	39,478	<b>39,478</b>
Other comprehensive income for the period	<b>17, 19</b>	0	0	-177	0	<b>-177</b>
<i>Total comprehensive income for the period</i>		<i>0</i>	<i>0</i>	<i>-177</i>	<i>39,478</i>	<b>39,301</b>
Dividends declared	<b>19</b>	0	0	0	-35,000	<b>-35,000</b>
<b>Equity at 31 December 2016</b>		<b>185,203</b>	<b>18,520</b>	<b>-1,008</b>	<b>144,253</b>	<b>346,968</b>
Profit for the period		0	0	0	26,425	<b>26,425</b>
Other comprehensive income for the period	<b>17, 19</b>	0	0	399	0	<b>399</b>
<i>Total comprehensive income for the period</i>		<i>0</i>	<i>0</i>	<i>399</i>	<i>26,425</i>	<b>26,824</b>
Dividends declared	<b>19</b>	0	0	0	-48,000	<b>-48,000</b>
<b>Equity at 31 December 2017</b>		<b>185,203</b>	<b>18,520</b>	<b>-609</b>	<b>122,678</b>	<b>325,792</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. REPORTING ENTITY**

AS Tallinna Sadam (also referred to as the "Parent" or the "Company") is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statement of AS Tallinna Sadam as at and for the year ended 31 December 2017 comprise the Parent and its subsidiaries (together referred to as the "Group"). The Parent's core business line is rendering of port services in the capacity of a landlord port (AS Tallinna Sadam owns the land on which it operates) whose tasks involve managing and developing port infrastructure and organising vessel traffic in the port basin.

The Group holds five harbours: Old City, Saaremaa, Muuga, Paljassaare, and Paldiski South. The Old City Harbour in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010) and the Saaremaa Harbour, used mostly for receiving cruise liners, are focused on providing passenger port services. Muuga Harbour, Estonia's largest cargo harbour, the Paldiski South Harbour, and the Paljassaare Harbour that services mostly ship repair companies, are focused on providing cargo port services.

In addition to the landlord port operations carried out in passenger and cargo harbours, the Group's subsidiaries provide ice-breaking services and other maritime support services, and also a domestic ferry line services with passenger ferries.

In October 2017 it was decided by the sole Shareholder of the Company to merge the former fully owned subsidiary TS Energia OÜ with the Parent, AS Tallinna Sadam. The date of the closing balance sheet of TS Energia OÜ was 30 July 2017. All transactions of TS Energia OÜ from 31 July 2017 until the date of the entry registering the merger in the Business Registry (13 December 2017) were recorded on the balance sheet of AS Tallinna Sadam. There was no impact from the merger on the consolidated financial statements.

Companies belonging to the Group as at 31 December 2017 and 2016:

Subsidiary	Domicile	Ownership interest (%)		Core business line
		2017	2016	
OÜ TS Shipping	The Republic of Estonia	100	100	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	The Republic of Estonia	100	100	Rendering a domestic ferry service with passenger ferries
OÜ TS Energia	The Republic of Estonia	-	100	Rendering and sale of electricity network services, rendering water and heat supply and wastewater drainage services. This subsidiary was merged with the Parent in 2017.

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 13 April 2018. Under the Commercial Code effective in the Republic of Estonia the annual report must 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

### **Basis of measurement**

The Group's consolidated financial statement as at and for the year ended 31 December 2017 have been prepared in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities carried at fair value (including derivatives).

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other relevant factors the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The management board reviews the estimates regularly and any change in the estimates is recognised prospectively or in the period the change in an estimate relates to. Most significant estimates made by management are disclosed in note 5 to these consolidated financial statements.

### **Restatements based on new International Financial Reporting Standards (IFRS) and changes in accounting policy**

In the current year, the Group has adopted the following new IFRSs issued by The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC). In addition, the Group has also changed certain accounting policies in order to provide more relevant and reliable information.

*The Group has early adopted the following standards for the first time for the annual reporting period commencing 1 January 2017:*

#### **IFRS 15 "Revenue from Contracts with Customers"**

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) in advance of its effective date. IFRS 15 introduces a principles-based five-step model for recognizing revenue that focuses on the transfer of control of goods and services rather than the transfer of risks and rewards.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach using the practical expedients that allow an entity (a) to not restate contracts that (i) began and ended within the same reporting period and (ii) were completed before the beginning of the earliest period presented; (b) to not estimate variable consideration for completed contracts; (c) to reflect the aggregate effect of all contract modifications occurring before the earliest period presented when identifying performance obligations, determining transaction price, and allocating transaction price; and (d) to not disclose the amount of the transaction price allocated to remaining performance obligations for all reporting periods presented before the date of initial application, i.e. before 1 January 2017.

Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group other than the adjustments described below. The amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the year ending 31 December 2016 is illustrated below.

**Note 2 continued**

In thousands of euros	2016		
	As previously reported	Adjustments	As adjusted
<b>Revenue from contracts with customer</b>			
Vessel dues	47,058	0	47,058
Cargo charges	6,474	2,848	9,322
Passenger fees	16,431	0	16,431
Sale of electricity	5,476	0	5,476
Sale of ferry services - revenue from ticket sales	1,883	0	1,883
Sale of other services	1,711	0	1,711
<b>Total revenue from contracts with customer</b>	<b>79,033</b>	<b>2,848</b>	<b>81,881</b>
Other income*	15,366	-7,267	8,099

\* Under IFRS 15 EUR 2,848 thousand in penalty fees from cargo operators has been reclassified from other income to revenue from contracts with customers. In addition to the adjustment applied under IFRS 15, an adjustment of EUR 4,419 thousand was applied to other income related to a change in accounting policies for government grants discussed further in the changes in accounting policies section below.

There was no impact on statement of profit or loss (aside from reclassifications) or statement of financial position.

**IFRS 9 “Financial Instruments”**

In the current year, the Group has retrospectively applied IFRS 9 Financial Instruments (as revised in July 2014) in advance of its adoption date and the related consequential amendments to other IFRSs in advance of their effective dates.

IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. In relation to hedge accounting, on initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to continue applying the IAS 39 hedge accounting requirements.

The change in measurement category of the different financial assets has had no impact on their respective carrying amounts on initial application. There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

In relation to impairment of financial assets, the model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. As at 1 January 2017, management reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 and estimated there to be no impact which would require an adjustment and that no additional credit impairment was needed as at 1 January 2016 and 2017.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements of the Group. If a material impact had been identified, the adjustment would have been applied retrospectively. Since the impact was not material, no restatements to the prior year balances were required as it relates to IFRS 9.

The classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2017 is presented in the table below.

**Note 2 continued**

Financial asset/liability	Original Measurement Category (IAS 39)		New Measurement Category (IFRS 9)	
	Category	Gross carrying amount*	Category	Gross carrying amount*
Interest rate swaps (note 17)	Derivatives designated as hedging instruments	-1,008	Derivatives designated as hedging instruments	-1,008
Trade receivables (note 8)	Loans and receivables	7,796	Financial assets at amortised cost	7,796
Cash and cash equivalents (note 7)	Loans and receivables	49,918	Financial assets at amortised cost	49,918
Borrowings (note 16)	Financial liabilities at amortised cost	-246,053	Financial liabilities at amortised cost	-246,053

\*in thousands of euros

Changes in Accounting Policies

The Group has voluntarily applied the following changes in accounting policies retrospectively in order to provide more reliable and relevant information.

**IAS 20 "Government Grants"**

Under IAS 20, government grants from the state budget of the Republic of Estonia for public transport support are presented as "Other income". However, as in the current situation and from the Group's point of view the government grants represents consideration payable for services performed by the Group in the course of ordinary activities, it would be more relevant to show both income streams – revenue from ticket sales and government support – as revenue for the Group. Thus, the Group has reclassified the government support on sale of ferry services of EUR 4,419 thousand from "Other income" into "Revenue".

**Presentational Change for the Loss Allowance**

The Group has reclassified loss allowance of EUR 1,067 thousand from "Other Expense" to "Operating expenses" to be consistent with the nature of the related revenues reclassified from "Other income" to "Revenue" based on the IFRS 15 adjustment for cargo penalty fee.

The table below presents a summary of all adjustments made to the 2016 statement of profit and loss as a result of the application of new IFRS and changes in accounting policies discussed above.



**Note 2 continued**

Adjustments to the consolidated statement of profit or loss

in thousands of euros	2016		
	As previously reported	Adjustments	As adjusted
Revenue	95,885	7,267	103,152
Comprised of: Cargo charges (1)	6,474	2,848	9,322
Sale of ferry services - government support (2)	0	4,419	4,419
Other income	15,366	-7,267	8,099
Comprised of: Penalties, interest on arrears (1)	9,858	-2,848	7,010
Income from government grants (2)	5,066	-4,419	647
Operating expenses	-29,260	-1,067	-30,327
Comprised of: Other operating expenses	-848	-1,067	-1,915
Cost from credit-impaired financial assets (3)	-44	-1,067	-1,111
Other expenses	-1,617	1,067	-550
Comprised of: Loss allowance (3)	-1,039	1,067	28

(1) IFRS 15 adjustment for penalties received from cargo operators in the amount of EUR 2,848 thousand that were previously recognised as "Other income" are considered as part of the transaction price with contracts with the customers and therefore reclassified to "Revenue" in accordance with IFRS 15

(2) Accounting policy adjustment for government grants has reclassified the government support on sale of ferry services of EUR 4,419 thousand from "Other income" into "Revenue"

(3) Accounting policy adjustment for loss allowance reclassified EUR 1,067 thousand from "Other Expense" to "Operating expenses" to be consistent with the nature of the related revenues that were reclassified based on adjustment (1)

Adjustment to the consolidated statement of cash flows

Based on the revenue adjustments discussed above which reclassified amounts from other income to revenue, there are corresponding reclassification adjustments that reflect the change in balances for certain line items in the statement of cash flow show as shown below.

in thousands of euros	2016		
	As previously reported	Adjustments	As adjusted
Cash receipts from sale of goods and services	100,654	6,767	107,421
Cash receipts related to other income	7,053	-6,767	286

There was no impact on statement of profit or loss (aside from reclassifications listed above), statement of cash flows (aside from reclassifications listed above) or statement of financial position. EPS was also not impacted by the adoption of the new accounting standards or changes the accounting policies.

In addition to the standards that were early adopted the Group has also applied the following standards for the first time for the annual reporting period commencing 1 January 2017:

**IFRS 8 "Operating Segments"**

The current year is the initial year of application of the disclosure standard IFRS 8 Operating segments as the Group is in the process of filing its consolidated financial statements with the Estonian Financial Supervision Authority (EFSA) for the purposes of issuing shares on the Nasdaq Tallinn Stock Exchange. IFRS 8 requires entities to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers.

**Note 2 continued**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. Management has determined that the chief operating decision-makers ("CODM") of the Group is the Management Board. The Group has four reportable segments - passenger harbours, cargo harbours, ferry, and other (refer to note 3).

The CODM uses segment operating profit and segment adjusted EBITDA as the measure of segment performance. Segment operating profit is determined in the same manner as the amount presented in the consolidated statements of profit or loss. Segment operating profit excludes certain corporate items not allocated to the segments. The nature of those corporate items primarily relates to finance cost for Group borrowings, profit from equity method investee, and income tax expense. Segment adjusted EBITDA is determined based on operating profit before depreciation and amortisation, impairment losses, amortisation of grants received, and includes profit from investment in joint venture under equity method of accounting. Segment assets and liabilities are not provided to the CODM.

The accounting policies used to determine the segment information are consistent with those used to prepare the consolidated financial statements. Segment information for prior year that is reported as comparative information is presented to conform to the requirements of IFRS 8.

**Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative**

Effective for annual periods beginning on or after 1 January 2017. The application of the amendment had no material impact on the Group's consolidated financial statements. The respective disclosure about financial liabilities have been added to Note 16.

**Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"**

Annual Improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) made to eliminate inconsistency in IFRSs and clarify wording. Amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017 and did not have a material impact on the Group's financial statements.

Amendments or new accounting standards issued, not yet effective:*IFRS 16 "Leases"*

Adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019) IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

A right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash

**Note 2 continued**

flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of EUR 1,087 thousand (Note 12). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 12. A preliminary assessment indicates that although these arrangements will meet the definition of a lease under IFRS 16, the majority of the commitments qualify for low value or short-term leases upon the application of IFRS 16 and therefore, the new requirement to recognise a right-of-use asset and a related lease liability is expected to have no significant impact on the amounts recognised in the Group's consolidated financial statements.

Additionally, the Group as a lessor has long term time charter agreement for ice-breaker Botnica for an annual consideration of 4.7 million, which includes according to the new IFRS 16 lease (the right to control the use of the vessel) and service component (ship management and crew support services). Thus, the application of IFRS 16 will require the Group to reclassify portion of the time charter related income from rental income into revenue from customer contracts but it is not anticipated to have any other significant impact on the amounts recognised in the Group's consolidated financial statements.

**Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation**

Effective for annual periods beginning on or after 1 January 2019. This amendment clarifies that negative compensation received for early termination of a contract should be considered as contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The management board does not expect the amendment will have a material impact on the Group's financial statements. This amendment has not yet been endorsed by the EU.

**Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures**

Effective for annual periods beginning on or after 1 January 2019. IFRS 9 must also be applied to other financial instruments in an associate or joint venture to which the equity method is not applied. The financial instruments recorded by the Group's joint venture are not material thus, the management board does not expect the amendment will have a material impact on the Group's financial statements. This amendment has not yet been endorsed by the EU.

**Amendments to IAS 40 "Investment Property"**

Effective for annual periods beginning on or after 1 January 2018. The amendments provide more stringent bases for transferring a property to, or from, investment property. The management board does not expect the amendment will have a material impact on the Group's financial statements. This amendment has not yet been endorsed by the EU.

**Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"**

Annual Improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) made to eliminate inconsistency in IFRSs and clarify wording. Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the Group's financial statements.

**IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

Effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the Group's financial statements. This interpretation has not yet been endorsed by the EU.

**Note 2 continued**

There are other standards that have been issued/endorsed as of the date of this consolidated financial statements, however, they are not relevant for the Group and are not expected to have a material impact.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group and its subsidiaries.

*a) Subsidiaries*

A subsidiary is any entity controlled by the Group. The Group controls an entity when it:

- has power over the entity;
- has exposure, or rights, to variable returns from its involvement with the entity; and
- has the ability to use its power over the entity to affect the amount of the returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. The Group owns 100% of each of its subsidiaries, therefore no non-controlling interest has been recognised for the period ended 31 December 2017 and 2016.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Group. All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*b) Joint ventures*

A joint venture is a joint arrangement the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or apportion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit and loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The requirements of IAS 28 are applied to determine whether it is necessary to recognise any impairment loss with the respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less of cost of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any

**Note 2 continued**

reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

**Foreign Currencies***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 of all entities in the Group).

The consolidated financial statements are also presented in euros (the presentation currency). All amounts in these consolidated financial statements are presented in thousands of euros, unless stated otherwise.

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

In preparing the financial statements of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date. Non-monetary item carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit and loss in the period which they arise. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and finance costs; other foreign exchange gains and losses are presented as other income or other expenses. Non-monetary items denominated in foreign currencies carried at cost are not revalued.

**Revenue**

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The five-step approach followed for revenue recognition is as follows:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises the following major types of revenue from contracts with customers:

- Vessel dues
- Cargo charges
- Passenger fees
- Sale of electricity
- Sale of ferry services
- Sale of other services

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

**Note 2 continued****Vessel dues**

Vessel dues are calculated and collected either after each port call or semi-monthly and consist of the following:

- Tonnage charge on the basis of the gross tonnage of the vessel for each port call of the vessel;
- Waste fee on the basis of the gross tonnage of the vessel for each port call of the vessel;
- Mooring charge for each mooring operation based on the gross tonnage of the vessel;

An entrance of a vessel into any of the harbours of the Group is considered a port call. Calculation of charges and fees are performed at each port call.

