

# AS TALLINK GRUPP

## ANNUAL REPORT 2005/2006

Beginning of the financial year	1 September 2005
End of the financial year	31 August 2006
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Main activity	maritime transportation (passengers & cargo transport)



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**MANAGEMENT REPORT**

The 2005/2006 financial year was a challenging, very successful and eventful period for AS Tallink Grupp and its subsidiaries (hereinafter also referred to as "the Group"). The Group has increased the net profit by 213.7% compared to the previous financial year which exceeded the management's expectations. The successful business strategy that has been built up in previous years has delivered sound results and encouraged to make a number of new investments during the 2005/2006 financial year.

In 2005/2006 financial year the investments amounted to approximately 15 billion EEK (960 million EUR) and shareholders injected a total of 3.6 billion EEK (230 million EUR) in new equity into the Group. The Group's net debt increased by 10 billion EEK to 13.5 billion EEK (860 million EUR). The latest investments and developments together with the new equity have established a strong base for the future growth.

The most significant events in the financial year were the following:

- successful Initial Public Offering ("IPO") and the listing on the Tallinn Stock Exchange in December 2005;
- signing of the building contract with Fincantieri for a new fast ro-pax ferry, which will be delivered in the beginning of 2008;
- ordering of a new cruise ferry, a sister-vessel of M/S Galaxy, which will be delivered in summer 2008;
- starting the route and operations between Riga and Stockholm in April 2006;
- acquisition of three Superfast ferries and expansion to the Finland - Germany market ("Superfast") in April 2006;
- delivery of M/S Galaxy which started regular operations between Tallinn and Helsinki in May 2006;
- the acquisition of Silja Oy Ab including six vessels operating on routes between Finland and Sweden ("Silja") in July 2006;
- successful Rights Issue in August 2006.

**KEY FIGURES OF FINANCIAL YEAR 2005/2006**

	01.09.2005-31.08.2006		01.09.2004-31.08.2005		Change %
	EEK	EUR	EEK	EUR	
Net sales (million)	6,330.9	404.6	4,063.0	259.7	55.8
EBITDA (million)	1,466.2	93.7	900.7	57.6	62.8
EBITDA margin (%)	23.2		22.2		
Net profit for the period (million)	1,484.2	94.9	473.2	30.2	213.7
Net profit margin (%)	23.4		11.6		
Net profit adjusted for negative goodwill (million)	773.7	49.4	473.2	30.2	63.5
Net profit margin adjusted for negative goodwill (%)	12.2		11.6		
Depreciation (million)	419.7	26.8	271.9	17.4	54.4
Investments (million)	16,259.0	1,039.1	358.3	22.9	4,437.2

Number of passengers	4,203,163	3,274,177	28.4
Cargo units	188,330	131,349	43.4
Average number of employees	3,463	2,710	27.8

	31.08.2006		31.08.2005		Change %
	EEK	EUR	EEK	EUR	
Total assets (million)	25,931.6	1,657.3	6,927.2	442.7	274.3
Total liabilities (million)	16,856.3	1,077.3	4,271.3	273.0	294.6
Interest-bearing liabilities (million)	14,955.6	955.8	3,836.3	245.2	289.8
Total equity (million)	9,075.3	580.0	2,655.8	169.7	241.7
Equity ratio (%)	35.0		38.3		

Weighted average number of ordinary shares outstanding	130,381,941		110,000,000		18.5
Number of ordinary shares outstanding	168,454,260		110,000,000		53.1
Earnings per share	11.38	0.73	4.30	0.27	164.6
Shareholders equity per share	53.87	3.44	24.14	1.54	123.1

Net profit margin - Net profit / Net sales;

EBITDA - Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization, income from negative goodwill;

EBITDA margin - EBITDA / Net sales;

Equity ratio - Total Equity / Total Assets;

Earnings per share - Net Profit / Weighted average number of shares outstanding;

Shareholder's equity per share - Shareholder's equity / Number of shares outstanding.

## SALES

In the 2005/2006 financial year the consolidated sales of the Group increased by 55.8% from 4,063.4 million EEK (259.7 million EUR) to 6,330.9 million EEK (404.6 million EUR). The 2,268.0 million EEK (145.0 million EUR) increase in sales resulted largely from the acquisitions of new businesses but also from the growth in existing operations. Silja affected the sales for 2005/2006 financial year from July 01, 2006, Superfast from April 12, 2006 and Riga - Stockholm route from April 06, 2006. The following factors also had a positive impact to the sales:

- increase in cargo volume on Tallinn - Helsinki route due to increased demand and increased capacity;
- the delivery and operations of M/S Galaxy on route between Tallinn and Helsinki from May 2006;
- moving of M/S Romantika to the route between Stockholm and Tallinn in May 2006;
- higher ticket and cargo prices and onboard sales per passenger on Tallinn - Helsinki route;
- higher ticket prices on Estonia - Sweden routes.

The following tables provide an overview of the sales on geographical and operational segment based approach.

Geographical segments	05/06	04/05
Estonia - Finland	42.0%	60.1%
Estonia - Sweden	21.6%	34.3%
Finland - Sweden	20.9%	
Finland - Germany	9.5%	
Latvia - Sweden	2.2%	
Mainland business and lease of vessels	3.8%	5.6%

Operational segments	05/06	04/05
Restaurant, shop and other sales on-board and on mainland	47.2%	48.7%
Ticket sales	28.5%	25.1%
Sales of cargo transportation	19.4%	17.8%
Revenue from hotel packages	2.5%	4.0%
Accommodation sales	1.5%	2.1%
Income from leases of vessels	0.9%	2.3%

**EARNINGS**

The Group's earnings had a positive impact from the acquisitions of new businesses, increased ticket and cargo sales and improved efficiency. Although the new developments M/S Galaxy, Riga - Stockholm route, Superfast and Silja contributed to the Group's results only for the period from two to five months, the profit before financial items, share of profit of associates, taxes, and income from negative goodwill increased by 66.4% from 628.8 million EEK (40.2 million EUR) to 1,046.5 million EEK (66.9 million EUR) and the net profit increase was 213.7% from 473.2 million EEK (30.2 million EUR) to 1,484.2 million EEK (94.9 million EUR). Basic earnings per share and diluted earnings per share were 11.38 EEK (0.73 EUR), an increase by 164.6% compared to 4.30 EEK (0.23 EUR) in financial year 2004/2005. The Group's EBITDA margin increased to 23.2% from 22.2% and the net profit margin increased to 23.4% from 11.6%. Increased efficiency was delivered through the previous investments to the new fleet and also through the new investments in 2005/2006 financial year.

For the acquisition of Silja's business, fair value is attributed to the net assets acquired. Negative goodwill aroused as the fair value of the consideration given for Silja's business was less than the net assets. Purchased negative goodwill in the amount of 710.5 million EEK (45.4 million EUR) is recognized in the net profit according to the IFRS.

In 2005/2006 financial year personnel expenses increased by 36.5% from 609.9 million EEK (39.0 million EUR) to 959.8 million EEK (61.3 million EUR) primarily due to the increased number of personnel as a result of the expanded business. The average number of employees for the 2005/2006 financial year was 3,463 (compared to 2,710 in 2004/2005).

Fuel cost increased by 111.2% to 848.0 million EEK (54.2 million EUR) compared to the previous financial year, mainly due to the new operations. The increase in fuel cost was also affected by the unfavourable oil price dynamics (fuel prices increased by 45% compared to the previous financial year) and by the implementation of the Marpol Convention in May 2006, which defines the Baltic Sea as a special area where the maximum sulphur content allowed in ship fuel was lowered to 1.5%. Part of the fuel price increase was set off through the increase in ticket prices and cargo surcharges.