Tonnage charges are fees that are levied to customers, i.e. shipping companies, in exchange for a vessel's entry into any of the Group's harbours and the usage of a quay (tonnage service). Waste reception and mooring services are rendered in return for waste fees and mooring charges.

Contracts with customers can either include a vessel schedule in which a number of port calls are determined in advance or contracts can be for a non-recurring tramp vessel call.

Tonnage service, waste reception, and mooring services, when elected, form separate performance obligations. Additionally, there are prospective volume discounts in tonnage service to certain types of vessels based on the accumulated number of port calls by each vessel during the calendar year. Such volume discounts represent options for customers to purchase additional tonnage services in the future (but not for a period longer than by the end of the calendar year) at a discount, thus providing a material right to the customer. Therefore, each port call that contributes to the cumulative number of port calls, and hence to probable discounts from tonnage service in the future, consists of between two and four performance obligations – (1) tonnage service, (2) an option to the customer for discounted tonnage services in the future, (3) waste reception (if elected), and (4) mooring services (if elected).

For tramp vessels and vessels visiting the port based on a pre-agreed schedule but without any prospective volume discounts the transaction price is based on the public or agreed prices and conditions and is allocated entirely to the tonnage services based on their standalone selling prices. For vessels visiting the port based on a pre-agreed schedule and having a prospective volume discount the transaction price is allocated between the tonnage services and the option for discounted tonnage services based on the estimated total number of port calls by that vessel during the calendar year. The estimates about the number of port calls for each vessel are revisited at each reporting date.

Revenue from tonnage service is recognised over time as the vessels use the quays during each port call using a time-based measure of progress as the customer receives the benefit of the tonnage services equally throughout the port call. Similarly, revenue from waste reception and mooring services is recognised over time as those services are performed. Finally, revenue related to the options for future discounted tonnage services is recognised over time as the options are exercised and the discounted tonnage services are used by the customers.

**Cargo charges**

Cargo charges are levied for using the harbour's general infrastructure. The contracts with customers, i.e. cargo operators, are normally for 20-50 years but could also be for a longer period. Cargo charges are normally calculated and collected monthly based on the cargo volumes handled by the cargo operators during the period.

The Group's performance obligation is to provide the cargo operator with the access to use the harbour's infrastructure over the period of the contract duration. The performance obligation is made up of a series of distinct services that is considered a single performance obligation over the contract duration.

Revenue from cargo charge for each customer is based on the cargo handling tariff(s) as stipulated in each contract, which generally decrease based on the cargo volume handled by the cargo operator within a calendar year. Some contracts also set a minimum annual cargo volume whereby if the cargo operator handles less than the minimum, the Group has the right at the end of the calendar year to charge the customer based on the minimum volume.

**Note 2 continued**

To estimate the amount of variable consideration for cargo charges the Group uses the most likely amount method. For measuring the most likely amount minimum contractual cargo volumes, actual and expected cargo volumes are considered, which requires estimates and judgments by management. These estimates are complex as the cargo volumes are volatile. The estimates of variable consideration are revised at each reporting date.

As the cargo operators simultaneously receive and consume the access to the infrastructure the revenue from cargo charges is recognised over time using a time-based measure of progress as the customers derive the benefit of their access equally throughout the contract.

**Passenger fees**

Passenger fees are charged in exchange for services provided to passengers arriving and departing from the harbour, such as the use of passenger terminals, galleries, traffic areas, etc. The fees are paid by the customer, i.e. the operator of a passenger ship, based on the actual number of passengers (passengers under the age of 12 are exempted from the fee). Passenger fees are based on a public price list, with fixed rates and fees collected after each port call or semi-monthly. Revenue from passenger fees is recognised over time as the service is delivered to the customer (as the passengers arrive to or depart from the harbour), which typically happens in a single day.

**Sale of electricity**

The Group derives revenue from sale of electricity. Fees from sale of electricity are collected monthly, in the month following the month of consumption. Prices are fixed per unit of electricity consumed. As the customers simultaneously receive and consume the benefits provided, the delivery of these services takes place over a period of time. As the Group is responsible for maintaining the electricity network to deliver the electricity to the customers and has full discretion to establish network prices, it acts as a principal when providing this service.

When connecting to the electricity network, customers pay a connection fee based on the expenses incurred on connecting to the network. The connection service does not represent a separate performance obligation as the customer does not benefit from this service separately from the electricity itself. Therefore, connection fees form part of the consideration for the electricity and are recognised as revenue over the estimated period during which customers obtain the electricity. Amounts received for the connection fee not yet included in revenue are recognised in the statement of financial position as contract liabilities.

**Sale of ferry services - revenue from ticket sales**

Revenue is earned from the sale of ferry tickets on domestic ferry lines operated by the Group. Consideration is received when the tickets are sold (for customers not having a credit contract) or monthly, in the month following the ferry service in which the ticket was used. Ticket prices are set by the State of Estonia and are fixed, with no volume or other incentives. Revenue from the ticket sales is recognised over time as the ferry transfers the passengers and/or vehicles, which happens in a single day, or at the point in time when the ticket expires. Consideration related to tickets sold for trips not yet performed is deferred and recognised as a contract liability within current liabilities. Income from additional services (ticket information sent via SMS, return of tickets, preferential line allocation) is recognised when the service has been rendered.

**Revenue from other sources****Rental income**

Rental income is earned from operating leases and is recognised on a straight-line basis over the term of the relevant lease.

**Charter fees**

Charter income is derived based on the time charter agreements which specify the charter period and the consideration receivable (normally a fixed day rate) by the Group. Charter income on vessels is recognised on a straight-line basis over the term of the relevant charter.

**Note 2 continued****Sale of ferry services - government support**

Government grants received by the Group also include public transport support received for operating passenger ferries in accordance with fee rates stated in the passenger transport public service contract (PTPSC) minus the ticket sales. The government support on sale of ferry services is recognised on a straight-line basis over the term of the PTPSC for the fixed fee components and for voyage fee component based on the number of actual voyages made during the period – all together comprising the PTPSC total fee. Revenue recognised from sale of passenger and/or vehicle tickets during the accounting period is deducted from the PTPSC total fee and the difference is recognised and paid out as government support on sale of ferry services.

**Financial instruments**

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the certain financial asset.

**Classification**

The classification and subsequent measurement depend on the business model for managing the financial assets and the contractual cash flow characteristics. Management determines the classification of its financial assets at initial recognition.

**a) Amortised cost**

Debt instruments are subsequently measured at amortised cost using the effective interest rate method only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies cash and cash equivalents, trade and other receivables as financial assets measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised in profit or loss and is included in "Finance income".



**Note 2 continued****b) Fair value through other comprehensive income (FVTOCI)**

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group does not have any financial assets at fair value through other comprehensive income.

**c) Fair value through profit or loss (FVTPL)**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

The Group measures derivative financial assets at fair value through profit or loss unless they are designated as effective hedging instruments in a cash flow or net investment hedge relationships (see below).

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 statement of profit or loss within "Finance income" or "Finance costs" in the period in which they arise.

The allocation of financial assets and liabilities to categories is presented in note 6.

**Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and lease receivables. The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group has applied the simplified approach in recognising lifetime ECL as presented by IFRS 9 for trade receivables and lease receivables (see note 4). The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

**Note 2 continued**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- e) the disappearance of an active market for that financial asset because of financial difficulties.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has a reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Write-off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has declared to be in bankruptcy and the Group management's evaluation of receiving the amounts is improbable. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**Financial liabilities**

All financial liabilities are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method (trade and other payables and loans and borrowings) or at FVTPL (negative value of interest rate swaps).

Financial liabilities are classified as current when they are due within 12 months as from the reporting date or if the Group does not have an unconditional right to defer the payment for later than 12 months after the reporting date. Loans and borrowings whose due date is within 12 months as from the reporting date but which are refinanced and, as a result, become non-current, or whose due date is extended beyond 12 months as from the reporting date but before the financial statements are authorised for issue are recognised as current. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contractual terms are also classified as current.

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

**Derivative instruments and hedge accounting**

Derivatives are 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 designated several long-term interest rate swap contracts as cash flow hedges in order to fix interest expense on floating interest rate borrowings.

**Note 2 continued**

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 17 and 19 to these consolidated 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 other comprehensive income. The gain or loss attributable to the ineffective portion is recognised immediately in the statement of profit or loss within "Finance costs" or "Finance income". Amounts accumulated in equity are reclassified to the statement of profit or loss in the same periods in which the hedged item affects profit or loss. The gain or loss attributable to the effective portion of the instrument hedging variable rate borrowings is recognised in the statement of profit or loss within "Finance costs". If a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity and is recognised when the future transaction is ultimately recognised in the statement of profit or loss. If the future transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately recognised in the statement of profit or loss in "Finance costs".

**Fair value measurement**

In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**Cash and cash equivalents**

Cash and cash equivalents recognised in the statements of financial position and cash flows comprise cash on hand, current account balances, funds that have not been transferred to the current account through collecting agencies or other payment intermediaries yet, and term deposits with original maturities of up to three months from the date of acquisition. Cash and cash equivalents are measured at amortised cost and no material impact arises from adoption of IFRS 9.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of inventories does not include borrowing costs as inventories of the Group do not represent qualifying assets. The cost of raw and other materials comprises the purchase price, transport costs and other costs directly attributable to the acquisition of inventories.

The Group recognises fuel, lubricants and food products purchased for the ferries and the ice-breaker as inventories.

**Note 2 continued****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. Subsequent improvement-related expenditures 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.

As items of property, plant and equipment the Group also owns several vessels (an ice-breaker and ferries) which are subject to periodic (normally at intervals of 2.5-5 years) overhauls during their useful lives. Using the component approach the Group at initial recognition and subsequently (a) identifies the non-physical component that represents a major overhaul, (b) estimates the cost of the non-physical component (if possible, with reference to current market prices), (c) depreciates the non-physical item separately over its useful life, and (d) derecognises the remaining carrying amount of a non-physical item when next overhaul is being performed, recognised and once again accounted for as new non-physical component.

*b) Borrowing costs*

Borrowing costs are expensed as incurred, except for the costs that are directly attributable to the acquisition, construction or production of assets whose preparation for intended use or disposal lasts for an extended period (e.g. vessels under construction). The borrowing costs attributable to the acquisition, construction or production of such assets are capitalised as part of the cost of the asset until the date when the assets are ready for their intended use.

*c) 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. The value of vessels at the end of their service life (residual value) is equal to the value of scrap metal.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items and assigned depreciation rates that correspond to their useful lives.

Based on the common practice in the shipping sector, depreciation for a vessel's two significant parts with different useful lives is calculated separately: a vessel itself and dry dock expenses as a separate part.

The estimated useful lives and residual values of items of property, plant and equipment are reviewed at each reporting date, on recognising subsequent improvements, and when significant changes are made in the Group's development plans. If the estimated useful life of an asset differs significantly from the previous estimate, the remaining useful life of the asset is adjusted, resulting in a change in the asset's depreciation charge for subsequent periods.

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

Quays and berths	10–50 years
Dredging areas of aquatories	20 years
Buildings and other structures	5–50 years
Plant and equipment	3.3–10 years
Vessels	10–25 years
Capitalised dry dock maintenance costs	2.5–5 years
Other items of property, plant and equipment	2–10 years

Land is not depreciated.

**Note 2 continued**

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

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which do not exceed 5 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets such as software development expenditures are recognised as intangible assets when the following criteria are met:

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- 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.

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.

**Impairment of non-financial assets**

At each balance sheet date, the Group assesses whether there is any indication that its non-financial assets may be impaired. The Group assesses impairment indicators from both external and internal sources which includes significant changes in the global market specifically as it relates to the political environment of neighbouring countries such as Russia and Finland, significant changes in global trading of oil and other liquid bulk cargo as well as dry bulk cargo, significant changes in the travel industry, and significant changes in weather patterns that could impact the use of the Group’s multipurpose ice-breaker vessel. Non-financial assets include property, plant and equipment and intangible assets. Impairment losses can be estimated for an individual asset or for a group of assets (cash-generating unit, CGU) which are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group’s material CGU’s consist, for example, of coal terminal, Saaremaa harbour, and liquid bulk terminals. If such indications occur, the recoverable amount of the asset is assessed 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. The value in use is determined by using discounted cash flow projections based on financial estimates reviewed by the management board members covering a period corresponding to the expected lifespan of the asset but normally not more than 50 years. The amount of the impairment loss of a cash generating unit is allocated to more significant non-current items of the unit on a pro rata basis so that their value does not fall below their fair value less cost of disposal.

Impairment losses are recognised as expenses in the period in which they are incurred.

Assets that have been previously impaired to recoverable amount are assessed at each reporting date to assess whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. Reversal of impairment losses is recognised in the statement of profit or loss for the year as reduction of impairment losses on non-current assets.

**Note 2 continued****Corporate income tax**

According to the Income Tax Act effective in the Republic of Estonia there is no corporate income tax on profits for the period when they are earned and retained. Instead, profits and/or retained earnings are subject to a dividend income tax when they are distributed to the shareholders. This has the same effect as if the corporate income tax rate were nil for retained taxable profits, but a higher rate if part or all of profit and/or retained earnings is paid out as a dividend distribution. Therefore, in accordance with IAS 12, the Company's deferred tax assets and liabilities are measured at the tax rate applicable to retained profits in Estonia of 0%.

Dividends distributed from retained earnings are generally subject to dividend income tax rate that is calculated as 20/80 of the net dividend distribution (equals to 20% of gross distributed profit). Commencing from 2019, if an entity makes regular dividend distributions, these are taxed at a rate of 14/86 of the net dividend distribution. Dividend distributions are considered regular if the amount of the distribution does not exceed the company's last three years' average profit distributions subject to taxation in Estonia. The 14/86 tax rate can be applied prior to 2021 as follows: (i) in 2019 to one-third of the 2018 taxable dividend distributions; and (ii) in 2020 to one-third of the 2018 and 2019 taxable dividend distributions combined.

Dividend distributions to shareholders are recognised as a liability in the period in which the dividends are declared by the shareholder. As dividend income tax is payable when profits and/or retained earnings are distributed, the incremental tax effect is recognised as dividend income tax expense of the period in which the dividends are declared since the dividend income tax consequences are more directly related to past events and transactions that gave rise to the liability, than to the distribution to the owners. This dividend income tax liability is recorded in the period when the dividends are declared, irrespective of the period in which they are actually distributed. The taxable period in Estonia is a month and income tax payments are calculated and remitted on that basis.

**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 wages, salaries, bonuses 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 incentive payments that are due to be settled within 12 months after the end of the period in which an employee renders the related services.

When an employee has rendered services during the accounting period in exchange for which a benefit may be expected to be paid (within next 12 months), the Group recognises a liability in the undiscounted amount of the benefit expected to be paid (accrued expense), less any amount already paid.

*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 evidently 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,

**Note 2 continued**

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.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or present obligation that arises from past events but is not recognised because it is either not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**Statutory capital reserve**

The statutory capital reserve is recognised to meet the requirements of the Commercial Code. Each financial year, 1/20 (5%) of net profit is transferred to the statutory capital reserve until it amounts to 1/10 (10%) of share capital. The statutory capital reserve may be used for covering accumulated losses or for increasing share capital. No payments can be made from the statutory capital reserve.