The earnings were also negatively affected by several large one off items during the third quarter of the financial year. The items were primarily related to the introduction of M/S Galaxy, launch of operations between Finland and Germany and between Riga and Stockholm, but also the introduction of M/S Romantika on the route between Tallinn and Stockholm and generated a combined one of marketing and start-up costs in the amount of approximately 78 million EEK (5 million EUR). Also the delay in opening of the Riga - Stockholm line led to incurring of downtime cost for M/S Fantaasia which decreased the Latvia - Sweden segment result.

Financial expenses increased due to new borrowings and thereby higher interest-bearing liabilities on average in the 2005/2006 financial year and also due to increased interest rates.

**LIQUIDITY AND WORKING CAPITAL**

Net cash flow from operating activities increased by 46.1% to 1,301.2 million EEK (33.2 million EUR) compared to 2004/2005 financial year, primarily due to increased revenues. The increase was also contributed by the consolidation of Silja as of July 01, 2006.

In the 2005/2006 financial year cash payments for investment activities increased by 8,493.4 million EEK (542.8 million EUR) compared to 2004/2005 financial year. The Group's cash payments for capital expenditure, investment in businesses and acquisitions of businesses in 2005/2006 totalled to 8,849.6 million EEK (565.6 million EUR) compared to 357.2 million EEK (22.8 million EUR) in 2004/2005.

The Group received 181.5 million EEK (11.6 million EUR) in 2005/2006 from disposal of assets, primarily from the sale of M/S Tallink Autoexpress.

In 2005/2006, we made repayments of loans, including the refinancing of existing loans of Silja, in the amount of 7,496.8 million EEK (479.1 million EUR) and interest payments in the amount of 216.6 million EEK (13.8 million EUR).

In 2005/2006 The Group received 12,607.7 million EEK (805.8 million EUR) from new borrowings and 3,529.3 millions EEK (225.6 million EUR) from issuance of new shares net of transaction costs.

Our cash and cash equivalents increased by 1,080.8 million EEK (69.1 million EUR) during 2005/2006 to 1,407.6 million EEK (90.0 million EUR) as of August 31, 2006, due to the factors mentioned above.

We believe that taking into consideration our established credit facilities and having due regard for our sources of liquidity reserves, we have sufficient liquidity and working capital to meet our present and future needs

**CAPITAL RESOURCES**

We use cash flow from operations, debt, equity financing and proceeds from potential disposals of assets to finance our future investments. As of August 31, 2006, debt as a percentage of capitalization (total debt and shareholders' equity) was 62.2% compared to 59.1% at August 31, 2005. The increase resulted from 11,119.3 million EEK (710.7 million EUR) higher debt partially offset by the impact of 6,418.5 million EEK (410.2 million EUR) higher equity.

**LOANS AND BORROWINGS**

The amount of interest-bearing liabilities during the financial year 2005/2006 increased by 11,119.3 million EEK to 14,955.6 million EEK (955.8 million EUR) compared to 3,836.3 million EEK (245.2 million EUR) in 2004/2005 financial year. The main new loans in 2005/2006 financial year were the following:

- 2,065 million EEK (132 million EUR) with maturity of 10 years to partially finance the purchase of M/S Galaxy;
- 4,381 million EEK (280 million EUR) with maturity of 10 years to partially finance the acquisition of the Superfast. On August 31, 2006 626 million EEK (40 million EUR) of this loan was prepaid;
- 626 million EEK (40 million EUR) with maturity of 1.5 years to partially finance the acquisition of Silja;
- 5,476 million EEK (350 million EUR) with maturity of 7.5 years to refinance the existing loans of Silja.

All interest bearing liabilities have been incurred in Euro-based currencies

#### OWNERS' EQUITY

The owners' equity of the Group increased by 241.7%, from 2,655.5 million EEK (169.7 million EUR) to 9,074.1 million EEK (579.9 million EUR) on the account of new shares issued during the financial year, on the account of the net profit of the financial and on the account of the revaluation reserve. In relation to the IPO 26,500,000 new shares were issued and the equity was increased by 2,056.4 million EEK (131.4 million EUR) in December 2005. In relation to the acquisition of Silja the 5 million shares in value of 273.8 million EEK (17.5 million EUR) were issued to Silja Holdings Ltd. as part of the purchase price. During the Rights Issue In August 2006 26,954,260 new shares were issued to the existing shareholders. The equity was increased by 1,475.7 million EEK (94.3 million EUR) from the Rights Issue. At the end of the 2005/2006 financial year the issued shares of the Group amounted to 168,454,260 with a nominal value of 10 EEK each.

With the changes in the accounting policy the ships are now measured in the balance sheet at their fair value. Previously the difference between the book value and fair value has been reported off balance sheet as a "hidden value". The change of 1,138.8 million EEK (72.8 million EUR) resulting from the revaluation is recognized in the owners' equity as revaluation reserve.

No dividends were paid for the 2004/2005 financial year. Management will propose at the shareholders general meeting to retain the earnings and not to pay dividends for the 2005/2006 financial year.

#### VESSELS AND OTHER INVESTMENTS

At the end of the financial year the Group owned a total of 21 vessels, 20 of them operating on the Baltic Sea and one of them being chartered to the Mediterranean (M/S Fantaasia). Our current fleet consists of 11 cruise ferries, three high-speed ro-pax ferries, three high-speed ferries, two ro-pax ferries and two ro-ro cargo vessels. As at August 31, 2006, the Group elected to change its accounting policy for measuring its ships from the cost basis to fair value. In order to assess the fair value, the Group's management used two independent appraisers. The fair value of ships as of August 31, 2006 amounts to 21,053.6 million EEK (1,345.6 million EUR). All of our vessels have protection and indemnity insurance (P&I), hull and machinery insurance (H&M) and they meet all applicable safety regulations.

Silja Oy Ab acquisition - The share purchase agreement for Silja Oy Ab shares was signed on June 11, 2006 and the acquisition was concluded on July 19, 2006 after being approved at an extraordinary shareholders meeting

and by the Competition Authorities of Estonia, Finland and Sweden. Financially the Silja's business came over to the Group and is consolidated from July 01, 2006.

The transaction included six ships as part of the Silja "core business": M/S Silja Symphony and M/S Silja Serenade operating on the Helsinki - Stockholm route and M/S Silja Europa, M/S Silja Festival, M/S SeaWind and M/S SkyWind operating on the Turku - Stockholm/Kapellskär routes, and their staff, facilities and the Silja brand. According to the pro forma results for the period from June 01, 2005 - May 31, 2006 the revenues of the acquired business amounted to 5,431.1 million EEK (347.1 million EUR). EBITDA was 669.8 million EEK (42.8 million EUR) and numbers of passengers, and cargo units transported were 3,320 thousand and 120 thousand respectively.

The consideration for the Silja's shares was 7,041 million EEK (450 million EUR) cash and 5 million new ordinary shares of AS Tallink Grupp. The cash consideration was financed through an existing debt refinancing in Silja in the amount of 5,476.3 million EEK (350 million EUR), the Group's equity of 939 million EEK (60 million EUR) and additional bank financing of 625.9 million EEK (40 million EUR).