**Earnings per share**

Basic earnings per share are calculated by dividing the 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 profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**Leases**

A lease that transfers substantially all the risks and rewards related 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*

Assets held under finance leases are initially recognised as assets of the Group at their fair value at inception of the lease or, if lower, at the present value of the minimum lease payment. The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease liability within loans and borrowings.

Lease payments are apportioned between finance expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the statement of profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowings.

Operating lease payments are expensed in the statement of profit or loss over the lease term on a straight-line basis over the lease term. Contingent rentals are recognised as expenses in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

*b) The Group as the lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised over the term of the lease on a straight-line basis. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**Note 2 continued****Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with the grant and the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. A government grant that becomes repayable is accounted for as a change in accounting estimate.

**Government grants related to property, plant and equipment**

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

The liabilities arising from the grants related to non-depreciable assets (e.g. land) are recognised as income when the asset is ultimately retired or sold.

Repayment of a grant related to an asset is recognised by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in the statement of profit or loss to date in the absence of the grant is recognised immediately in the statement of profit or loss.

**Government grants related to income**

Government grants related to income are recognised in the statement of profit or loss over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. In the statement of profit or loss, the costs to be compensated and income from the grant are recognised separately. Amounts received for which additional conditions are required to be met prior to recognising as other income are presented in the statement of financial position as deferred income (liability).

Repayment of a grant related to income is applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is recognised immediately in the statement of profit or loss.

**Government grants related to domestic ferry service**

The government grants related to public transport support for providing domestic ferry services is presented in the consolidated statement of profit and loss as "Revenue". Funds according to the public passenger transport service contract are provided based on the difference between the fee received from the ticket sales to passengers and the contract amount of the revenue. As there are no additional conditions, other than providing the ferry service, the funds are recognised as received.

**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 ventures, and government agencies under the control or significant influence of the above persons; and companies under the control or significant influence of the Republic of Estonia are considered as related parties.



### 3. OPERATING SEGMENTS

#### Services whose revenues account for segment revenues

The Group's business activities are organised and managed based on its core operations. The information used by the chief operating decision maker to make management decisions about resources to be allocated and assess segment based performance focuses on its core operations. The chief operating decision maker for the Group is the management board (the "chief operating decision maker"). No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable segments under IFRS 8 are as follows:

- Passenger harbours;
- Cargo harbours;
- Ferry;
- Other.

Segment "Passenger harbours" refers to rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing passengers – Old City Harbour and Saaremaa Harbour. The segment's revenues include all the revenues of these harbours, consisting primarily of vessel dues for passenger and cruise vessels, and revenue from passenger fees charged for using the buildings and structures used for servicing passengers and their vehicles. It also includes other types of income such as rental income on premises (office and commercial premises) under lease contracts, cargo charges, sale of electricity and sale of various other services in the harbours related mostly with passengers and passenger vessels.

Expenses related to this segment are primarily the costs occurred in these harbours related to the revenue generating activities outlined above. Expenses also include allocated corporate expenses, based on the proportion of revenues from this segment in relation to the total revenue from harbour operations (segments "Passenger harbours" and "Cargo harbours" combined). All corporate operating expenses are fully allocated between the "Passenger harbours" and "Cargo harbours" segments, as the landlord port operations is the prevailing activity of the corporate head office (the port authority).

Segment "Cargo harbours" refers to rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing cargo – Muuga Harbour, Paldiski South Harbour and Paljassaare Harbour. The segment's revenues include all the revenues of these harbours, consisting primarily of revenue from vessel dues for cargo vessels, revenue from cargo charges paid by cargo operators for using the harbour's infrastructure, and rental income from the use of premises by cargo operators and other customers under right of superficies (and lease contracts. It also includes revenue from sale of electricity, passenger fees and other services provided in the harbours.

Expenses related to this segment are primarily the costs incurred in these harbours related to the revenue generating activities outlined above. Expenses also include allocated corporate expenses based on the proportion of revenues from this segment in relation to the total revenue from harbour operations (segments "Passenger harbours" and "Cargo harbours" combined). All corporate operating expenses are fully allocated between the "Passenger harbours" and "Cargo harbours" segments, as the landlord port operations is the prevailing activity of the corporate head office (the port authority).

Segment "Ferry" refers to a rendering of a ferry service by subsidiary OÜ TS Laevad with passenger ferries between Estonia's mainland and two major islands Saaremaa and Hiiumaa in accordance with the passenger transport public services contract signed with the Republic of Estonia (in total two routes are serviced). Revenues include revenues from ticket sales to the end-users of ferry services and government support to the extent the revenue from the sale of tickets does not cover the contractual revenue agreed for rendering the ferry services. It also includes revenue from rent and other services from tenants on ferries for providing commercial services to passengers. The segment's expenses include all the costs related to owning and operating the ferries on the two routes. The segment's revenues and performance result comprise of the revenues and performance of subsidiary OÜ TS Laevad rendering the service. No corporate expenses are allocated to segment "Ferry".

Segment "Other" includes the results of activities of subsidiary OÜ TS Shipping that owns and operates the multifunctional ice-breaker Botnica and profit/loss from investments in joint venture under equity method of accounting. The revenues and expenses include these of OÜ TS Shipping. No corporate expenses are allocated to segment "Other".

**Note 3 continued****Segment revenues and performance result**

Reporting segments apply the same accounting policies as the Group. Segment revenue is presented in terms of sales revenue. Segment performance is reported to the management board in terms of segment operating profit and segment adjusted EBITDA. Segment operating profit represents profit before finance income and costs (net), profit from investments in joint venture under equity method accounting, and income tax expense. Segment adjusted EBITDA represents segment operating profit before depreciation and amortisation, impairment losses, and amortisation of grants received, and includes profit from investments in joint venture under equity method of accounting. When reconciling to profit for the period, segment adjusted EBITDA represents profit for the period before depreciation and amortisation, impairment losses, and amortisation of grants received, finance income and cost (net), and income tax expense.

Segment performance is reported to the management board for making decisions about allocating resources to the segment and assessing its performance on a monthly basis.

**Geographical information**

The Group's revenues and non-current assets were 100% attributed to its country of domicile (Estonia), in both 2017 and 2016.

**Information about major customers**

Included in Group total revenue of EUR 121,295 thousand (2016: 103,152 thousand) are revenues of EUR 25,644 thousand (2016: EUR 25,243 thousand) which arose from sales to the Group's largest customer, whose revenues were reported under the Passenger harbours and Cargo harbours segments. In 2017, the Group's second largest customer also contributed 10% or more to the Group's total revenue, whose revenues of EUR 20,394 thousand (2016: EUR 9,031 thousand) were reported under the Ferry and Other segments. No other single customer contributed 10% or more to the Group's total revenue for 2017 or 2016.

**Segment revenues and results**

In thousands of euros	2017				
	Passenger harbours	Cargo harbours	Ferry	Other	TOTAL
Vessel dues	27,475	18,371	0	0	45,846
Cargo charges	1,593	6,398	0	0	7,991
Passenger fees	16,956	48	0	0	17,004
Sale of electricity	703	4,610	0	0	5,313
Sale of ferry services - revenue from ticket sales	0	0	10,789	0	10,789
Sale of other services	1,136	909	18	0	2,063
Rental income	1,991	9,421	483	0	11,895
Charter fees	0	0	0	4,584	4,584
Sale of ferry services - government support	0	0	15,810	0	15,810
<b>Total segment revenue*</b>	<b>49,854</b>	<b>39,757</b>	<b>27,100</b>	<b>4,584</b>	<b>121,295</b>
<b>Segment adjusted EBITDA</b>	<b>33,299</b>	<b>23,331</b>	<b>8,398</b>	<b>1,493</b>	<b>66,521</b>
Depreciation and amortisation	-4,622	-8,623	-4,916	-2,319	-20,480
Impairment loss (see note 10)	-20	-30	0	-5,900	-5,950
Amortisation of Grants Received (see note 18)	108	466	0	0	574
Profit from investments in joint venture under equity method of accounting	0	0	0	-348	-348
<b>Segment operating profit</b>	<b>28,765</b>	<b>15,144</b>	<b>3,482</b>	<b>-7,074</b>	<b>40,317</b>
Finance income and costs, net					-2,285
Profit from investments in joint venture under equity method of accounting					348
Income tax expense					-11,955
<b>Profit for the period</b>					<b>26,425</b>

\* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 43 thousand and EUR 213 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which has been eliminated during consolidation.

**Note 3 continued**

In thousands of euros	2016				
	Passenger harbours	Cargo harbours	Ferry	Other	TOTAL
Vessel dues	25,764	21,294	0	0	<b>47,058</b>
Cargo charges	1,490	7,832	0	0	<b>9,322</b>
Passenger fees	16,395	36	0	0	<b>16,431</b>
Sale of electricity	750	4,726	0	0	<b>5,476</b>
Sale of ferry services - revenue from ticket sales	0	0	1,883	0	<b>1,883</b>
Sale of other services	823	888	0	0	<b>1,711</b>
Rental income	2,232	9,979	28	0	<b>12,239</b>
Charter fees	0	0	0	4,613	<b>4,613</b>
Sale of ferry services - government support	0	0	4,419	0	<b>4,419</b>
<b>Total segment revenue*</b>	<b>47,454</b>	<b>44,755</b>	<b>6,330</b>	<b>4,613</b>	<b>103,152</b>
<b>Segment adjusted EBITDA</b>	<b>33,620</b>	<b>28,412</b>	<b>2,772</b>	<b>1,264</b>	<b>66,068</b>
Depreciation and amortisation	-4,504	-9,959	-268	-2,357	<b>-17,088</b>
Impairment loss (see note 10)	-270	0	0	0	<b>-270</b>
Amortisation of Grants Received (see note 18)	79	482	0	0	<b>561</b>
Profit from investments in joint venture under equity method of accounting	0	0	0	-376	<b>-376</b>
<b>Segment operating profit</b>	<b>28,925</b>	<b>18,935</b>	<b>2,504</b>	<b>-1,469</b>	<b>48,895</b>
Finance income and costs, net					-1,043
Profit from investments in joint venture under equity method of accounting					376
Income tax expense					-8,750
<b>Profit for the period</b>					<b>39,478</b>

\* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 5 thousand and EUR 216 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which has been eliminated during consolidation.

#### 4. FINANCIAL RISK MANAGEMENT

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

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

##### Market risk

###### a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the Group's financial instruments or in cash flows arising from movements in foreign exchange rates. The Group has no material liabilities or receivables denominated in any other currency different from its functional currency (euro). All outstanding long-term loans and borrowings are also denominated in euros. Further, in 2017 100% of the receipts (2016: 100.0%) and 99.9% of expenditures (operating expenses, investments, finance costs, etc.) (2016: 99.6%) were denominated in euros. Since nearly all receipts and payments as well as loans and borrowings are denominated in euros, the Group can be considered not to be exposed to currency risk.

###### b) Price risk

As at 31 December 2017 or the respective period, the Group has no investments in equity instruments in the balance sheet which would expose the Group to market price risk arising from financial instruments.

**Note 4 continued***c) Interest rate risk*

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

Floating interest rate loans and borrowings expose the Group to interest rate risk. The Group's policy is to maintain some of its debt portfolio in fixed rate instruments by using *floating-to-fixed* interest rate swaps when appropriate.

At 31 December 2017, the proportion of loans and borrowings with rates fixed through derivative transactions was 20% (31 December 2016: 22%) of the portfolio. Thus, 80% of the loans and borrowings that are not hedged are exposed to interest rate risk.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

in thousands of euros				
At 31 December	2017	% of total	2016	% of total
Variable rate borrowings	188,593	80%	193,043	78%
Fixed rate borrowings - repricing dates	47,007	20%	53,010	22%
< 6 months	0	0%	0	0%
6-12 months	8,407	4%	0	0%
1-5 years	38,600	16%	53,010	22%
<b>Total loans and borrowings (note 16)</b>	<b>235,600</b>		<b>246,053</b>	

The percentage of total shows the proportion of loans and borrowings that at the given date were at variable and fixed rates in relation to the total amount of loans and borrowings.

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 profit through estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2017 had been higher/lower by 100 basis points, i.e. 1 percentage point, the Group's profit for the financial year would have increased/decreased by EUR 1,886 thousand (31 December 2016: EUR 1,930 thousand) assuming all other variables remained constant.

**Credit risk**

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At 31 December 2017, the Group's maximum exposure to credit risk totalled EUR 14,932 thousand (31 December 2016: EUR 58,491 thousand).

In thousands of euros		
At 31 December	2017	2016
Current accounts and bank deposits with original maturities of less than 3 months (note 7)	6,898	49,886
Receivables from customers* (note 8)	6,909	7,796
Other receivables (note 8)	1,125	809
<b>Total</b>	<b>14,932</b>	<b>58,491</b>

\* Impairment losses have been deducted from receivables from customers

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

To reduce customer related credit risk exposure, advance payments or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, a customer's due diligence is performed prior to entering into 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. Based on the Group's analysis loss allowance for credit-impaired receivables was recognised. Further details on the credit quality of financial assets are disclosed in note 6.2. to these consolidated financial statements.

Credit risk exposure in financial transactions is mitigated by using financial institutions with high credit ratings on performing investment or derivative instrument transactions.

**Note 4 continued**

Receivables not past due as at the reporting date amounted to 75.5% (2016: 78.5%) of the total trade receivables. Credit loss for trade receivables amounted to 5.5% (2016: 6.1%) of the total trade receivables. Further details on trade receivables are disclosed in note 7.

For all trade receivables, the Group applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The measurement principles are described in the impairment of the financial assets section of the accounting policies (note 2).

**Trade receivables provision matrix**

In thousands of euros	Not past due	Days past due				TOTAL
		0-30	31-60	61-90	>90	
31.12.2017						
Expected credit loss rate	5.1%	1.5%	3.0%	40.0%	100.0%	
Total gross carrying amount	7,015	180	47	49	2,002	<b>9,293</b>
Lifetime expected credit loss (ECL)	-358	-3	-1	-20	-2,002	<b>-2,384</b>
						<b>6,909</b>
31.12.2016						
Expected credit loss rate	12.7%	0.1%	3.0%	40.0%	100.0%	
Total gross carrying amount	8,428	430	4	1	512	<b>9,375</b>
Lifetime expected credit loss (ECL)	-1,067	0	0	0	-512	<b>-1,579</b>
						<b>7,796</b>

In 2017 partial loss allowance for a customer at the amount of EUR 302 thousand was recognised in the category not past due as after the balance sheet date the customer contested a receivable by the Group related to penalty from unmet minimum cargo volumes.

In 2016 loss allowance for a customer with gross carrying amount of EUR 1 067 thousand was recognised in the category not past due as after the balance sheet date the company declared bankruptcy. The allowance for these two customers is presented as credit impaired in the table below.

The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

**Trade receivables lifetime expected credit loss (ECL)\***

In thousands of euros	Collectively assessed not credit-impaired	Credit-impaired	Total
<b>Balance as at 01.01.2016 under IAS 39</b>	0	555	<b>555</b>
Adjustment upon application of IFRS 9	0	0	0
<b>Balance as at 01.01.2016 restated</b>	<b>0</b>	<b>555</b>	<b>555</b>
Transfer to credit impaired	0	1,131	1,131
Amounts recovered	0	-107	-107
<b>Balance as at 31.12.2016 restated</b>	<b>0</b>	<b>1,579</b>	<b>1,579</b>
<i>Balance as at 01.01.2017 under IAS 39</i>	<i>0</i>	<i>1,579</i>	<i>1,579</i>
<i>Adjustment upon application of IFRS 9</i>	<i>0</i>	<i>0</i>	<i>0</i>
Transfer to credit impaired	0	809	809
Amounts written off	0	-2	-2
Amounts recovered	0	-63	-63
Change in loss allowance due to new trade receivables	61	0	61
<b>Balance as at 31.12.2017</b>	<b>61</b>	<b>2,323</b>	<b>2,384</b>

\*There are no individually assessed not-credit impaired lifetime ECL trade receivables in 2017 and 2016.

Other receivables are assessed with 12 months ECL method. As at 31 December 2017 there had not been a significant increase of credit risk of these financial assets and therefore no additional provision was needed. As at 31 December 2017 the majority of other receivables amount consisted of the approved insurance indemnity.

**Note 4 continued****Liquidity risk**

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring future and past cash flows, and by matching the maturity profiles of financial assets and liabilities. The liquidity reserve to meet the Group's obligations arising from prompt settlement of liabilities incurred in the ordinary course of business consist of EUR 5 000 thousand on average, which is available upon short notice. The reserve comprises of cash and cash equivalents, term deposits at banks with original maturities of less than 3 months and available credit lines. Based on cash flow forecasts, the management monitors, on an ongoing basis, changes in the Group's liquidity reserve and if the liquidity reserve falls under the required level, short-term external financing in the form of various debt instruments is used. The minimum level of the liquidity reserve shall be EUR 2 000 thousand at any time.

As at 31 December 2017, current liabilities exceeded current assets by EUR 16.4 million. The gap is planned to be covered by positive cash flow from operating activities. In case of need for external financing, the Group plans to obtain financing in the form of long-term bond issue or loan or a short-term credit line.

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 forward-looking yield curves of interest rate swap transactions from market information providers have been used as the basis for Euribor forecast as follows: for year-end 2017 as at 26 January 2018; for year-end 2016 as at 13 February 2017.

**Liquidity analysis**

In thousands of euros	Loans outstanding*	Debt securities issued**	Trade and other payables	Derivatives	Total
<i>At 31 December 2017</i>					
< 6 months	5,987	1,636	7,561	57	<b>15,240</b>
6–12 months	3,573	12,061	0	174	<b>15,807</b>
1–5 years	28,846	44,244	0	190	<b>73,280</b>
> 5 years	20,338	143,722	0	0	<b>164,060</b>
<b>Total</b>	<b>58,744</b>	<b>201,663</b>	<b>7,561</b>	<b>420</b>	<b>268,387</b>
<i>At 31 December 2016</i>					
< 6 months	3,441	1,784	16,756	59	<b>22,041</b>
6–12 months	3,626	110,757	0	205	<b>114,589</b>
1–5 years	38,160	26,240	0	653	<b>65,054</b>
> 5 years	18,357	56,876	0	0	<b>75,232</b>
<b>Total</b>	<b>63,585</b>	<b>195,658</b>	<b>16,756</b>	<b>917</b>	<b>276,916</b>

\* including amount outstanding EUR 55,693 thousand (in 2016: EUR 59,893 thousand) and estimated total future interest payments in amount of EUR 3,051 thousand (2016: EUR 3,692 thousand)

\*\* including amount outstanding EUR 179,900 thousand (in 2016: EUR 186,150 thousand) and estimated total future interest payments in amount of EUR 21,763 thousand (in 2016: EUR 9,508 thousand)

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

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

### Classification of leased out assets

The Group owns land and buildings in its harbours which are leased out to third parties under operating leases. Management has assessed whether the leased-out land and buildings should be classified as property, plant and equipment or investment property. The Group has classified all such assets as property, plant and equipment since the assets are held for earning income in the port's core operations through increasing cargo or passenger flows or in activities supporting core operations. Therefore, according to the Group's management, the main objective of holding such assets is not to earn rentals; they are primarily held to help increase income earned from core operating activities. Accordingly, the main income attributable to those assets is not received from rentals.

Property that cannot be directly attributable to the Group's core operations on increasing cargo or passenger flows or in activities supporting core operations and that cannot be sold or leased out under a finance lease, is recognised as investment property only if an insignificant part (less than 10%) of the asset is used for providing services or for administrative purposes. At 31 December 2017 the Group did not have such assets.

### Useful life of property, plant and equipment

The Group owns large amount of high value infrastructure items of property, plant and equipment with very long expected useful lives (up to 50 years). Useful lives of the items of property, plant and equipment are based on management's best estimate of the period over which an asset is expected to be available for use. These estimates are based on previous experiences with similar assets but as construction technologies evolve the impact of new solutions on the physical and useful lives of such items of property, plant and equipment may have not yet been proven in practice.

At 31 December 2017, the net value of the Group's property, plant and equipment amounted to EUR 577,125 thousand; depreciation for the year was EUR 20,037 thousand; at 31 December 2016, the respective figures were EUR 568,533 thousand and EUR 16,463 thousand (note 10). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 2,004 thousand; in the comparative year 2016 by EUR 1,646 thousand.

Useful lives of property, plant and equipment are reviewed at each reporting date. If new estimates differ significantly from the previous ones, changes are accounted for as changes in accounting estimates.

### Impairment 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 assessed 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. The fair value can be derived based on the recent transactions by the Group involving similar assets or estimated with the help of professional valuers using the market information available to them. If the fair value of an asset cannot be determined reliably or is likely to be lower, a future cash flow model is developed to calculate its value in use. Value in use calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of the services sold used as inputs in order to estimate the future cash flows expected to arise from the asset or cash generating unit and a suitable discount rate and growth rate in order to calculate present value. 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 at the end of each reporting period when circumstances indicate that assets might be impaired or events that led to a previous write-down of assets might have ceased. Information about impairment losses incurred is disclosed in note 10.

**Note 5 continued****Revenue recognition**

For recognizing revenue on monthly and/or quarterly basis the Group needs to make significant estimates about the expected annual vessel calls and/or cargo volumes. Such estimates are made based on the latest information available from the clients combined with latest market update available to the Group. See note 2 revenue section for further details.

**Classification of AS Green Marine as a joint venture**

Although AS Tallinna Sadam owns a 51% interest in the joint venture AS Green Marine, this does not constitute operational control over the joint venture, since pursuant to the Articles of Association of AS Green Marine the members of the supervisory board of AS Green Marine are elected with an affirmative vote of the shareholders holding at least 2/3 of the shares present at the general meeting of shareholders. Furthermore, AS Tallinna Sadam does not currently have any nominees in the management board of AS Green Marine (which consists of the nominees of the other joint venture partners, being experts in the waste management industry). The Group does not consolidate AS Green Marine, instead accounting for the profit or loss attributable to the 51% shareholding by equity method. See note 9 for details.

**Classification of the passenger transport public service contract**

The Group owns four newly built passenger ferries and is using these to provide domestic ferry service to the State of Estonia according to the passenger transport public service contract concluded based on an open public tender. Via the public services contract the state controls what services the Group must provide with the ferries, to whom it must provide them, and at what price. The State also controls significant residual interest in the ferries at the end of the term of the contract as it has a purchase option on each of the 4 ferries. However, as the Group is fully owned by the State of Estonia, in the management's judgement the criteria for public-to-private service is not satisfied and the Group has not applied accounting treatment for service concessions based on IFRIC 12 and has instead been recognising revenue as revenue from other sources related to a government grant.

**6. FINANCIAL INSTRUMENTS****6.1. FINANCIAL INSTRUMENTS BY CATEGORY****Financial assets**

In thousands of euros

At 31 December	2017	2016
<i>Financial assets carried at amortised cost</i>	15,188	64,468
Cash and cash equivalents (note 7)	6,954	49,918
Trade and other receivables - financial assets (note 8)	8,234	14,550
<b>Total financial assets</b>	<b>15,188</b>	<b>64,468</b>

**Financial liabilities**

In thousands of euros

At 31 December	2017	2016
<i>Financial liabilities carried at amortised cost</i>	241,537	252,659
Trade and other payables – financial liabilities (note 14)	5,937	6,606
Loans and borrowings (note 16)	235,600	246,053
<i>Liabilities at fair value</i>	609	1,008
Derivatives (note 17)	609	1,008
<b>Total financial liabilities</b>	<b>242,146</b>	<b>253,667</b>



**Note 6 continued****Fair value**

According to the Group's estimates, the fair values of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts stated in the Group's consolidated statement of financial position as at 31 December 2017 and 31 December 2016. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting future contractual cash flows current market interest rates that would be available for the Group for similar financial instruments. The fair value of loans and borrowings is found by discounting future contractual cash flows with current market interest rates for similar financial instruments as at 31 December 2017 and 2016 available for companies with S&P rating BBB, which was the rating indicated by the banks as an internal shadow rating for the Group. A more detailed comparison of the carrying amount and fair value of loans and borrowings is disclosed in note 16. The carrying amount of trade receivables and trade payables, less any write-downs, is estimated to be equal to their fair value.

All derivatives are recognised at fair value in the statement of financial position. The fair value of derivatives is evaluated on monthly basis using pricing provided by banks based on the forward-looking yield curves of interest rate swap transactions from market information providers. In terms of fair value hierarchy this qualifies as level 2 measurement.

**6.2. CREDIT QUALITY OF FINANCIAL ASSETS**

The credit quality of financial assets which are neither past due nor impaired are assessed by reference to independent credit agencies (if available for the counterparty).

**Cash in current accounts and deposits by rating\***

In thousands of euros

At 31 December	2017	2016
Aa2 <sup>4</sup>	0	40,000
Aa3	6,606	9,886
No rating <sup>5</sup>	292	0
<b>Total in cash and cash equivalents</b>	<b>6,898</b>	<b>49,886</b>

\* The remaining balances in the statement of financial position item "Cash and cash equivalents" (EUR 56 thousand and EUR 32 thousand as of 31 December 2017 and 2016, respectively) not included in the table above consist of cash on hand and in transit – funds that have not yet been transferred to the current account through collecting agencies or other payment intermediaries.

**7. CASH AND CASH EQUIVALENTS**

In thousands of euros

At 31 December	2017	2016
Cash on hand	28	14
Current accounts with banks	6,898	9,886
Short-term deposits	0	40,000
Cash in transit	28	18
<b>Total cash and cash equivalents (notes 4 and 6)</b>	<b>6,954</b>	<b>49,918</b>

All balances included in cash and cash equivalents are denominated in euros (as at both 31 December 2017 and comparative 31 December 2016).

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

<sup>4</sup> Moody's credit ratings are used in the table

<sup>5</sup> Overnight deposits in Luminor Bank, owned by Nordea and DNB

**8. TRADE AND OTHER RECEIVABLES**

In thousands of euros		
At 31 December	2017	2016
<b>Financial assets</b>		
Receivables from customers (note 4)	9,293	9,375
<i>Incl. for non-current assets</i>	63	663
<i>Incl. from contracts with customer</i>	7,789	7,765
Loss allowance (note 4)	-2,384	-1,579
<i>Incl. from contracts with customer</i>	-1,087	-1,067
Outstanding government grants (note 18)	189	189
Receivables from joint venture (note 24)	27	17
Other receivables*	1,109	6,548
<b>Total financial assets (note 6)</b>	<b>8,234</b>	<b>14,550</b>
<b>Non-financial assets</b>		
Prepaid taxes (note 15)	673	1,512
Other prepayments	620	1,560
Other receivables	16	16
<b>Total non-financial assets</b>	<b>1,309</b>	<b>3,088</b>
<b>Total trade and other receivables</b>	<b>9,543</b>	<b>17,638</b>
Incl. short-term receivables	9,271	17,276
long-term receivables	272	362

\* Includes as at 31 December 2017 a claim to insurance company for indemnity of the ferry Tiiu insured accident in amount of EUR 812 thousand and as at 31 December 2016 accrued penalty receivables from shipyards in the amount of EUR 5,755 thousand.

All long-term receivables will fall due within 9 years as from the reporting date.

**9. INVESTMENTS IN JOINT VENTURE****AS Green Marine**

The joint venture is a waste management entity established at the end of 2003. Its principal place of business and country of incorporation is Estonia.

Although AS Tallinna Sadam holds 51% (both as at 31 December 2017 and 31 December 2016) of ownership interest and voting rights of AS Green Marine and two other shareholders hold the remaining interest, to have power over AS Green Marine, Group's voting or contractual rights must be substantive and must provide the Group with the ability to direct AS Green Marine's relevant activities. The Articles of Association of AS Green Marine specify that at least 75% of the voting rights are required to make decisions about the relevant activities. Even though AS Tallinna Sadam can block any decision, it does not control AS Green Marine because it also needs the consent of other shareholders. As such, the Group does not have control over the joint venture.

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

The above joint venture is accounted for using the equity method in these consolidated financial statements.

The financial statements of AS Green Marine have been prepared in accordance with Estonian Accounting Act and Estonian Financial Reporting Standard. 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).

**Note 9 continued****Changes in investments in joint venture**

In thousands of euros

At 31 December	2017	2016
Carrying value at beginning of period	1,086	710
Share in profit under the equity method	348	376
Dividends paid	-178	0
<b>Carrying value at end of period</b>	<b>1,256</b>	<b>1,086</b>

**Joint venture AS Green Marine**

In thousands of euros

At 31 December	2017	2016
Current assets	1,494	1,565
Non-current assets	2,006	1,615
Current liabilities	526	524
Non-current liabilities	512	527

**The above amounts of assets and liabilities include the following:**

Cash and cash equivalents	1,131	1,059
Current loans and borrowings	230	206
Non-current loans and borrowings	512	527

Revenue	4,101	3,786
Profit or loss from continuing operations	683	741
Profit (loss) for the period	683	741

Total comprehensive income for the period	683	741
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**The above profit (loss) for the period include the following:**

Depreciation and amortization	266	388
Interest expense	17	20
Income tax expense (income)	88	0

Net assets of the joint venture	2,462	2,130
Proportion of the Group's ownership interest in the joint venture	51%	51%
Carrying amount of the Group's interest in the joint venture	1,256	1,086

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

**10. 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
<b>At 31 December 2015</b>						
Cost	576,673	105,757	7,172	6,071	75,000	<b>770,673</b>
Accumulated depreciation and impairment losses	-179,584	-41,199	-5,701	0	0	<b>-226,484</b>
<b>Carrying amount at 31 December 2015</b>	<b>397,089</b>	<b>64,558</b>	<b>1,471</b>	<b>6,071</b>	<b>75,000</b>	<b>544,189</b>
<i>Movement in 2016</i>						
Acquisition and reconstruction (note 26)	175	28,923	395	16,625	-4,431	<b>41,687</b>
Disposed at carrying amount	-148	0	0	0	0	<b>-148</b>
Depreciation charge	-11,273	-4,807	-383	0	0	<b>-16,463</b>
Impairment loss	-157	-113	0	0	0	<b>-270</b>
Other adjustments	0	-218	-210	-34	0	<b>-462</b>
Reclassified at carrying amount	2,648	1,777	24	-4,449	0	<b>0</b>
<b>At 31 December 2016</b>						
Cost	578,096	135,543	6,471	18,213	70,569	<b>808,892</b>
Accumulated depreciation and impairment losses	-189,762	-45,423	-5,174	0	0	<b>-240,359</b>
<b>Carrying amount at 31 December 2016</b>	<b>388,334</b>	<b>90,120</b>	<b>1,297</b>	<b>18,213</b>	<b>70,569</b>	<b>568,533</b>
<i>Movement in 2017</i>						
Acquisition and reconstruction (note 26)	613	91,324	423	12,795	-70,554	<b>34,601</b>
Disposed at carrying amount	0	0	0	-22	0	<b>-22</b>
Depreciation charge	-10,465	-9,190	-382	0	0	<b>-20,037</b>
Impairment loss	-18	-5,929	-3	0	0	<b>-5,950</b>
Other adjustments	0	0	0	0	0	<b>0</b>
Reclassified at carrying amount	12,489	8,334	415	-21,238	0	<b>0</b>
<b>At 31 December 2017</b>						
Cost	590,917	234,563	6,887	9,748	15	<b>842,130</b>
Accumulated depreciation and impairment losses	-199,964	-59,904	-5,137	0	0	<b>-265,005</b>
<b>Carrying amount at 31 December 2017</b>	<b>390,953</b>	<b>174,659</b>	<b>1,750</b>	<b>9,748</b>	<b>15</b>	<b>577,125</b>

\* Main components of assets under construction in the total amount of EUR 18,213 thousand as at 31 December 2016:

- new traffic solution in the northern part of Old City Harbour in the amount of EUR 6,137 thousand;
- passenger ferries under construction in the amount of EUR 3,150 thousand.