Superfast - Three Superfast ferries were acquired in April 2006 from Attica Group for a total price of 4,850.4 million EEK (310 million EUR). The vessels are operating on the Finland - Germany route where they provide transportation for passengers, cars and ro-ro cargo, with emphasis on the ro-ro cargo. The acquisition of the Superfast is part of the Group's strategy whereby we are able to broaden our operations, expand into the new markets and at the same time insure the Group's strong future development perspective.

The transaction was initially financed by 469.4 million EEK (30 million EUR) of the Group's proceeds and 4,381.0 million EEK (280 million EUR) of bank loan. Further in August 2006 625.9 million EEK (40 million EUR) on this bank loan was prepaid.

New vessels - The Group has currently three new vessels under construction at the Shipyards. In addition to the previously ordered two fast ro-pax type vessels which will be delivered in 2007 and 2008 the Group signed a ship-building agreement with Aker Finnyards OY in December 2005 to build a 2,581.7 million EEK (165 million EUR) worth new cruise ferry, a sister vessel of M/S Galaxy.

For all the vessels on order the Group needs to pay 20% of the total contract price during the construction period and the remaining 80%, which is intended to be financed through the bank loans, shall be paid upon the delivery of the vessel(s).

By the end of 2005/2006 financial year the Group had paid to the shipyards 541.8 million EEK (34.6 million EUR) as part of the 20% mandatory instalments during the construction. Approximately 672 million EEK (43 million EUR) remains to be paid for the three vessels before their deliveries in the coming years.

Other investments - During the 2005/2006 the Group acquired a stevedoring company OÜ HTG Invest. The acquisition allows the Group to lower costs and to improve the quality of stevedoring.

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



## MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2005/2006 financial year amounted to 4.2 million, which is 28.4% higher than the in previous financial year. The number of cargo units carried by the Group's vessels was 188.3 thousand, which is a 43.4% increase from the previous financial year. The number of passenger cars increased by 49.4% and reached 407.0 thousand in the 2005/2006 financial year.

Passengers	2005/2006	2004/2005	Change %
Estonia - Finland route	2,518,126	2,545,886	-1.1
Estonia - Sweden routes	684,989	687,433	-0.4
Latvia - Sweden route	96,730		
Finland - Germany route	98,004		
Helsinki - Tallinn - St. Petersburg route		40,858	
Finland - Sweden routes	805,314		
Total	4,203,163	3,274,177	28.4

Cargo units	2005/2006	2004/2005	Change %
Estonia - Finland route	96,511	81,423	18.5
Estonia - Sweden routes	45,233	49,811	-9.2
Latvia - Sweden route	1,564		
Finland - Germany route	27,468		
Helsinki - Tallinn - St. Petersburg route		115	
Finland - Sweden routes	17,554		
Total	188,330	131,349	43.4

Passenger vehicles	2005/2006	2004/2005	Change %
Estonia - Finland route	213,701	197,115	8.4
Estonia - Sweden routes	76,826	73,760	4.2
Latvia - Sweden route	12,780		
Finland - Germany route	28,594		
Helsinki - Tallinn - St. Petersburg route		1,538	
Finland - Sweden routes	75,087		
Total	406,988	272,413	49.4

The 1.1% decrease in passengers transported on Tallinn - Helsinki route is primarily explained by the relatively high number of passengers transported in September and October 2004 resulting from our successful 15th anniversary marketing campaign. Also the volume of passengers was affected by the decreased capacity resulting from the sale of M/S Tallink Autoexpress. The decrease was partly offset by higher number of passengers carried by M/S Galaxy compared to M/S Romantika in the same period. The growth in cargo units transported is mainly attributable to the general market growth due to the development of economies of Scandinavian, Baltic countries and Russia and increased cargo transportation capacity because in March 2006 M/S Regal Star started operating on the route previously operated with M/S Kapella.

As with the Tallinn - Helsinki route, the slight decrease in passengers transported on Estonia - Sweden routes can also be explained by the high numbers generated during the marketing campaign in September and October 2004. The positive factor is that the opening of Riga - Stockholm route in April 2006 did not have a negative effect on the number of passengers transported between Estonia and Sweden, however it affected the passenger cars transportation since some Latvians and Lithuanians now use the Riga - Stockholm line instead of Estonia -

Sweden routes. Also the smaller cargo capacity of M/S Kapella which started operating on the route in March 2006 affected negatively the number of cargo units transported between Estonia and Sweden.

The investments made during the last financial year affected the yearly numbers only for a few months, but will further increase the Group's total passengers, cargo and cars numbers in the 2006/2007 financial year as the effect will then be for the full 12 month period.

The developments in hotel sales led to a total of 140 thousand guests who stayed in Best Western Hotel Tallink compared to 135 thousand in 2004/2005 financial year. The average room occupancy rate of the hotel during the financial period was 60% (58% in previous financial year).

The Group's market shares on routes operated are as follows:

- the Group carried approximately 44% of the passengers and 51% of ro-ro cargo on the route between Tallinn and Helsinki;
- the Group is the only provider of daily passenger transportation between Tallinn and Stockholm, between Paldiski and Kapellskär and the only provider of regular passenger transportation between Riga and Stockholm;
- the Group's approximate market share of passenger transportation on the routes between Finland and Sweden during July and August 2006 were 56% and the approximate market share of cargo transportation for same routes during the same period was 34%.
- the Group is the only provider of daily cargo transportation between Tallinn and Stockholm and the only provider of regular cargo transportation between Riga and Stockholm. The Group's market share of cargo transportation between Paldiski and Kapellskär is approximately 65%;
- the Group's estimated market share of passenger transportation on the route between Finland and Germany is 80% and the estimated market share of cargo transportation on the route is 30%.

## PERSONNEL

On 31 August 2006 the Group employed 5,987 employees (2,694 on 31 August 2005).

The following table provides a more detailed overview of the Group's personnel

	Average			End of financial year		
	2005/2006	2004/2005	Change %	31.08.2006	31.08.2005	Change %
<b>ONSHORE TOTAL</b>	812	622	30.6	1,479	620	138.5
<i>Estonia</i>	442	373	18.6	567	369	53.7
<i>Finland</i>	227	155	46.4	600	162	270.4
<i>Sweden</i>	120	88	36.7	277	85	225.9
<i>Latvia</i>	19			26		
<i>Germany</i>	1			6		
<i>Russia</i>	3	6	-50.0	3	4	-25.0
<b>AT SEA</b>	2,509	1,957	28.2	4,371	1,937	125.7
<b>HOTEL*</b>	142	130	9.2	137	137	0.0
<b>TOTAL</b>	3,463	2,709	27.8	5,987	2,694	122.2

\* The number of hotel personnel is not included in the total number of ashore personnel.

The impact of Silja to average onshore personnel is 123 employees and the impact to the year end onshore personnel is 670 employees. The impact of Silja to average sea personnel is 387 employees and the impact to the year end is 2,160 employees.

The growth of sea personnel resulted by the addition of six Silja vessels, the addition of the three Superfast ferries, the delivery of the new building M/S Galaxy and the opening of the Riga - Stockholm route. The onshore personnel increased mainly because of the addition of Silja offices in Finland and Sweden, but also because of the addition of Superfast's onshore personnel and the acquisition of the stevedoring company OÜ HTG Invest.

During the integration process where the offices of Silja and Tallink will be integrated in Finland and Sweden the onshore personnel will be reduced by 128 full time positions in Finland and around 80 full time employees in Sweden. The reduction is expected to be fully carried out within six months.

In the 2005/2006 financial year the executive members of the Management Board of the Group received remuneration in the total amount of 31.1 million EEK (2.0 million EUR) compared to 7.7 million EEK (0.5 million EUR) in 2004/2005. The remuneration includes bonuses in amount of 19 million EEK (1.2 million EUR) which were paid out in relation to the good results in 2004/2005 financial year and successful IPO. The bonus was originally designed and approved by the Supervisory Council in the beginning of 2005 as the share bonus program but was paid out in cash because the Estonian Financial Supervision Authority did not accept this share bonus program in the process of IPO in November 2005. The members of the Management Board used the bonus mainly to subscribe shares in the IPO.

#### SHARE PERFORMANCE AND SHAREHOLDERS

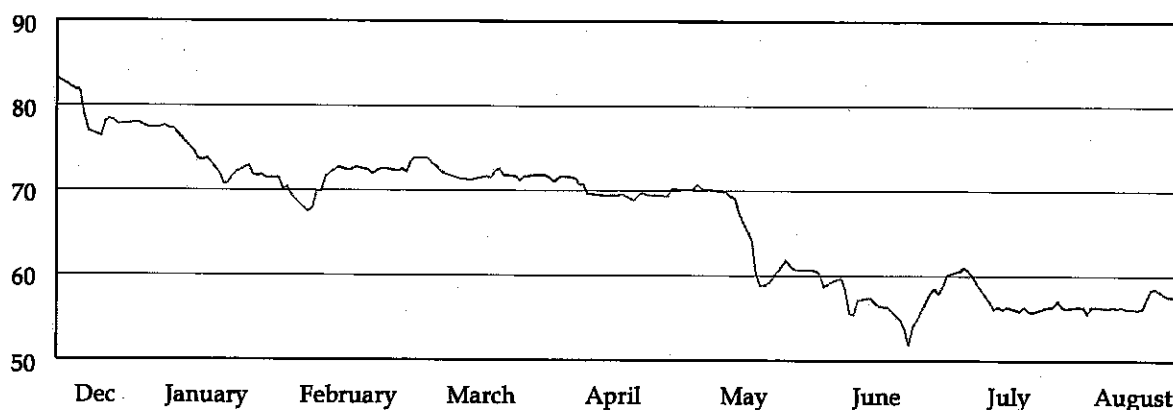
With the IPO in December 2005 the Group issued 26,500,000 new shares at the price of 82.5 EEK (5.27 EUR). More than 17,000 retail investors participated in the offering. The total amount of funds the Group received from the IPO was 2,056.4 millions EEK (131.4 million EUR). The funds were used to strengthen the Group's financial status and to fund new investments.

Proceeding from the purchase agreement of the shares of Silja, the Group issued 5 million new ordinary shares as a non-monetary part of payment to the Sea Containers Ltd in July 2006.

During the Rights Issue in August 2006 the Group offered to its existing shareholders the right to subscribe one new share for five previously owned shares at 55.0 EEK (3.52 EUR). A total of 28,300,000 shares were offered and 26,954,260 new shares were subscribed and issued. 3,436 shareholders participated in the Rights Issue. The proceeds from the Rights Issue amounted to 1,475.7 million EEK (94.3 million EUR) million and were used mainly to fund the acquisition of Silja.

The Group's shares were traded on OTC market until December 08, 2005 when AS Tallink Grupp was listed on the Tallinn Stock Exchange. After listing on the Stock Exchange, there were transactions with 42,147,508 shares of the Group. The highest daily average share price traded at the Tallinn Stock Exchange was 91.06 EEK (5.82 EUR) and lowest daily average share price was 51.79 EEK (3.31 EUR). The weighted average share price was 71.99 EEK (4.60 EUR).

The following table gives an overview of the Group's share price performance on the Tallinn Stock Exchange in EEK



The decrease of the share price after the IPO was caused by unexpectedly high supply caused mainly by some of the Scandinavian pension and equity funds, who bought the share of the Group years ago and were not properly locked up.

The table below presents the distribution of share capital by size of share ownership\*

	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 - 99	1,519	10.73%	61,389	0.04%
100 - 999	11,138	78.70%	3,432,580	2.04%
1,000 - 9,999	1,267	8.95%	3,235,005	1.92%
10,000 - 99,999	160	1.13%	4,382,042	2.60%
100,000 - 999,999	49	0.35%	15,692,394	9.32%
1,000,000 - 9,999,999	16	0.11%	46,610,019	27.67%
10,000,000 +	3	0.02%	95,040,831	56.42%
TOTAL	14,152	100%	168,454,260	100%

The table below presents the 10 largest shareholders of the Group\*

Shareholder	No. of shares	%
INFORTAR AS	65,645,741	38.97%
ING LUXEMBOURG S.A.	16,267,194	9.66%
CITIBANK HONG KONG/ CITICORP INTERNATIONAL FINANCE CORPORATION	13,127,896	7.79%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	8,349,607	4.96%
J.P. MORGAN BANK LUXEMBOURG S.A.	6,429,420	3.82%
AS SUPREMA CLIENT ACCOUNT	5,000,000	2.97%
MORGAN STANLEY + CO INTERNATIONAL EQUITY CLIENT ACCOUNT	4,944,668	2.94%
NORDEA BANK FINLAND PLC/ NON-RESIDENT LEGAL ENTITIES	3,784,012	2.25%
FIREBIRD REPUBLICS FUND LTD	2,944,325	1.75%
INVESTORS BANK AND TRUST CO ON BEHALF OF ITS CLIENTS	2,309,295	1.37%

The direct shareholdings of the members of the Management Board and Supervisory Council and connected persons:\*

Enn Pant - 734,000 shares;

Kalev Järvelill - 323,200 shares;

Keijo Erkki Mehtonen - 1,003,600 shares;

Andres Hunt - 141,300 shares;

Lembit Kitter – Does not have any shares;

Toivo Ninnas – 4,800 shares;

Eve Pant – 129,400 shares;

Ain Hanschmidt – 404,688 shares;

Lauri Kustaa Äimä – Does not have any shares;

Sunil Kumar Nair - Does not have any shares.

\*Note: The changes in Equity and proceeds deriving from the Rights Issue are reflected in the financial statements as of August 31, 2006 and the tables and list thereby include the number of shares issued in the Rights Issue, however the shares were conclusively registered in the commercial register on September 05, 2006.

On August 31, 2006 6.22% of the Group's shares were held by private individual investors.

### GROUP STRUCTURE

During the 2005/2006 financial year the Group either founded or acquired a total of over 30 new companies. On the report date the Group consisted of 61 companies. Most of the subsidiaries are wholly-owned companies of AS Tallink Grupp with the some exceptions. The Group further owns:

- 50% of Reisevarehuset AS;
- 50% of Baltic Tours AS;
- 33% of Searail EEIG;
- 50% of Suomen Jakelutiet Oy;
- Suomen Jakelutiet Oy further holds 50% of Suomen Hotellivaraukset Oy.