Main component of assets under construction in the total amount of EUR 9,748 thousand as at 31 December 2017 is new traffic solution in the southern part of Old City Harbour in the amount of EUR 8,210 thousand. The new traffic solution creates a new layout for traffic areas along with automated traffic control and access points for vehicles getting on and off vessels.

\*\* Prepayments in the amount of EUR 70,569 thousand as at 31 December 2016 were associated with the construction of new passenger ferries.

The Group's assets have not been pledged.

**Note 10 continued**

At 31 December 2017 the gross carrying amount of fully depreciated items still in use amounted to EUR 29,434 thousand, at 31 December 2016 to EUR 27,238 thousand.

At 31 December 2017 the Group has ownership of assets erected on the land areas which were previously used by a former lessee (AS Coal Terminal) under the right of superficies contracts. The assets consist of structures and machinery necessary for operations of a coal terminal – roads, railways, storage areas, conveyor system, cargo unloading/loading equipment, electricity and water grids etc which have been reverted to the Group following the termination of the right of superficies contracts due to lessee's bankruptcy. The aforementioned assets are recognised at nil cost (2016: nil). Additional information is provided in note 27.

Commitments related to property, plant and equipment are disclosed in note 24.

Under the passenger transport public services contract signed on 11 December 2014 the Republic of Estonia, represented by the Ministry of Economic Affairs and Communications, has the right to acquire any of the four passenger ferries (Leiger, Tiiu, Tõll and Piret) that are in possession of the Group. The Ministry has the right to exercise the option to redeem one to four passenger ferries giving a notice of it four years before expiry of the contract (i.e. on 30 September 2022 at the latest). The acquisition price for each passenger ferry is EUR 26.6 million. The Ministry has no obligation to exercise the option to redeem the passenger ferries.

In 2017 borrowing costs were capitalised in the amount of EUR 140 thousand and consultation and owner supervision service costs in the amount of EUR 94 thousand (2016: EUR 952 thousand and EUR 1,043 thousand respectively).

The amount of borrowing costs eligible for capitalisation has been calculated based on the borrowings by the Group for making the investment, in an amount equal to the investment. On capitalising borrowing costs weighted average interest rate of the Group's loans and borrowings has been applied which in 2017 was 0.993% a year on average (2016: 1.02%).

In 2017 write-downs of EUR 5,900 thousand and write-offs of EUR 50 thousand were recognised under "Impairment losses" within depreciation, amortization and impairment in the statement of profit or loss, including:

- Ice-breaker Botnica in the amount of EUR 5,900 thousand. Due to continuing low demand for multipurpose vessels and depressed charter rates on the respective market, mostly related to low oil prices during last few years, the carrying value of Botnica was tested for impairment. Since Botnica's fair value less cost of disposal is higher than its value in use, the vessel's recoverable amount equals its fair value less cost of disposal. To measure the fair value, management obtained valuation reports from three independent valuation companies. These valuation reports were based on both:
  - ✓ information provided by the Group such as vessel technical information (build year, engine working hours, maintenance history, special equipment on board etc) and class status report on the seaworthy condition of the vessel;
  - ✓ assumptions and valuation models used by the valuers – the assumptions are typically market related by collating brokers' price quotes and using these, coupled with brokers' market knowledge (based on their professional judgement and market observation), as a reference point. The approximate market value is provided as an indicative price range on the basis of prompt charter free delivery as between a willing seller and a willing buyer for cash payment under normal commercial terms.

Information provided to the valuers and the assumptions and the valuation models used by the valuers are reviewed by the Group CFO. This includes assessment of a single value of the vessel which is derived typically from the average of the price ranges provided by the valuers. Based on the valuations, EUR 5,900 thousand impairment loss was recognised in the consolidated statement of profit or loss of 2017. In 2016, no impairment loss was recognised, based on valuation report. As a result of write-down Botnica's depreciation per year decreases in the coming periods by EUR 398 thousand.

In terms of fair value hierarchy this qualifies as the 3rd level measurement;

- Write-off of a warehouse and electricity substations in the amount of EUR 18 thousand;
- Write-off of electricity substation's equipment in the amount of EUR 29 thousand;
- Write-off of computer network's equipment in the amount of EUR 3 thousand.

**Note 10 continued**

The underlying assets related to the impairment and write-offs described above in the amount of EUR 5,900 thousand belonged to category "Other", in the amount of EUR 20 thousand to category "Passenger harbours", and in the amount of EUR 30 thousand to category "Cargo harbours" in terms of reportable segments disclosed in note 3.

In 2016 write-downs of EUR 5 thousand and write-offs of EUR 265 thousand were recognised under "Impairment losses", including:

- Write-off of warehouses in the amount of EUR 152 thousand as a result of demolition of the buildings in 2016;
- Write-off of electrical equipment in the amount of EUR 113 thousand as a result of liquidation of a substation;
- Write-down of an office building in the amount of EUR 5 thousand as a result of planned demolition of the building in 2017.

The underlying assets related to the impairment and write-offs described above belonged to category "Passenger harbours" in terms of reportable segments disclosed in note 3.

In 2016 adjustments of EUR 428 thousand resulting from raising the threshold for recognising items of property, plant and equipment and assets reclassified as operating expenses in the amount of EUR 34 thousand were recognised under "Other adjustments".

**11. INTANGIBLE ASSETS**

In thousands of euros	Computer software	Software under construction	Total
<b>At 31 December 2015</b>			
Cost	1,501	104	<b>1,605</b>
Accumulated amortisation and impairment losses	-1,110	0	<b>-1,110</b>
<b>Carrying amount at 31 December 2015</b>	<b>391</b>	<b>104</b>	<b>495</b>
<i>Movement in 2016</i>			
Acquisitions and upgrades (note 26)	220	637	<b>857</b>
Amortisation charge	-197	0	<b>-197</b>
Reclassified at carrying amount	709	-709	<b>0</b>
<b>At 31 December 2016</b>			
Cost	2,430	32	<b>2,462</b>
Accumulated amortisation and impairment losses	-1,307	0	<b>-1,307</b>
<b>Carrying amount at 31 December 2016</b>	<b>1,123</b>	<b>32</b>	<b>1,155</b>
<i>Movement in 2017</i>			
Acquisitions and upgrades (note 26)*	483	763	<b>1,246</b>
Amortisation charge	-409	0	<b>-409</b>
Impairment loss	0	-34	<b>-34</b>
Reclassified from under construction to in use	761	-761	<b>0</b>
<b>At 31 December 2017</b>			
Cost	3,674	0	<b>3,674</b>
Accumulated amortisation and impairment losses	-1,716	0	<b>-1,716</b>
<b>Carrying amount at 31 December 2017</b>	<b>1,958</b>	<b>0</b>	<b>1,958</b>

**Note 11 continued**

\* Acquisitions and upgrades in amount of EUR 1,246 thousand includes:

- acquisition of equipment for the traffic management system in North-West area of Old City Harbour in amount of EUR 784 thousand, in 2016 no such assets were acquired;
- acquisition and/or upgrade of domestic ferry ticket sales and traffic management systems in amount of EUR 298 thousand (in 2016: EUR 743 thousand).

**12. OPERATING LEASES****12.1. Group as a lessor****Carrying amount of property, plant and equipment assets leased out under operating lease**

In thousands of euros At 31 December	2017	2016
Land	31,057	39,499
<i>Incl. with right of superficies</i>	27,890	35,783
Buildings	7,589	7,671
Plant and equipment	35	39
Other items of property, plant and equipment	613	631
<b>Total carrying amount of property, plant and equipment leased out under operating lease</b>	<b>39,294</b>	<b>47,840</b>

**Depreciation charge on property, plant and equipment assets leased out under operating lease**

In thousands of euros	2017	2016
Buildings	487	473
Plant and equipment	4	5
Other items of property, plant and equipment	114	112
<b>Total depreciation charge on property, plant and equipment leased out under operating lease</b>	<b>605</b>	<b>590</b>

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

In thousands of euros	2017	2016
Land	8,154	8,371
Buildings	3,000	3,567
Plant and equipment	579	126
Other items of property, plant and equipment	162	175
<b>Total rental income from property, plant and equipment leased out under operating lease (note 20)</b>	<b>11,895</b>	<b>12,239</b>

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

In thousands of euros At 31 December	2017	2016
< 1 year	9,267	10,268
1–5 years	35,060	38,257
> 5 years	255,083	278,246
<b>Total rental income in subsequent periods under non-cancellable operating lease contracts</b>	<b>299,410</b>	<b>326,771</b>

**Note 12 continued**

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 or without a term. Operating lease rentals can generally be subject to price 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 normally not compensated by the lessor at the end of the lease term.

Under right of superficies contracts, many significant risks and rewards from the possession of the asset (land) are transferred to the lessees. However, as land has an indefinite economic life, there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. Therefore the rights of superficies contracts are accounted for as operating leases.

In right of superficies contracts entered into by the Group and customers, the payments for right of superficies and the duration of the contract (usually ranging from 36 years to 50 years) have been stipulated. Payments for the 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 rights of superficies are generally not covered by guarantees. At expiry of a contract the lessee generally has the right to remove the construction erected on the land under the right of superficies; apply for extension of the term of the right of superficies contract up until the end of the construction's remaining life; or the constructions are subject to compensation by the lessor for the usual value of the constructions (see also note 27).

**12.2. Group as a lessee****Rentals payable in subsequent periods under non-cancellable operating lease contracts**

In thousands of euros		
At 31 December	<b>2017</b>	<b>2016</b>
< 1 year	447	510
1–5 years	628	756
> 5 years	12	9
<b>Total rentals payable in subsequent periods under non-cancellable operating lease contracts</b>	<b>1,087</b>	<b>1,275</b>

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 taking other similar obligations.



**13. PROVISIONS****Provision for bonuses**

In thousands of euros	2017	2016
<b>At beginning of period</b>	<b>1,156</b>	<b>865</b>
Recognised	944	1,156
Reversed	-26	-244
Used	-1,129	-621
<b>At end of period</b>	<b>945</b>	<b>1,156</b>

**Other provisions**

In thousands of euros	2017	2016
<b>At beginning of period</b>	<b>0</b>	<b>100</b>
Recognised	558	225
Used	0	-325
<b>At end of period</b>	<b>558</b>	<b>0</b>
<b>Total provisions</b>	<b>1,503</b>	<b>1,156</b>

**Provision for bonuses**

The provision for bonuses is accrued based on 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 is generally decided after the annual reports of the respective companies for the year ended 31 December 2017 have been approved.

**Other provisions**

Other provisions include the expected costs of EUR 183 thousand related to few ongoing court cases at the Supreme Court of Estonia where the Group has lost in both the county and circuit courts. Due to the unfavourable decisions at the two lower court levels the Group considers there to be a probable likelihood of an unfavourable final outcome and has recorded provisions in 2017 at the amount of EUR 183 thousand to cover the expected costs. The Supreme Court is expected to make its decisions in all related cases during 2018.

Other provisions also include the expected repair costs of the ferry Tiiu at EUR 375 thousand. The provision was recognised in 2017 and relates to an accident with ferry Tiiu whereby due to suspected system malfunction the ferry temporarily lost its course and made contact with the sea bottom. Majority of the repairs have been made already during 2017. The remaining works are all expected to be completed during 2018. The cost of the repairs is expected to be recovered through the respective insurance policy.

**14. TRADE AND OTHER PAYABLES**

In thousands of euros		
At 31 December	2017	2016
<b>Financial liabilities</b>		
Trade payables	4,994	5,299
<i>Incl. for property, plant and equipment (note 26)</i>	1,908	2,276
<i>for intangible assets (note 26)</i>	64	164
Interest payable (note 16)	534	589
Payables to joint venture (note 24)	115	129
Other payables	294	589
<b>Total financial liabilities (note 6)</b>	<b>5,937</b>	<b>6,606</b>
<b>Non-financial liabilities</b>		
Payables to employees	966	930
Accrued tax payable on remuneration	557	501
Contract liabilities	965	995
Advances for goods and services	381	435
<b>Total non-financial liabilities</b>	<b>2,869</b>	<b>2,861</b>
<b>Total trade and other payables</b>	<b>8,806</b>	<b>9,467</b>
Incl. current liabilities	7,810	8,384
non-current liabilities	996	1,083

**15. TAXES PAYABLE**

In thousands of euros		
At 31 December	2017	2016
Value added tax	5	27
Personal income tax	196	187
Corporate income tax*	27	8,773
Pollution charge	3	3
Social security tax	396	378
Unemployment insurance contributions	23	21
Funded pension contributions	16	15
Excise duty	32	32
<b>Total taxes payable</b>	<b>698</b>	<b>9,436</b>
* Incl. income tax on dividends (note 19)	0	8,750

At 31 December 2017, the Group's prepaid taxes amounted to EUR 673 thousand, in the comparative period at 31 December 2016: EUR 1,512 thousand. Prepaid taxes are disclosed in note 8.

As at 31 December 2017 and 31 December 2016, the Group did not have any deferred income tax assets and liabilities. Further information is disclosed in note 2 under section corporate income tax.

**16. LOANS AND BORROWINGS**

In thousands of euros		
At 31 December	<b>2017</b>	<b>2016</b>
<b>Current portion</b>		
Loans and borrowings	9,332	6,766
Debt securities	12,650	111,250
Finance lease liability	7	2
<b>Total current portion</b>	<b>21,989</b>	<b>118,018</b>
<b>Non-current portion</b>		
Loans and borrowings	46,361	53,127
Debt securities	167,250	74,900
Finance lease liability	0	8
<b>Total non-current portion</b>	<b>213,611</b>	<b>128,035</b>
<b>Total loans and borrowings (note 6)</b>	<b>235,600</b>	<b>246,053</b>

**Issue and redemption of debt securities**

As at 31 December 2017, AS Tallinna Sadam had two debt security issues from previous periods with final maturities in 2018 and 2026. The debt securities have been issued in euros with a floating interest rate (with the base interest rate of 3 month or 6 month Euribor plus a fixed risk margin).

In 2017, three debt securities with the remaining value of EUR 105,000 thousand in total matured and a new 10-year debt security was issued with a notional value of EUR 105,000 thousand. The debt security was issued with a floating interest rate – a base interest rate of 6 month Euribor, plus a fixed risk margin; 50% of the notional value amortising straight line over 10 years and the remainder maturing in 2027.

None of the debt security issues are listed.

In 2017, AS Tallinna Sadam redeemed at maturity debt securities in the total amount of EUR 111,250 thousand (2016: EUR 2,500 thousand) including re-financing of EUR 105,000 thousand, all in line with the schedule.

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 2017 was 0.676% (31 December 2016: 0.805%).

**Loans**

All loan agreements are denominated in euros and based on a floating interest rate (the base interest is 6 month Euribor). At 31 December 2017, the weighted average interest rate on drawn loans was 0.805% (2016: 0.838%). Considering the effect of derivative transactions used to hedge the interest rate risk, the average interest rate on loans as at 31 December 2017 was 1.710% (31 December 2016: 1.703%).