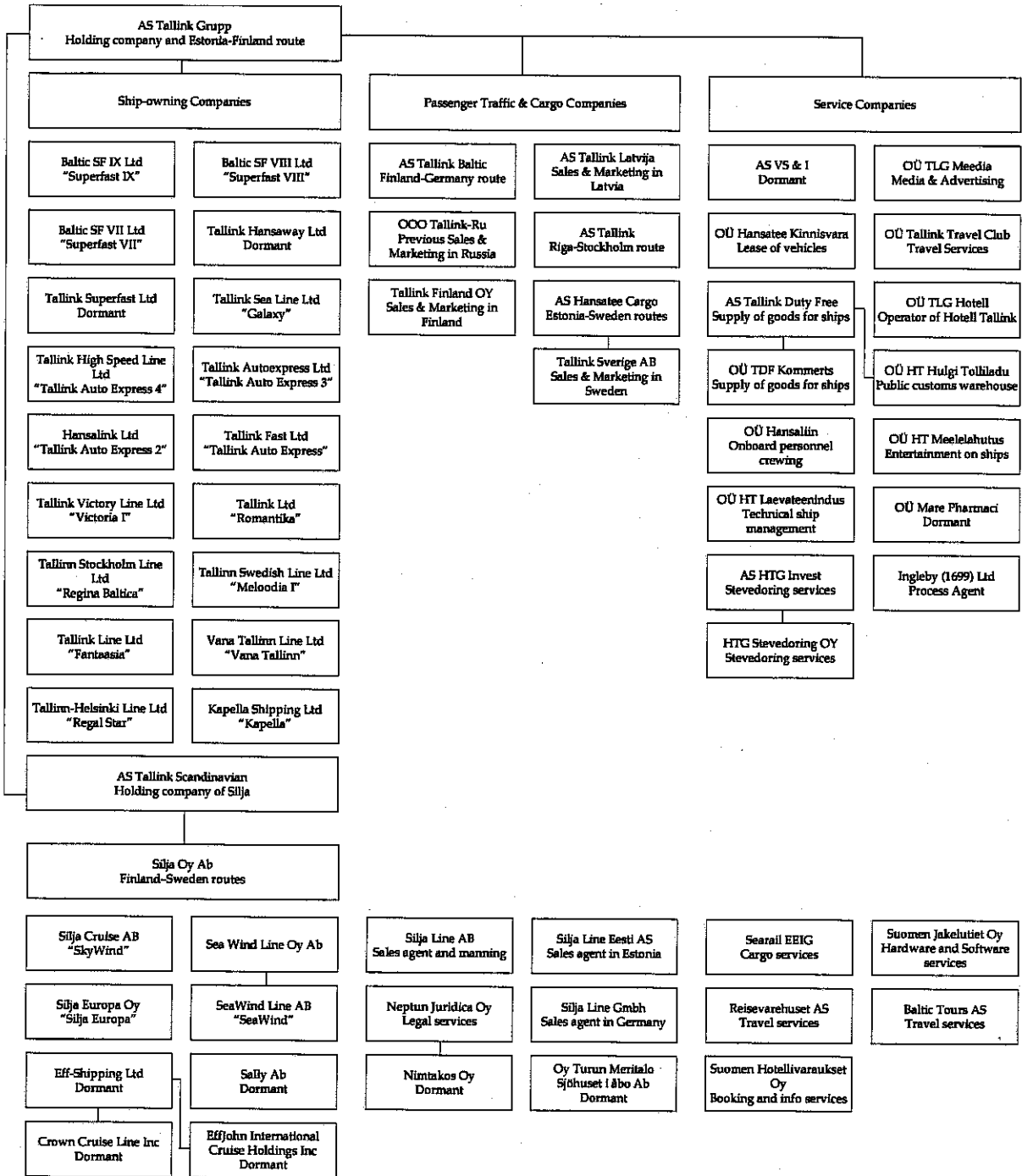
#### Note:

Fährschiff Europa Kb was liquidated in August 2006;

In September 2006 the Group purchased 30% minority shareholding in OÜ TLG Meedia from Mr. Peter Roose;

HTG Stevedoring Oy was founded in September 2006;

OÜ Mare Pharmaci is registered in Commercial Register as of October 25, 2006.



**CORPORATE GOVERNANCE RECOMMENDATIONS OF TALLINN STOCK EXCHANGE**

The Group follows most of Corporate Governance Recommendations except the following:

The Group does not follow the recommendation to publish the information related to the remuneration of a member of the Supervisory board and of a member of the Management Board.

The Group believes that the benefits for investors from such detailed information are not significant and are outweighed by the possible harm and discomfort to the members of the Supervisory board and to the members of the Management board from the publication of this rather sensitive private information. The Group also doesn't want to disclose such information to its competitors.

**OUTLOOK**

During the 2006/2007 one of the Group's significant tasks will be the integration of Silja operations. There are several areas that have been identified where synergies can be achieved. The management currently estimates approximately 313 million EEK (20 million EUR) of cost-saving synergies during the first year.

In the spring of 2007 the new generation fast ro-pax type vessel will be delivered from the shipyard. This vessel brings new quality and standard to the high speed transportation between Tallinn and Helsinki. She will have cruise vessel's size, cargo vessel's car deck capacity and close to fast ferry's speed. It is possible that some of the existing fleet operating on the Tallinn - Helsinki route will be either sold or deployed elsewhere. Through the higher operational efficiency the new vessel will help to increase the Group's profitability on the Tallinn - Helsinki route.

In the beginning of 2007 the new hotel is scheduled to start operations in the Tallinn harbour area. The new hotel will further enhance the selection of the travel related products offered by the Group and will have a positive impact to the development of sales and earnings.

The investments and developments made in 2005/2006 financial year will continue to have an impact in 2006/2007 financial year. Full 12 month effects of M/S Galaxy, Riga - Stockholm line, Finland - Germany line and Silja's Finland - Sweden line will increase sales and earnings.

In the light of current operations and new developments, the management estimates the Group's sales for the 2006/2007 financial year to reach around 11.7 billion EEK (750 million EUR) and EBITDA is projected to reach approximately 2,816 million EEK (180 million EUR). The earnings per share (EPS) target for 2006/2007 financial year is 8.5 EEK (0.54 EUR).

Due to the seasonality in the Group's operations the higher results are made in the second half of the financial year.

## CONSOLIDATED FINANCIAL STATEMENTS

### MANAGEMENT BOARD'S APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

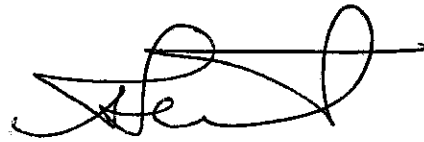
We hereby take responsibility for the preparation of the consolidated financial statements of AS Tallink Grupp (hereinafter referred to as "the Parent") and its subsidiaries (hereinafter together referred to as "the Group")

The Management Board confirms that:

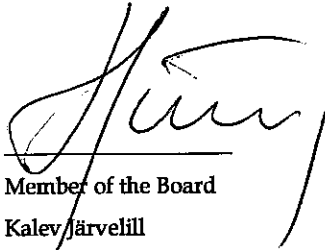
- accounting principles used in preparing the consolidated financial statements mentioned above are in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and the Parent and the results of their operations and cash flows;
- AS Tallink Grupp and its subsidiaries are able to continue as a going concern for a period of at least one year of the date of approving these consolidated financial statements.



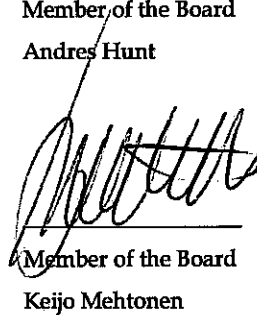
Chairman of the Board  
Enn Pant



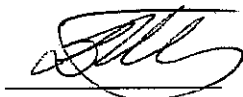
Member of the Board  
Andres Hunt



Member of the Board  
Kalev Järvelill



Member of the Board  
Keijo Mehtonen



Member of the Board  
Lembit Kitter

Tallinn




**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 August

	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
Revenue	6,330,911	4,062,961	404,619	259,671	7
Cost of sales	-4,498,940	-2,979,506	-287,535	-190,425	8
<b>Gross profit</b>	<b>1,831,971</b>	<b>1,083,455</b>	<b>117,084</b>	<b>69,246</b>	
Marketing expenses	-454,520	-336,203	-29,049	-21,487	8
Administrative expenses	-329,798	-119,944	-21,078	-7,666	8
Other operating items	-1,128	1,466	-72	93	
Income from negative goodwill	710,496	0	45,409	0	6
Financial income	44,854	3,417	2,867	218	8
Financial expenses	-316,571	-162,123	-20,233	-10,361	8
Gain from investments into associates	0	3,643	0	233	14
<b>Profit before income tax</b>	<b>1,485,304</b>	<b>473,711</b>	<b>94,928</b>	<b>30,276</b>	7
Income tax	-33	-356	-2	-23	9
<b>Net profit for the financial year</b>	<b>1,485,271</b>	<b>473,355</b>	<b>94,926</b>	<b>30,253</b>	7
Attributable to:					
Equity holders of the Parent	1,484,206	473,171	94,858	30,241	
Minority interests	1,065	184	68	12	
<b>Basic and diluted earnings per share</b> (in EEK/EUR per share)	<b>11.38</b>	<b>4.30</b>	<b>0.73</b>	<b>0.27</b>	10

For identification purposes only


  
*Ernst & Young*
  
*4.12.2006*

**CONSOLIDATED BALANCE SHEET**

as of 31 August	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	1,407,608	326,786	89,963	20,885	11
Receivables	843,456	148,861	53,906	9,514	12
Prepayments	235,890	49,167	15,076	3,142	12
Derivatives	11,633	0	743	0	23
Tax assets	17,644	4,512	1,128	289	9
Inventories	237,228	84,900	15,162	5,426	13
	<b>2,753,459</b>	<b>614,226</b>	<b>175,978</b>	<b>39,256</b>	
<b>Non-current assets</b>					
Investments in associates	9,044	0	578	0	14
Other financial assets and prepayments	8,240	72	527	5	15
Pension assets	45,234	0	2,891	0	15
Property, plant and equipment	21,857,153	6,136,720	1,396,927	392,208	16
Intangible assets	1,258,432	176,153	80,428	11,258	17
	<b>23,178,103</b>	<b>6,312,945</b>	<b>1,481,351</b>	<b>403,471</b>	
<b>TOTAL ASSETS</b>	<b>25,931,562</b>	<b>6,927,171</b>	<b>1,657,329</b>	<b>442,727</b>	7
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	1,228,098	690,473	78,490	44,129	18
Payables	1,593,026	331,148	101,813	21,165	19
Deferred income	146,042	31,817	9,334	2,033	19
Derivatives	24,159	913	1,544	58	23
Tax liabilities	112,061	70,805	7,162	4,525	9
	<b>3,103,386</b>	<b>1,125,156</b>	<b>198,343</b>	<b>71,910</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	13,727,497	3,145,864	877,347	201,057	18
Deferred income tax liability	69	329	4	21	9
Pension liability	25,332	0	1,619	0	9
	<b>13,752,898</b>	<b>3,146,193</b>	<b>878,970</b>	<b>201,078</b>	
<b>Total liabilities</b>	<b>16,856,284</b>	<b>4,271,349</b>	<b>1,077,313</b>	<b>272,988</b>	7
<b>Equity</b>					
<b>Minority interests</b>	<b>1,189</b>	<b>274</b>	<b>76</b>	<b>18</b>	
<b>Equity attributable to equity holders of the parent</b>					
Share capital	1,415,000	1,100,000	90,435	70,303	20
Share premium	2,012,394	0	128,615	0	20
Unregistered share capital with share premium	1,475,727	0	94,316	0	20
Reserves	1,158,714	27,500	74,056	1,758	
Retained earnings	3,012,254	1,528,048	192,518	97,660	
<b>Total equity attributable to equity holders of the parent</b>	<b>9,074,089</b>	<b>2,655,548</b>	<b>579,940</b>	<b>169,721</b>	
<b>Total equity</b>	<b>9,075,278</b>	<b>2,655,548</b>	<b>580,016</b>	<b>169,739</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>25,931,562</b>	<b>6,927,171</b>	<b>1,657,329</b>	<b>442,727</b>	

Notes to the consolidated financial statements set out on pages 22 to 77 form an integral part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 31 August,	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
<b>Cash flow from operating activities</b>					
Net profit for the financial year	1,485,271	473,355	94,926	30,253	
Adjustments:	-17,689	427,213	-1,131	27,304	
Depreciation and amortization	419,664	271,878	26,821	17,377	
Net (gain) / loss on disposals of property, plant and equipment	-6,180	-354	-395	-23	
Net interest expenses	274,820	157,678	17,564	10,077	
Net interest expenses from swap	4,470	1,342	286	86	
Share profit of subsidiaries and associates	0	-3,643	0	-233	
Income from negative goodwill	-710,496	0	-45,409	0	
Net foreign exchange (gain) / loss related to investing and financing activities	0	-44	0	-3	
Income tax expense	33	356	2	23	
Changes in receivables and prepayments related to operating activities	-276,382	38,501	-17,664	2,460	
Changes in inventories	-46,495	-347	-2,971	-22	
Changes in liabilities related to operating activities	91,081	-47,803	5,821	-3,055	
Income tax paid	-791	-117	-50	-7	
	<b>1,234,995</b>	<b>890,802</b>	<b>78,931</b>	<b>56,933</b>	
<b>Cash flow used for investing activities</b>					
Purchase of property, plant, equipment and intangible assets	-7,824,715	-357,238	-500,090	-22,832	16, 17
Proceeds from disposals of property, plant, equipment	181,619	1,372	11,607	88	
Proceeds from disposals of associates	5,000	0	320	0	
Acquisition of subsidiaries	-969,511	90	-61,963	6	6
Dividends received	0	1,200	0	77	14
Interest received	23,007	2,974	1,470	190	
	<b>-8,584,600</b>	<b>-351,602</b>	<b>-548,656</b>	<b>-22,471</b>	
<b>Cash flow from (+)/ used for (-) financing activities</b>					
Proceeds from issue of shares	3,668,735	0	234,475	0	
Transaction costs of issue of shares	-132,891	0	-8,493	0	
Proceeds from loans and bonds	12,609,227	458,028	805,876	29,273	
Redemption of loans and bonds	-7,473,544	-884,685	-477,647	-56,542	
Change in overdraft	-18,249	18,249	-1,166	1,166	18
Repayment of finance lease liabilities	-5,073	-967	-324	-62	
Interest paid	-217,778	-169,707	-13,918	-10,846	
	<b>8,430,427</b>	<b>-579,082</b>	<b>538,803</b>	<b>-37,011</b>	
<b>TOTAL NET CASH FLOW</b>	<b>1,080,822</b>	<b>-39,882</b>	<b>69,078</b>	<b>-2,549</b>	
<b>Cash and cash equivalents:</b>					
- at the beginning of period	326,786	366,668	20,885	23,434	
- increase (+) / decrease (-)	1,080,822	-39,882	69,078	-2,549	
- at the end of period	<b>1,407,608</b>	<b>326,786</b>	<b>89,963</b>	<b>20,885</b>	11

Notes to the consolidated financial statements set out on pages 22 to 77 form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August, in thousands of EEK