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

In December 2017, an agreement was signed for overdraft of up to EUR 5,000 thousand with a maturity of 3 months in order to provide sufficient liquidity buffer for the Group.

In 2017, loan principal repayments amounted to EUR 6,766 thousand (2016: EUR 23,210 thousand). The final maturities of outstanding loans fall into the years from 2024 to 2028.

**Note 16 continued****Contractual maturities of loans and borrowings**

In thousands of euros

At 31 December	2017	2016
< 6 months	7,200	4,634
6–12 months	14,789	113,384
1–5 years	63,063	45,721
> 5 years	150,548	82,314
<b>Total loans and borrowings (note 4)</b>	<b>235,600</b>	<b>246,053</b>

**Carrying amount of loans and borrowings recognised in the statement of financial position against their fair value\***

In thousands of euros

At 31 December	2017	2016
<b>Carrying amount</b>		
Debt securities	179,900	186,150
Loans and borrowings	55,693	59,893
<b>Total carrying amount</b>	<b>235,593</b>	<b>246,043</b>
<b>Fair value</b>		
Debt securities	180,643	186,488
Loans and borrowings	53,225	53,225
<b>Total fair value</b>	<b>233,868</b>	<b>239,713</b>

\* In terms of fair value hierarchy all used inputs qualify as level 2 measurement

The discounted cash flows method was used to calculate the fair value of loans and. Future cash flows are estimated based on forward interest rates (from observable corporate yield curves and 3 month and 6 month euribor swap rates at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the Group.

The Group's loan agreements set out certain limits to the Group's consolidated financial indicators. As at 31 December 2017 and 31 December 2016 the Group was in compliance with all the financial covenants.

**Reconciliation of liabilities arising from financing activities**

In thousands of euros	1 January 2017	Financing cash flows	Non-cash changes		31 December 2017
			Interest expense (note 23)	Fair value adjustments (note 17)	
Loans and borrowings	59,893	-4,200	0	0	55,693
Debt securities	186,150	-6,250	0	0	179,900
Finance lease liability	10	-3	0	0	7
Derivatives (note 17)	1,008	0	0	-399	609
Interest payable (note 14)	589	-2,459	2,404	0	534
<b>Total</b>	<b>247,650</b>	<b>-12,912</b>	<b>2,404</b>	<b>-399</b>	<b>236,743</b>

**Note 16 continued**

In thousands of euros	1 January 2016	Financing cash flows	Non-cash changes			31 December 2016
			Interest expense (note 23)	Fair value adjustments (note 17)	New finance leases	
Loans and borrowings	83,103	-23,210	0	0	0	59,893
Debt securities	113,650	72,500	0	0	0	186,150
Finance lease liability	0	-2	0	0	12	10
Derivatives (note 17)	831	0	0	177	0	1,008
Interest payable (note 14)	486	-1,884	1,987	0	0	589
<b>Total</b>	<b>198,070</b>	<b>47,404</b>	<b>1,987</b>	<b>177</b>	<b>12</b>	<b>247,650</b>

**17. DERIVATIVE INSTRUMENTS**

In thousands of euros	2017	2016
Notional amount at 31 December	47,000	53,000
<b>Fair value at beginning of period (liability) (note 16)</b>	<b>-1,180</b>	<b>-970</b>
<i>Incl. market value of derivative</i>	<i>-1,008</i>	<i>-831</i>
<i>interest payable</i>	<i>-172</i>	<i>-139</i>
Change in derivative's market value (note 16, 19)	399	-177
Change in interest payable (note 16)	4	-33
<b>Fair value at end of period (liability) (note 16)</b>	<b>-777</b>	<b>-1,180</b>
<i>Incl. market value of derivative (note 6)</i>	<i>-609</i>	<i>-1,008</i>
<i>interest payable</i>	<i>-168</i>	<i>-172</i>

At 31 December 2017, AS Tallinna Sadam had interest rate swap instruments to hedge the interest rates of long-term loans for total notional amount of EUR 47,000 thousand (31 December 2016: EUR 53,000 thousand). All terms, conditions and maturities of the interest rate swap instruments follow the repayment schedule of the loans to be hedged and the interest rate swap instruments are designated as hedging instruments under cash flow hedging relationships.

At 31 December 2017, AS Tallinna Sadam had three interest rate swaps to hedge interest rate risk of three long-term loans with maturities from 5 to 7 years and with outstanding maturities ranging from 0.5 to 5 years. The floating interest rate to be swapped by all derivative instruments is 6 month Euribor.

The fair value of derivative instruments is based on quotes of the relevant parties of the transactions (banks). 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. Since at 31 December 2017 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 were calculated on the same bases (6 month Euribor); the payments were denominated in the same currency (in euros) and were made at the same dates, it was assumed that risk hedging has been and will be effective.

At 31 December 2017, the weighted average fixed interest rate of the derivatives was 0.672% (31 December 2016: 0.671%); the floating interest rate is based on 6-month Euribor. Gains and losses on interest rate swap transactions included within the hedging reserve in equity are recognised in the statement of profit or loss on expiry of derivative contracts or when hedging is deemed ineffective.

**18. GOVERNMENT GRANTS****Non-current government grant liabilities**

In thousands of euros	31.12.2017	31.12.2016
Cohesion Fund	22,002	22,456
TEN-T	1,706	1,114
State budget of the Republic of Estonia	118	133
<b>Total non-current government grant liabilities</b>	<b>23,826</b>	<b>23,703</b>

**Recognised as income**

In thousands of euros	2017	2016
<b>Grants related to property, plant and equipment</b>		
Cohesion Fund	454	464
TEN-T	105	48
Other foreign assistance	0	34
State budget of the Republic of Estonia	15	15
<b>Total grants related to property, plant and equipment</b>	<b>574</b>	<b>561</b>
<b>Grants related to income</b>		
TEN-T	303	74
Other foreign assistance	13	0
State budget of the Republic of Estonia (note 20)	15,810	4,431
<b>Total grants related to income</b>	<b>16,126</b>	<b>4,505</b>
<b>Total recognised as income</b>	<b>16,700</b>	<b>5,066</b>
<i>Incl. Revenue from other sources (note 20)</i>	<i>15,810</i>	<i>4,431</i>
<i>Other income (note 22)</i>	<i>890</i>	<i>635</i>

**Short-term government grant advances**

In thousands of euros	31.12.2017	31.12.2016
TEN-T	54	704
State budget of the Republic of Estonia	249	213
<b>Total short-term government grant advances</b>	<b>303</b>	<b>917</b>

**Cohesion Fund**Project "Extension of the eastern part of Muuga Harbour" (2006-2011)

Within the framework of the project, the first stage of the extension of Muuga Harbour was supported, including filling the coastal area and seabed.

The outstanding balance of the project related government grant of EUR 17,079 thousand (31 December 2016: EUR 17,304 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2016: EUR 13,902 thousand).

Project "Creating connections between the eastern part of Muuga Harbour and the Industrial Park" (2010-2014)

Within the framework of the project, a viaduct was constructed in Muuga Harbour to connect the Industrial Park with the harbour; the free zone of Muuga Harbour was extended; and the railway network of Muuga Industrial Park was finished.

The outstanding balance of the project related grant received still to be recognised as income was EUR 4,924 thousand (at 31 December 2016: EUR 5,152 thousand).

**Note 18 continued****TEN-T programme "Motorways of the Sea"**"The Baltic Sea hub and spokes project" (2010-2013)

AS Tallinna Sadam was granted support for making investments and developing cooperation in safety and security related areas within the framework of "The Baltic Sea hub and spokes project".

The outstanding balance of the project related grant received still be recognised as income was EUR 16 thousand (at 31 December 2016: EUR 20 thousand).

LNG in the Baltic Sea Ports (2012 -2016)

The aim of the project was to develop a harmonised approach towards LNG bunker filling infrastructure in the Baltic Sea region. Within the framework of the project pre-investment surveys such as environmental impact assessment, feasibility studies for LNG terminals and bunkering vessels, project designs, regional market surveys, safety guidelines, etc. were focused on.

In 2016 grants related to income were considered ineligible and repaid in the amount of EUR 92 thousand.

TWIN-PORT (2012-2015)

Within the framework of TWIN-PORT project the Tallinn–Helsinki maritime link, i.e. the infrastructure in the Old City Harbour of Tallinn and the Western Port of Helsinki was developed as part of north-south transport corridor of the European Union. Investments in the Old City Harbour were related to improving the traffic scheme in the harbour area and developing the roads connecting the harbour and the city.

The outstanding balance of the project related grant received still be recognised as income was EUR 1,174 thousand (at 31 December 2016: EUR 560 thousand).

The eligibility period of the project activities ended on 31 December 2015. In 2016 and 2017 activities aimed at meeting the set objectives that had not been finished by the end of the eligibility period continued, especially activities related to Smart Port systems. The above activities were financed from internal funds without using support.

The project final report was audited by the Innovation and Networks Executive Agency (INEA) of the European Commission during the 2017. It resulted with a decision that because some of initially set objectives were not met, a part of the grant amounting to EUR 116 thousand was not approved and therefore was not paid out. No impact to the financial statements resulted from the unreceived grant.

TWIN-PORT 2 (2014-2018)

TWIN-PORT 2 is a follow-up project to TWIN-PORT. Within the framework of the project Port of Helsinki built a new Western Terminal, AS Tallink Grupp brought a new LNG vessel "Megastar" to the Tallinn–Helsinki route, and AS Tallinna Sadam invests in the development of various infrastructure assets in the Old City Harbour.

In 2017 no investments were made, expenses amounted to EUR 37 thousand (in 2016 investments amounted to EUR 1,783 thousand and expenses amounted to EUR 25 thousand).

The outstanding balance of the project related grant received still be recognised as income was EUR 516 thousand (31 December 2016: EUR 533 thousand).

The project-related short-term receivables amount outstanding is EUR 189 thousand (2016: EUR 189 thousand). The grant sum is related to 2016 investments, which were approved in 2017 report and will be paid out in 2018.

Due to unforeseen circumstances in the preparation phase of the project, in 2018 will be submitted the request to the European Commission to extend the project period by 2 years, i.e. to the end of 2020.

**State budget of the Republic of Estonia**Public transport support (2016-2026)

In December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications (currently administered by Road Administration) for providing the ferry service on Kuivastu–Virtsu and Rohuküla–Heltermaa ferry routes in the period from 1 October 2016 to 30 September 2026. The final amount of the contractual support depends on the difference between the revenue base calculated annually on the basis of tariff rates fixed in the contract and ticket sales recognised as revenue in the same period.

In 2017 support was calculated in the amount of EUR 15,810 thousand (in 2016: EUR 4,419 thousand) and received in the amount of EUR 15,845 thousand (in 2016: EUR 4,632 thousand).

The public transport support is treated as Group 's ordinary activity and is reflected within (sale of ferry services - government support) revenue (note 20).

**Note 18 continued**Noise survey in Muuga Harbour and development of relieving measures (2016)

In 2016 noise from the activities of operators at Muuga Harbour was surveyed, co-funded by the Environmental Investment Centre to the extent of 50% within the framework of the atmosphere air protection sub-programme of the environmental programme. To identify the sources of noise emitted from Muuga Harbour, necessary noise emission measurements (e.g. loading/unloading, hoists, trains, manoeuvring of locomotives, etc.) were carried out to draft a noise map; also, measurements of sound pressure levels both at night and in the daytime, were performed in the residential areas adjacent to Muuga Harbour. In the course of the surveys more problematic areas were identified and an analysis of potential relieving measures was prepared.

In 2016 expenses incurred within the framework of the project amounted to EUR 24 thousand; support received amounted to EUR 12 thousand.

Programme "Grant for small ports" (2010)

Within the framework of the project eligible costs related to the construction of the Old City Marina were financed.

The outstanding balance of the project related grant received still be recognised as income was EUR 76 thousand (at 31 December 2016: EUR 84 thousand).

Programme "Atmosphere air protection programme" (2011-2013)

Within the framework of the project "Extension to the outdoor air monitoring system in Muuga Harbour" the outdoor air monitoring and management system in Muuga Harbour was extended in 2013 by installing one outdoor air monitoring station in Randvere village, west of Muuga Harbour.

The outstanding balance of the project related grant received still be recognised as income was EUR 42 thousand (at 31 December 2016: EUR 49 thousand).

**Other foreign assistance - INTERREG Baltic Sea Region programme**Project "Green Cruise Port – Sustainable Development of Cruise Port Locations" (2016–2019)

The project is 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. Project partners are ports of Hamburg, Klaipeda, Riga, Rostock, Helsinki, Bergen, Esbjerg and Kaliningrad, and Maritime Institute Gdansk. Within the project a master project together with technical solutions for the Old City Harbour cruise terminal is prepared; a survey to develop ecological solutions feasible in cruise terminal premises in the northern climate is carried out. In 2017, an international two-day seminar was held in Tallinn to discuss about the challenges and solutions of modern cruise terminals and the potential for solutions of energy efficiency and sustainability.

In 2017 expenses incurred within the project amounted to EUR 81 thousand (in 2016: EUR 8 thousand). In 2017 EUR 13 thousand received (in 2016 no support was received).

**19. EQUITY****Share capital**

At 31 December 2017 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period at 31 December 2016: also 185,203,032 shares. The par value of a share is EUR 1. All shares of the limited company are held by the Republic of Estonia. The shares are held and the shareholder's right is exercised by the Ministry of Economic Affairs and Communications. At the general meetings of shareholders, the Ministry is represented by the Minister of Economic Affairs and Infrastructure.

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association was 664,000,000 (in the comparative year 2016: also 664,000,000). At 31 December 2017 and in the comparative period at 31 December 2016 all shares issued had been fully paid for.



**Note 19 continued****Earnings per share**

	<b>2017</b>	<b>2016</b>
Weighted average number of shares (pcs)	185,203,032	185,203,032
Consolidated net profit for the reporting period (in thousands of euros)	26,425	39,478
Basic earnings and diluted earnings per share (in euros)*	0.14	0.21

\* For the years ended 31 December 2017 and 2016 there were no dilutive instruments outstanding

**Capital management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Group consists of net debt (borrowings as detailed in note 16 offset by cash and cash equivalents) and equity of the Group (comprising share capital, reserves and retained earnings). The Group is not subject to any externally imposed capital requirements.

The Group's CFO reviews the capital structure of the Group on a semi-annual basis. As part of this review, the CFO considers the cost of capital and the risks associated with each class of capital. The Group has a long-term target equity to assets ratio of 60%, determined as the proportion of total equity to total assets.

**Equity to assets**

In thousands of euros

At 31 December	<b>2017</b>	<b>2016</b>
Total equity	325,792	346,968
Total assets	597,137	638,708
<b>Equity to assets ratio</b>	<b>55%</b>	<b>54%</b>

At 31 December 2017, the equity to assets ratio of the Group, i.e. the ratio of total equity to total assets was 55% (31 December 2016: 54%). Compared to 2016, the ratio has increased by 1 percentage point (2016 compared to 2015: -5 percentage points) with total equity decreasing by 6% and total assets by 7% (2016: increase by 1% and 10% respectively).

**Unrestricted equity**

At 31 December 2017, the unrestricted equity of the parent amounted to EUR 122,678 thousand; in 2016, the respective figure was EUR 144,253 thousand. According to the Estonian Commercial Code dividend payment shall not be made to shareholders if the net assets of the public limited company, as apparent from the annual report approved at the end of the previous financial year of the public limited company, are less than or would be less than the total of share capital and reserves which pursuant to law or the articles of association shall not be paid out to shareholders. As at 31 December 2017 and at 31 December 2016 the parent could have distributed all the unrestricted equity without contravention of laws.