	Share capital <sup>1</sup>	Share premium <sup>1</sup>	Share with share premium <sup>1</sup>	Unrealised exchange differences	Ships revaluation reserve <sup>2</sup>	Cash flow hedge reserves <sup>3</sup>	Mandatory legal reserve	Retained earnings	Shareholders' equity	Minority interests	Total Equity
<b>As of 31 August 2004</b>	275,000	414,870	0	0	0	0	27,500	1,465,007	2,182,377	0	2,182,377
Issue of shares	825,000	-414,870	0	0	0	0	0	-410,130	0	0	0
Incorporation of new subsidiary	0	0	0	0	0	0	0	0	0	0	90
Net profit for the financial year 2004/2005	0	0	0	0	0	0	0	473,171	473,171	184	473,355
<b>As of 31 August 2005</b>	1,100,000	0	0	0	0	0	27,500	1,528,048	2,655,548	274	2,655,822
Issue of shares	315,000	2,012,394	1,475,727	0	0	0	0	0	3,803,121	-150	3,803,121
Dividends of subsidiaries	0	0	0	0	0	0	0	0	0	0	-150
Net profit for the financial year 2005/2006	0	0	0	0	0	0	0	1,484,206	1,484,206	1,065	1,485,271
Revaluation of ships	0	0	0	0	1,138,827	0	0	0	1,138,827	0	1,138,827
Net losses on cash flow hedges	0	0	0	0	0	-7,636	0	0	-7,636	0	-7,636
Foreign currency translation	0	0	0	23	0	0	0	0	23	0	23
Total income and expense for the year	0	0	0	23	1,138,827	-7,636	0	1,484,206	2,615,420	1,065	2,616,485
<b>As of 31 August 2006</b>	1,415,000	2,012,394	1,475,727	23	1,138,827	-7,636	27,500	3,012,254	9,074,089	1,189	9,075,278

<sup>1</sup> For more information see also Note 20 Share Capital<sup>2</sup> For more information see also Note 16 Property, Plant and Equipment<sup>3</sup> For more information see also Note 23 Financial Risk Management

Notes to the consolidated financial statements set out on pages 22 to 77 form an integral part of these financial statements.

for the year ended 31 August, in thousands of EUR

	Share capital <sup>1</sup>	Share premium <sup>1</sup>	Unregistered share capital with share premium <sup>1</sup>	Unrealised exchange differences	Ships revaluation reserve <sup>2</sup>	Cash flow hedge reserves <sup>3</sup>	Mandatory legal reserve	Retained earnings	Shareholders' equity	Minority interests	Total Equity
<b>As of 31 August 2004</b>	17,576	26,515	0	0	0	0	1,758	93,631	139,479	0	139,480
Issue of shares	52,727	-26,515	0	0	0	0	0	-26,212	0	0	0
Incorporation of new subsidiary	0	0	0	0	0	0	0	0	0	0	6
Net profit for the financial year 2004/2005	0	0	0	0	0	0	0	30,241	30,241	12	30,253
<b>As of 31 August 2005</b>	70,303	0	0	0	0	0	1,758	97,660	169,721	18	169,739
Issue of shares	20,132	128,615	94,316	0	0	0	0	0	243,063	-10	243,063
Dividends of subsidiaries	0	0	0	0	0	0	0	0	0	0	-10
Net profit for the financial year 2005/2006	0	0	0	0	0	0	0	94,858	94,858	68	94,926
Revaluation of ships	0	0	0	0	72,784	0	0	0	72,784	0	72,784
Net losses on cash flow hedges	0	0	0	0	0	-488	0	0	-488	0	-488
Foreign currency translation	0	0	0	2	0	0	0	0	2	0	2
Net income and expense for the year	0	0	0	2	72,784	-488	0	94,858	167,156	68	167,224
<b>As of 31 August 2006</b>	90,435	128,615	94,316	2	72,784	-488	1,758	192,518	579,940	76	580,016

<sup>1</sup> For more information see also Note 20 Share Capital<sup>2</sup> For more information see also Note 16 Property, Plant and Equipment<sup>3</sup> For more information see also Note 23 Financial Risk Management

**Ernst & Young**  
 7. 11. 2006

**NOTES TO THE FINANCIAL STATEMENTS****Note 1 CORPORATE INFORMATION**

The consolidated financial statements of AS Tallink Grupp and its subsidiaries for the year ended August 31, 2006 were authorised for issue by the Management Board on November 30, 2006.

According to the Estonian Business Code, the annual report, including the consolidated financial statements, prepared by the Management Board and approved by the Supervisory Board, is authorised by the Shareholders' General Meeting. The shareholders hold the power not to approve the annual report prepared and presented by the Management Board and the right to request a new annual report to be prepared.

AS Tallink Grupp is a limited company incorporated and domiciled in Estonia. AS Tallink Grupp's shares are publicly traded at Tallinn Stock Exchange since December 9, 2005. As of August 31, 2006, 43.4% of its shares is held by AS Infortar.

The principal activities of the Group are related to sea transportation (passengers and cargo transportation). More detail information on the principal activities of the Group is described in Note 7 "Segment Information". As of August 31, 2006 the Group employed 5,987 people (2,694 as of August 31, 2005).

**Note 2 BASIS OF PREPARATION**

The consolidated financial statements have been prepared on a historical cost basis, except for ships and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Estonian kroons (EEK) and all values are rounded to the nearest thousand except when otherwise indicated. Pursuant to the requirements of Tallinn Stock Exchange, the consolidated financial statements have also been prepared in euros (EUR) in addition to Estonian kroons. As the Estonian kroon is pegged to euro with the fixed exchange rate (1 EUR = 15.6466 EEK), no foreign exchange rate differences arise in the translation of the consolidated financial statements.

In accordance with the Estonian Accounting Act, the non-consolidated main financial statements (i.e. balance sheet, income statement, cash flow statement and statement of changes in equity) of the parent shall be disclosed in the notes to its consolidated financial statements. The non-consolidated main financial statements of AS Tallink Grupp are disclosed in Note 25 "Non-consolidated main financial statements of the Parent". These statements have been prepared using the same accounting methods and measurement bases that were used for the preparation of the consolidated financial statements, except for investments into subsidiaries and associates.

**Statement of compliance**

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

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of AS Tallink Grupp and its subsidiaries drawn up to August 31 each year. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date and using consistent accounting policies. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.


Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All inter-group transactions, balances and unrealised profits on transactions between Group's companies have been eliminated in full in the consolidated financial statements. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

New subsidiaries (business combinations) have been included in the consolidated financial statements using the purchase method of accounting. The purchase consideration is allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period starting from their acquisition date.

For identification purposes only

 **ERNST & YOUNG**  
*7.12.2006*

**Note 3 CHANGES IN ACCOUNTING POLICIES AND PRESENTATION**

The accounting policies adopted are consistent with those of the previous financial year except that

1. the Group has initially adopted the revaluation model for the subsequent measurement of its ships;
2. the Group has adopted those new / revised standards mandatory for financial years beginning on or after January 1, 2005 (except IAS 16, which was adopted early). The changes in accounting policies result from adoption of the following new or revised standards:
  - IAS 1 (revised) "Presentation of Financial Statements";
  - IAS 27 (revised) "Consolidated and Separate Financial Statements";
  - IAS 28 (revised) "Investments in Associates".

The principal effects of the changes in policies and presentations are discussed below.

**Revaluation of ships**

As at August 31, 2006, the Group elected to change its accounting policy for measuring its ships from the cost basis to fair value. The revised accounting policy for ships is described in the "Summary of significant policies" (Note 5.9).

The Group decided to change its accounting policy for measurement of ships as it believes the new policy will provide more relevant information about the carrying amount of these assets. As the market value of ships has been growing steadily over the last 3-4 years (due to growing demand for new ships and increase in market price of different metals), the management of the Group believes that using revalued amounts will impart more accurate information as to the appropriate value of this class of assets.