**Statutory capital reserve**

As the statutory capital reserve meets the requirement of the Estonian Commercial Code, it has not been increased in 2017 or in comparable year 2016.

**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 16).

In thousands of euros	2017	2016
<b>Hedging reserve at beginning of period</b>	<b>-1,008</b>	<b>-831</b>
Change in derivative's market value (net) (note 16)	399	-177
<b>Hedging reserve at end of period</b>	<b>-609</b>	<b>-1,008</b>

**Dividends**

In thousands of euros	2017	2016
Dividends declared and distributed in the reporting period	48,000	35,000
Dividends per share (in euros)	0.26	0.19

**Income tax on dividends and services delivered abroad**

In thousands of euros	2017	2016
<i>Outstanding income tax on dividends</i>	8,750	7,763
Income tax charged on dividends in the Republic of Estonia	11,955	8,750
Income tax paid on dividends in the Republic of Estonia	-20,705	-7,763
<i>In cash</i>	-20,612	-7,763
<i>Set off against VAT</i>	-93	0
Outstanding income tax on dividends (note 15)	0	8,750

The Parent's unrestricted equity as at 31 December 2017 amounted to EUR 122,678 thousand (2016: EUR 144,253 thousand). Consequently, the maximum possible dividend income tax liability which would become payable if unrestricted equity were to be fully distributed would be EUR 30,670 thousand (2016: EUR 36,063 thousand).

**20. REVENUE**

In thousands of euros	2017	2016
<b>Revenue from contracts with customer</b>		
Vessel dues	45,846	47,058
Cargo charges	7,991	9,322
Passenger fees	17,004	16,431
Sale of electricity	5,313	5,476
Sale of ferry services - revenue from ticket sales	10,789	1,883
Sale of other services	2,063	1,711
<b>Total revenue from contracts with customers</b>	<b>89,006</b>	<b>81,881</b>
<b>Revenue from other sources</b>		
Rental income from operating leases (note 12)	11,895	12,239
Charter fees	4,584	4,613
Sale of ferry services - government support	15,810	4,419
<b>Total revenue from other sources</b>	<b>32,289</b>	<b>21,271</b>
<b>Total revenue</b>	<b>121,295</b>	<b>103,152</b>

All services were provided in the Republic of Estonia.

**Note 20 continued****Disaggregation of Revenue***Transaction price allocated to the remaining performance obligations*

As at the end of the reporting period performance obligation related to cargo charges, sale of electricity and sale of other services are partially unsatisfied. The Group is applying practical expedient in paragraph 121(b) of IFRS 15 for those revenue streams (single performance obligation that is made up of a series of distinct services) and does not disclose the transaction price allocated to the remaining performance obligation as the Group has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date and the Group has recognised revenue in the amount to which the Group has a right to invoice.

Partially unsatisfied performance obligation regarding connection fees as at 31 December 2017 is EUR 932 thousand (2016: EUR 955 thousand). Management expects that the transaction price allocated to the unsatisfied performance obligation will be recognised as revenue over the next 23 years (which is the average remaining useful life of the investments made in respect of the connection) on a straight-line basis.

**21. OPERATING EXPENSES**

In thousands of euros	2017	2016
Fuel, oil and energy costs	10,551	5,935
Technical maintenance and repairs of non-current assets	5,963	4,509
Services purchased for infrastructure	3,278	3,529
Tax expenses	3,136	3,095
<i>Incl. land tax</i>	2,726	2,720
Consultation and development expenses	1,346	501
<i>Incl. research and development expenses</i>	1,000	211
Services purchased	5,184	3,472
<i>Incl. mooring service</i>	1,096	1,142
<i>reception/discharge of ship-generated waste</i>	2,060	1,827
<i>port dues</i>	1,991	446
Acquisition and maintenance of insignificant items	1,270	1,050
Advertising expenses	338	191
Rental expenses	7,065	5,716
<i>Incl. chartering vessels</i>	6,606	5,224
Insurance expenses	715	414
Other operating expenses	2,195	1,915
<i>Incl. cost from credit-impaired financial assets</i>	791	1,111
<b>Total operating expenses</b>	<b>41,041</b>	<b>30,327</b>

**Note 21 continued****Personnel expenses**

In thousands of euros	2017	2016
Wages and salaries	13,521	10,603
Social security charges	4,436	3,518
<b>Total personnel expenses</b>	<b>17,957</b>	<b>14,121</b>
<i>Incl. short term benefits of members of management and supervisory boards of Group companies</i>	688	596
<i>social security charges on members of management and supervisory boards of Group companies</i>	227	196
<b>Total expenses on members of management and supervisory boards of Group companies</b>	<b>915</b>	<b>792</b>

The substantial increase in operational costs, personnel costs and amortisation (note 10) compared to 2016 is due to domestic ferry service, which was provided only 3 months from October to December in 2016 as compared to full year in 2017.

The main components of the increase of operational costs (mainly from ferry service):

- Fuel, oil and energy costs by EUR 4,616 thousand;
- Technical maintenance and repairs of non-current assets by EUR 1,454 thousand;
- Services purchased, includes port dues by EUR 1,545 thousand;
- Rental expenses, includes chartering vessels by EUR 1,382 thousand.

Under the valid contracts as at 31 December 2017 AS Tallinna Sadam has an obligation to pay compensation to the members of the AS Tallinna Sadam management board (considered as key management personnel) upon their removal in the amount equal to the management board member's three months' remuneration (EUR 76.5 thousand in both 2017 and 2016). Also, in return for observing the prohibition on competition, AS Tallinna Sadam has an obligation to pay management board members monthly compensation during 12 months as of the expiry of the contract in the amount equal to 50% of the management board member's remuneration (EUR 153 thousand in both 2017 and 2016).

Under the valid contracts as at 31 December 2017 the subsidiaries of AS Tallinna Sadam have also an obligation to pay compensation to their respective members of the management board upon their removal in the amount equal to the management board member's three months' remuneration (EUR 49.8 thousand in 2017 and EUR 49.2 thousand).

**22. OTHER INCOME**

In thousands of euros	2017	2016
Gain on sale of non-current assets	2	146
Penalties, interest on arrears*	3,903	7,010
Income from government grants (note 18)	890	647
Other income	13	296
<b>Total other income</b>	<b>4,808</b>	<b>8,099</b>

\* Penalties recognised in 2017 include EUR 3,750 thousand for delayed delivery of the new passenger ferries which were under construction (2016: EUR 6,905 thousand)

**23. FINANCE COSTS**

In thousands of euros	2017	2016
Interest expense on loans and borrowings:		
Interest expense on loans (note 16)	463	584
Capitalised borrowing costs (note 26)	-140	-952
Interest expense on debt securities (note 16)	1482	961
Interest expense on derivatives (note 16)	459	442
<b>Total interest expense on loans and borrowings</b>	<b>2,264</b>	<b>1,035</b>
Foreign exchange loss	3	4
Other finance costs	51	36
<b>Total finance costs</b>	<b>2,318</b>	<b>1,075</b>

**24. RELATED PARTY TRANSACTIONS**

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

In thousands of euros	2017	2016
<b>Transactions with joint venture</b>		
Revenue	195	216
Operating expenses	2,108	1,900
<b>Transactions with companies in which members of supervisory and management boards of Group companies have significant influence</b>		
Revenue	9	2
Operating expenses	9	13
Other expenses	12	7
<b>Transactions with government agencies and companies in which the state has control</b>		
Revenue	21,149	9,634
Other income	38	135
Operating expenses	6,628	4,839
Other expenses	137	493
Acquisition of property, plant and equipment	72	4
In thousands of euros		
At 31 December	2017	2016
<b>Trade receivables from and payables to joint venture</b>		
Receivables (note 7)	27	17
Payables (note 13)	115	129
<b>Trade receivables from and payables to companies in which members of supervisory and management boards of Group companies have significant influence</b>		
Receivables	0	2
Payables	1	1
<b>Trade receivables from and payables to government agencies and companies in which the state has control</b>		
Receivables	445	556
Payables	1,206	1,286

All provided and purchased services were transactions resulting from the normal course of business based 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.

**Note 24 continued**

Revenue and operating expenses on transactions with related parties comprise only business related services sold and purchased.

Information presented on companies in which members of supervisory and management boards of Group companies have significant influence is based on declarations submitted by related parties.

**25. COMMITMENTS**

At 31 December 2017, the Group's contractual liabilities related to acquisition of property, plant and equipment; repairs; and research and development expenditures totalled EUR 2,962 thousand; at 31 December 2016, the above liabilities amounted to EUR 23,025 thousand (incl. liabilities of EUR 18,448 thousand arising from contracts for construction of the new passenger ferries).

In addition to contractual liabilities the Group has committed to co-finance the construction of Reidi tee (Reidi road) in the amount of up to EUR 3,300 thousand according to the memorandum of understanding signed with City of Tallinn in 2016. The aim of the co-financing is to provide for best possible connections between the Reidi road and Old City Harbour belonging to the Group in order to facilitate the smooth flow of passengers and vehicles.

**26. NON-CASH INVESTING ACTIVITIES****Purchase of property, plant and equipment**

In thousands of euros	2017	2016
<b>Purchases of property, plant and equipment</b>	<b>-25,171</b>	<b>-39,208</b>
Offsets	-9,505	-1,214
<i>Incl settlement with fines</i>	<i>-9,505</i>	<i>-1,150</i>
Capitalized borrowing costs	-140	-950
Paid for previous period	2,276	2,057
Trade payables outstanding at end of period (note 14)	-1,908	-2,276
Other adjustments	-153	-96
<i>Total adjustments</i>	<i>-9,430</i>	<i>-2,479</i>
<b>Acquisition and reconstruction (note 10)</b>	<b>34,601</b>	<b>41,687</b>

**Purchase of intangible assets**

In thousands of euros	2017	2016
<b>Purchases of intangible assets</b>	<b>-1,346</b>	<b>-704</b>
Capitalized borrowing costs	0	-2
Paid for previous period	164	13
Outstanding balance at end of period (note 14)	-64	-164
<i>Total adjustments</i>	<i>100</i>	<i>-153</i>
<b>Acquisition and reconstruction (note 11)</b>	<b>1,246</b>	<b>857</b>

**27. CONTINGENT LIABILITIES**

The tax authorities may inspect the Group's tax accounting records for up to 5 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate 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.

**Note 27 continued**

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 reporting date.

During the first half-year of 2017 AS Coal Terminal, one of the long-term customers of AS Tallinna Sadam and an owner of several right of superficies contracts, declared bankruptcy. Because the trustees of bankrupt's estate refused to execute their commitments under the right of superficies contracts these contracts fell back into the possession of the group together with the assets erected on the land areas covered by the right of superficies contracts. Based on the contracts the group needs to compensate for the usual value of the assets, the amount of which cannot be reliably estimated because these are special purpose assets for which a regular market does not exist and there are opposing views on how the valuation should be performed. The trustees of bankrupt's estate have not presented any claims with respect to the value to be compensated for the aforementioned assets. The group estimates that the compensation to be paid can be recovered by the proceeds from the sale of the same assets. Additional information is provided in note 10.

A claim for damages in the amount of EUR 23.8 million was lodged against the Group companies TS Laevad OÜ and TS Shipping OÜ in October 2017 in relation to alleged unjustified use of confidential information. The Group has disclaimed liability and is defending the action. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Therefore, the management board did not consider it necessary to establish provision to cover the above claim.

Due to significant decrease in the cargo volumes handled one of the Group's long-term customers has lodged a claim with the aim to declare as void from 1 January 2017 select conditions in long-term cooperation contracts concluded between the Group and the customer. The select conditions set the minimum cargo volumes that the customer is required to handle per each calendar year and thus also set the annual minimum cargo charge obligation for the client. With client's all cooperation contracts combined, the annual minimum cargo charge is EUR 1.6 million. The management board believes that the claim is not substantiated. The Group has established partial provision with regards to the minimum cargo charge penalty to be received for 2017 (the full penalty amount being EUR 1.0 million). Amounts related to this provision of EUR 302 thousand have been recorded to loss allowance within trade and other receivables.

**28. INVESTIGATIONS CONCERNING THE GROUP**

On 26 August 2015, the Estonian Internal Security Service detained long-term members of the management board of the Parent company AS Tallinna Sadam Ain Kaljurand and Allan Kiil and suspicions of large-scale bribery during several prior years were filed against them. After long-term investigations, on 31 July 2017 the group filed a civil action lawsuit against Ain Kaljurand, Allan Kiil and any private and legal persons involved in the episodes under investigation. The trial is expected to start in January 2019. Based on the information available at the reporting date the management board believes that the above event will not have any material adverse impact on the group's financial performance or financial position; however, it can continue to cause damage to Group's reputation.

**29. EVENTS AFTER REPORTING PERIOD**

By its order dated 29 March 2018 the Government of Estonia authorised the Minister of Economic Affairs and Infrastructure, as the representative of the State, to organise the initial public offering of AS Tallinna Sadam shares and in relation to this to increase the share capital by up to EUR 75 404 968 by issuing up to 75 404 968 new shares with nominal value of 1 euro.

On 05 April 2018 the Shareholder decided to increase the share capital by non-monetary payment in the amount of EUR 2 392 000 by issuing 2 392 000 new shares with nominal value of EUR 1 each.

**30. 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**

as at 31 December 2017

in thousands of euros	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,750	49,343
Current portion of finance lease receivable	0	386
Trade and other receivables	17,924	15,800
Inventories	31	5
<b>Total current assets</b>	<b>19,705</b>	<b>65,534</b>
<b>Non-current assets</b>		
Investments in subsidiaries	17,003	23,395
Investments in joint venture	132	132
Non-current portion of finance lease receivable	0	4,167
Other long-term receivables	140,430	139,507
Property, plant and equipment	429,716	404,396
Intangible assets	990	297
<b>Total non-current assets</b>	<b>588,271</b>	<b>571,894</b>
<b>Total assets</b>	<b>607,976</b>	<b>637,428</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Loans and borrowings	21,989	118,016
Derivative financial instruments	609	1,008
Provisions	991	846
Government grants	54	704
Taxes payable	451	9,121
Trade and other payables	5,801	5,074
<b>Total current liabilities</b>	<b>29,895</b>	<b>134,769</b>
<b>Non-current liabilities</b>		
Loans and borrowings	213,611	128,027
Government grants	23,826	22,443
Other payables	996	128
<b>Total non-current liabilities</b>	<b>238,433</b>	<b>150,598</b>
<b>Total liabilities</b>	<b>268,328</b>	<b>285,367</b>
<b>EQUITY</b>		
Share capital	185,203	185,203
Statutory reserve capital	18,520	18,520
Hedge reserve	-609	-1,008
Retained earnings	105,114	110,569
Profit for the period	31,420	38,777
<b>Total equity</b>	<b>339,648</b>	<b>352,061</b>
<b>Total liabilities and equity</b>	<b>607,976</b>	<b>637,428</b>



**Note 30 continued****Statement of profit or loss and other comprehensive income**

for the year ended 31 December 2017

**Statement of profit or loss**

in thousands of euros	2017	2016 (Adjusted)
Revenue	86,547	86,273
Other income	1,147	1,324
Operating expenses	-22,308	-18,878
Personnel expenses	-9,371	-8,272
Depreciation, amortization and impairment	-12,461	-13,023
Other expenses	-203	-115
<b>Operating profit</b>	<b>43,351</b>	<b>47,309</b>
<b>Finance income and costs</b>		
Finance income	2,466	2,225
Finance costs	-2,442	-2,007
<b>Finance costs – net</b>	<b>24</b>	<b>218</b>
<b>Profit before income tax</b>	<b>43,375</b>	<b>47,527</b>
Income tax expense	-11,955	-8,750
<b>Profit for the period</b>	<b>31,420</b>	<b>38,777</b>

**Other comprehensive income**

in thousands of euros	2017	2016
<b>Profit for the year</b>	<b>31,420</b>	<b>38,777</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net fair value gain/loss on hedging instruments entered into for cash flow hedges	399	-177
<b>Total other comprehensive income</b>	<b>399</b>	<b>-177</b>
<b>Total comprehensive income for the period</b>	<b>31,819</b>	<b>38,600</b>

**Restatements to prior year financial statements due to changes in accounting policies**

The table below presents a summary of all adjustments made to the 2016 reported figures of the Parent as a result of changes in accounting policies (note 2):

in thousands of euros	2016		
	As previously reported	Adjustments	As adjusted
Revenue	83,425	2,848	86,273
Other income	4,172	-2,848	1,324
Operating expenses	-17,811	-1,067	-18,878
Other expenses	-1,182	1,067	-115

**Note 30 continued****Statement of cash flows**

for the year ended 31 December 2017

in thousands of euros	2017	2016 (Adjusted)
Cash receipts from sale of goods and services	87,724	88,648
Cash receipts related to other income	448	286
Payments to suppliers	-25,370	-21,524
Payments to and on behalf of employees	-6,431	-6,900
Payments for other expenses	-153	-180
Receipt of finance lease principal	33	0
Receipt of interest on finance lease	17	0
Income tax paid on dividends	-20,612	-7,763
<b>Cash flows from operating activities</b>	<b>35,656</b>	<b>52,567</b>
Purchases of property, plant and equipment (PPE)	-14,524	-12,941
Purchases of intangible assets	-844	-61
Proceeds from sale of PPE	524	726
Proceeds from government grants for non-current assets	349	346
Loans granted	-19,679	-25,847
Repayment of loans granted	8,977	0
Change in overdraft (receivable)	2,317	-1,826
Dividends received	178	0
Interest received	394	668
<b>Cash used in investing activities</b>	<b>-22,308</b>	<b>-38,935</b>
Issue of debt securities	105,000	75,000
Redemption of debt securities	-111,250	-2,500
Repayments of loans	-6,766	-23,210
Change in overdraft	2,565	0
Dividends paid	-48,000	-35,000
Interest paid	-2,458	-1,884
Other payments related to financing activities	-31	-14
<b>Cash used in financing activities</b>	<b>-60,940</b>	<b>12,392</b>
<b>NET CASH FLOW</b>	<b>-47,592</b>	<b>26,024</b>
Cash and cash equivalents at beginning of the period	49,343	23,320
Change in cash and cash equivalents	-47,592	26,024
Cash and cash equivalents at end of the period	1,750	49,343

**Restatements to prior year financial statements due to changes in accounting policies**

The table below presents a summary of all adjustments made to the 2016 reported figures of the Parent as a result of changes in accounting policies (note 2):

in thousands of euros	2016		
	As previously reported	Adjustments	As adjusted
Cash receipts from sale of goods and services	86,513	2,135	88,648
Cash receipts related to other income	2,421	-2,135	286

**Note 30 continued****Statement of changes in equity**

for the year ended 31 December 2017

In thousands of euros	Share capital	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
<b>Equity at 31 December 2015</b>	<b>185,203</b>	<b>18,520</b>	<b>-831</b>	<b>145,569</b>	<b>348,461</b>
Profit for the year	0	0	0	38,777	<b>38,777</b>
Other comprehensive income for the period	0	0	-177	0	<b>-177</b>
<i>Total comprehensive income for the period</i>	<i>0</i>	<i>0</i>	<i>-177</i>	<i>38,777</i>	<b>38,600</b>
Dividends declared	0	0	0	-35,000	<b>-35,000</b>
<b>Equity at 31 December 2016</b>	<b>185,203</b>	<b>18,520</b>	<b>-1,008</b>	<b>149,346</b>	<b>352,061</b>
Carrying amount of interests under control and significant influence	0	0	0	-13,395	<b>-13,395</b>
Value of interests under control and significant influence under the equity method	0	0	0	8,302	<b>8,302</b>
<b>Adjusted unconsolidated equity at 31 December 2016</b>	<b>185,203</b>	<b>18,520</b>	<b>-1,008</b>	<b>144,253</b>	<b>346,968</b>

In thousands of euros	Share capital	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
<b>Equity at 31 December 2016</b>	<b>185,203</b>	<b>18,520</b>	<b>-1,008</b>	<b>149,346</b>	<b>352,061</b>
Profit for the year	0	0	0	31,420	<b>31,420</b>
Adjustments related to merger with subsidiary*	0	0	0	3,768	<b>3,768</b>
Other comprehensive income for the period	0	0	399	0	<b>399</b>
<i>Total comprehensive income for the period</i>	<i>0</i>	<i>0</i>	<i>399</i>	<i>35,188</i>	<b>35,587</b>
Dividends declared	0	0	0	-48,000	<b>-48,000</b>
<b>Equity at 31 December 2017</b>	<b>185,203</b>	<b>18,520</b>	<b>-609</b>	<b>136,534</b>	<b>339,648</b>
Carrying amount of interests under control and significant influence	0	0	0	-2,003	<b>-2,003</b>
Value of interests under control and significant influence under the equity method	0	0	0	-11,853	<b>-11,853</b>
<b>Adjusted unconsolidated equity at 31 December 2017</b>	<b>185,203</b>	<b>18,520</b>	<b>-609</b>	<b>122,678</b>	<b>325,792</b>

\*Reflects the difference of the acquisition cost and the book value of the acquired net assets in relation to the merger with the subsidiary under common control.

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.

### **31. UNBUNDLING OF ACTIVITIES BASED ON THE ELECTRICITY MARKET ACT**

#### **ACCOUNTING POLICIES**

The financial statements have been prepared in compliance with section 17 subsection 3 of the Electricity Market Act. According to the above subsection an electricity undertaking has to present a statement of financial position and statement of profit or loss for each area of activity in the notes to its financial statements.

The financial statements include a statement of financial position and statement of profit or loss for each of the following areas of activity:

- provision of network services;
- sale of electricity;
- other activities.

During the financial year income, expenses and non-current assets directly attributable to the areas of activity are accounted for separately for each area of activity. As regards personnel expenses, indirect and administrative expenses are allocated based on estimated distribution of the personnel between the areas of activity; as for other expenses, the proportion of sales of each area of activity is based on. At the end of the financial year, items of the statement of financial position are allocated as described below.

#### **Trade receivables**

Sales invoices for connection fees, maintenance services, sale of electricity, and provision of the network service.

#### **Inventories**

Inventories attributable to the network service.

#### **Non-current assets**

Non-current assets directly attributable to the provision of the network service and sale of electricity.

#### **Trade payables**

Trade payables are allocated according to the actual circumstances, analysis is based on the invoices issued by suppliers.

#### **Taxes payable, short-term provisions, other payables**

Related to remuneration (wages and salaries, bonus, taxes) and allocated to the areas of activity according to the allocation of personnel expenses.

#### **Government grants**

Liability arising from the government grants related to non-current assets directly attributable to the provision of the network service and sale of electricity.

#### **Contract liabilities**

Due to the nature of connection fees, deferred income is allocated to the network service and other operating activities.

**Note 31 continued****STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2017

in thousands of euros	31.12.2017	31.12.2016	Sale of electricity		Provision of electrical distribution network service		Other operations	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
<b>ASSETS</b>								
<b>Current assets</b>								
Cash and cash equivalents	6,954	49,918	0	0	0	0	6,954	49,918
Trade and other receivables	9,271	17,276	186	195	455	439	8,630	16,642
Inventories	301	378	0	0	25	25	276	353
<b>Total current assets</b>	<b>16,526</b>	<b>67,572</b>	<b>186</b>	<b>195</b>	<b>480</b>	<b>464</b>	<b>15,860</b>	<b>66,913</b>
<b>Non-current assets</b>								
Investments in joint venture	1,256	1,086	0	0	0	0	1,256	1,086
Other long-term receivables	272	362	0	0	0	0	272	362
Property, plant and equipment	577,125	568,533	0	0	15,855	16,503	561,270	552,030
Intangible assets	1,958	1,155	0	0	0	10	1,958	1,145
<b>Total non-current assets</b>	<b>580,611</b>	<b>571,136</b>	<b>0</b>	<b>0</b>	<b>15,855</b>	<b>16,513</b>	<b>564,756</b>	<b>554,623</b>
<b>Total assets</b>	<b>597,137</b>	<b>638,708</b>	<b>186</b>	<b>195</b>	<b>16,335</b>	<b>16,977</b>	<b>580,616</b>	<b>621,536</b>
<b>LIABILITIES</b>								
<b>Current liabilities</b>								
Loans and borrowings	21,989	118,018	0	0	0	0	21,989	118,018
Derivative financial instruments	609	1,008	0	0	0	0	609	1,008
Taxes payable	698	9,436	0	9	61	69	637	9,358
Provisions	1,503	1,156	0	10	49	79	1,454	1,067
Government grants	303	917	0	0	0	0	303	917
Trade and other payables	7,810	8,384	396	254	419	473	6,995	7,657
<b>Total current liabilities</b>	<b>32,912</b>	<b>138,919</b>	<b>396</b>	<b>273</b>	<b>529</b>	<b>621</b>	<b>31,987</b>	<b>138,025</b>
<b>Non-current liabilities</b>								
Loans and borrowings	213,611	128,035	0	0	0	0	213,611	128,035
Government grants	23,826	23,703	0	0	1,015	764	22,811	22,939
Other payables	996	1,083	0	0	932	956	64	127
<b>Total non-current liabilities</b>	<b>238,433</b>	<b>152,821</b>	<b>0</b>	<b>0</b>	<b>1,947</b>	<b>1,720</b>	<b>236,486</b>	<b>151,101</b>
<b>Total liabilities</b>	<b>271,345</b>	<b>291,740</b>	<b>396</b>	<b>273</b>	<b>2,476</b>	<b>2,341</b>	<b>268,473</b>	<b>289,126</b>
<b>EQUITY</b>								
Share capital	185,203	185,203	0	0	0	0	0	0
Statutory reserve capital	18,520	18,520	0	0	0	0	0	0
Hedge reserve	-609	-1,008	0	0	0	0	0	0
Retained earnings	96,253	104,775	0	0	0	0	0	0
Profit for the period	26,425	39,478	-14	-10	714	538	25,725	38,951
<b>Total equity</b>	<b>325,792</b>	<b>346,968</b>	<b>-210</b>	<b>-78</b>	<b>13,859</b>	<b>14,636</b>	<b>312,143</b>	<b>332,410</b>
<b>Total liabilities and equity</b>	<b>597,137</b>	<b>638,708</b>	<b>186</b>	<b>195</b>	<b>16,335</b>	<b>16,977</b>	<b>580,616</b>	<b>621,536</b>

**Note 31 continued****STATEMENT OF PROFIT OR LOSS**  
for the year ended 31 December 2017

in thousands of euros	2017	2016 (Adjusted)	Sale of electricity		Provision of electrical distribution network service		Other operations	
			2017	2016	2017	2016	2017	2016 (Adjusted)
Revenue	121,295	103,152	1,650	1,750	3,955	4,021	115,690	97,381
Other income	4,808	8,099	0	0	30	32	4,778	8,067
Operating expenses	-41,041	-30,327	-1,611	-1,706	-1,823	-1,914	-37,607	-26,707
Personnel expenses	-17,957	-14,121	-51	-53	-743	-739	-17,163	-13,329
Depreciation, amortization and impairment	-26,430	-17,358	-2	0	-703	-862	-25,726	-16,496
Other expenses	-358	-550	-1	-1	-1	-1	-356	-548
<b>Operating profit</b>	<b>40,317</b>	<b>48,895</b>	<b>-14</b>	<b>-10</b>	<b>714</b>	<b>538</b>	<b>39,617</b>	<b>48,368</b>
<b>Finance income and costs</b>								
Finance income	33	32	0	0	0	0	33	32
Finance costs	-2,318	-1,075	0	0	0	0	-2,318	-1,075
<b>Finance costs - net</b>	<b>-2,285</b>	<b>-1,043</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,285</b>	<b>-1,043</b>
Profit from investments in joint venture under equity method of accounting	348	376	0	0	0	0	348	376
<b>Profit before income tax</b>	<b>38,380</b>	<b>48,228</b>	<b>-14</b>	<b>-10</b>	<b>714</b>	<b>538</b>	<b>37,680</b>	<b>47,701</b>
Income tax expense	-11,955	-8,750	0	0	0	0	-11,955	-8,750
<b>Profit for the period</b>	<b>26,425</b>	<b>39,478</b>	<b>-14</b>	<b>-10</b>	<b>714</b>	<b>538</b>	<b>25,725</b>	<b>38,951</b>

[Translation from Estonian original]

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of aktsiaselts TALLINNA SADAM:

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of aktsiaselts TALLINNA SADAM and its subsidiaries (hereinafter also „the Company”), which comprise the consolidated statements of financial position as at 31 December 2017 and 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and consolidated notes 1 to 30 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at 31 December 2017 and 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted in the European Union.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter

We draw attention to Note 2 to the consolidated financial statements, which describes adjustments made due to early application of IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and change in accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the consolidated financial statements of the Company as at 31 December 2016 and 1 January 2017. Our opinion is not modified in respect of this matter.

#### Other Information

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

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

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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



## Report on Other Legal and Regulatory Requirements

We have audited the statement of financial position of aktsiaselts TALLINNA SADAM, which was disclosed in Note 31 of the consolidated financial statements ending on the 31 December 2017 and the statement of profit or loss for each area of activity, which was drawn up as required by the Electricity Market Act § 17 for the year then ended.

The Electricity Market Act prescribes an obligation for electricity undertakings to submit a balance sheet and a profit and loss account for each area of activity but there are no instructional materials on which to base the classification of the areas of activity and how to draw up the respective reports.

Due to the lack of instructional materials, the management board of aktsiaselts TALLINNA SADAM has determined the principles of classification of the areas of activity, which are intrinsically based on the judgements of the management board.

In our opinion, the statement of financial position and the statement of profit and loss for each area of activity presented in Note 31, is in all material respects in conformity with the principles disclosed therein, the Electricity Market Act and other legislation enacted on the basis thereof.

13 April 2018



Veiko Hintsov  
Certified Auditor, No. 328



Mariel Akkermann  
Certified Auditor, No. 574

AS Deloitte Audit Eesti  
Licence No. 27  
Roosikrantsi 2, 10119 Tallinn, Estonia

### 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 2017, which consists of the management report and the financial statements, and the accompanying independent auditors' report.

17 April 2018



Aare Tark



Ahti Kuningas



Kati Kusmin



Urmas Kaarlep



Üllar Jaaksoo



Raigo Uukkivi

## EARNINGS ALLOCATION PROPOSAL

At 31 December 2017, the retained earnings amounted to EUR 122,677,351 including profit for the period of EUR 26,424,835. 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 earnings allocation proposal the Government of Estonia had not made its decision on the dividend distribution by AS Tallinna Sadam. Based on the above and the latest information available to the management board at the date of the proposal about the planned order by the Government of Estonia, the management board proposes the allocation of the dividend of EUR 105,000,000. The expected dividend per share is EUR 0.57.

Under section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 122,677,351 as at and for the year ended 31 December 2017 be allocated as follows:

Dividends

EUR 105,000,000

Retained earnings

EUR 17,677,351

Valdo Kalm

Chairman of the Management Board

Marko Raid

Member of the Management Board

Margus Vihman

Member of the Management Board