See also Note 16 for more information on the revaluation.

**Presentation of minority interests**

Previously, minority interests were presented separately from liabilities and equity in the balance sheet of the Group. According to IAS 1 (revised 2004) and IAS 27 (revised 2004), the minority interests have to be presented under equity. As a result of the change in presentation, the Group's equity as of August 31, 2005 increased by 274,000 EEK (the change does not have any effect on the equity attributable to equity holders of the Parent).

**Investments into subsidiaries and associates in the non-consolidated balance sheet and income statement of the Parent**

The investments into subsidiaries and associates were accounted for under the equity method of accounting in the previous year separate financial statements of the Parent. IAS 27 (revised 2004) and IAS 28 (revised 2004) prohibit to use the equity method of accounting for investments into subsidiaries and associates in the separate financial statements of the parent starting from January 1, 2005. Instead, the investments have to be measured at cost or at fair value. In the non-consolidated main financial statements of the Parent presented in Note 25, the investments into subsidiaries and associates are measured at cost (incl. in comparative data).

As a result of the above change, the retained earnings of the Parent as of September 1, 2004 decreased by 1,737,721,000 EEK (111,061,000 EUR) and net profit for the year ended August 31, 2005 decreased by 635,850,000 EEK (40,638,000 EUR).

For identification purposes only

**ERNST & YOUNG**  
7.12.2006



**Adoption of IFRSs during the financial year**

The Group has adopted the following revised or new standards during the reporting year and comparative figures have been amended as required. Adoption of revised and new standards does not have any effect on the Group's equity as of September 1, 2004.

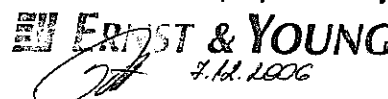
- IAS 2 "Inventories";
- IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 "Events after the Balance Sheet Date";
- IAS 17 "Leases";
- IAS 21 "The Effect of Changes in Foreign Exchange Rates";
- IAS 24 "Related Party Disclosures";
- IAS 32 "Financial Instruments: Disclosure and Presentation";
- IAS 33 "Earnings per Share";
- IAS 39 "Financial Instruments: Recognition and Measurement"; and
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

**New IFRS standards and interpretations**

By the time of preparing the current consolidated financial statements, new or revised International Financial Reporting Standards and their interpretations have been issued, which shall become mandatory for the company's financial statements prepared for accounting periods beginning on or after January 1, 2006. The Group has decided not to apply these amendments and new standards and interpretations early. Below is the estimate of the Group's management on the potential effect of new or revised standards and interpretations on the financial statements upon their first-time application.

- Amendment to IAS 1 "Presentation of Financial Statements"  
The amendment to IAS 1, which requires additional capital disclosures, shall be applied to annual periods beginning on or after January 1, 2007.
- Amendment to IAS 19 "Employee Benefits"  
The amendment to IAS 19, which is related to reporting actuarial gains and losses, shall be applied to annual periods beginning on or after January 1, 2006. The possible effect of the amendment is not known yet.
- Amendment to IAS 21 "The Effect of Changes in Foreign Exchange Rates"  
The amendment to IAS 21 shall be applied to annual periods beginning on or after January 1, 2006. The amendment requires exchange differences arising from a monetary item that form part of the Group's net investment in a foreign operation to be included in equity regardless of the currency in which it is denominated. In the opinion of the Group's management, this has no impact on the financial position of the Group.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"  
There are three amendments to IAS 39 that will become effective for the annual periods beginning on or after January 1, 2006. These relate to financial guarantee contracts (related amendment has been also issued to IFRS 4 "Insurance Contracts"), hedges of forecast intragroup transactions and the use of the fair value option. The management estimates that the application of these amendments will not lead to any changes in the recognition of existing assets and liabilities.

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- IFRS 6 "Exploration for and Evaluation of Mineral Resources"  
The standard (effective from the annual periods beginning on or after January 1, 2006) does not apply to the activities of the Group.
- IFRS 7 "Financial Instruments: Disclosures"  
IFRS 7 shall be applied to the annual periods beginning on or after January 1, 2007. The new standard requires more disclosures on financial instruments and financial risk management.
- IFRIC 4 "Determining whether an Arrangement Contains a Lease"  
The management estimates that the interpretation, which shall be applied to the annual periods beginning on or after January 1, 2006, has no impact on the accounting of existing agreements.
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"  
The standard (effective from the annual periods beginning on or after January 1, 2006) does not apply to the activities of the Group.
- IFRIC 6 "Liabilities Arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment"  
The standard (effective from the annual periods beginning on or after December 1, 2005) does not apply to the activities of the Group.
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Environments"  
The standard (effective from the annual periods beginning on or after March 1, 2006) does not apply to the activities of the Group.
- IFRIC 8 "Scope of IFRS2"  
The standard (effective from the annual periods beginning on or after May 1, 2006) does not apply to the transactions of the Group.
- IFRIC 9 "Reassessment of Embedded Derivatives"  
The management estimates that the interpretation, which shall be applied to the annual periods beginning on or after June 1, 2006, has no impact on the recognition of existing agreements.

**Note 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES****4.1. Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

Interest swaps – whether derivatives qualify for hedge accounting

As of August 31, 2006, the Group has entered into five interest swap agreements (2005: one agreement). The Group has determined (and prepared the appropriate documentation) that two of these five swap agreements qualifies for hedge accounting (cash flow hedge). According to the judgement, the effective portion of the loss on this hedging instrument has been recognised directly in equity; other gains or losses arising from changes in fair value of interest swaps have been taken to the income statement. See Notes 23 and 5.20 for more detail information on the interest swap agreements and related accounting policies.

Operating lease – Group as lessee

The Group has entered into a lease agreement for its hotel building. The management has determined that all significant risks and rewards of ownership of the property have been retained by the lessor and so the Group, acting as a lessee, accounts for this agreement as operating lease. See Note 21 for more detail information on the minimum lease payments of the lease agreement.

**4.2. Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

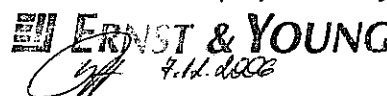
The Group determines whether goodwill is impaired at least on annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of August 31, 2006 and as of August 31, 2005 amounted to 173,148,000 EEK (11,066,000 EUR). Further details are given in Note 17.

Purchase price allocation and deferred tax

On June 30, 2006, the Group acquired 100% of the shares of Silja Oy Ab. The total purchase consideration and fair value adjustments are provisional as there is a different opinion on one component of the purchase price between the Group and the seller. Further details are given in Note 6.

Moreover, the Group has not finished the analysis of the realisability of deferred tax asset on tax loss carry-forwards and fair value of software owned by Silja Oy Ab, yet. Deferred tax asset are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total amount of deferred tax asset identified during the provisional purchase price allocation was 498,219,000 EEK (31,842,000 EUR). Out of this amount 383,201,000 EEK (24,491,000 EUR) was recognised and netted with deferred tax liabilities. The carrying value of the unrecognised tax asset arising from unused tax losses related to purchase price allocation as of August 31, 2006 amounted to 115,018,000 EEK (7,351,000 EUR). See Note 9 for more detailed information.

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Determination of useful life of property, plant and equipment and intangible assets

Management has estimated the useful lives of property, plant and equipment and intangible assets, taking into consideration volumes of business activities, historical experience in this area and future outlook. The management's opinion on the useful lives of the Group's property, plant and equipment (with total book value of 21,857,153,000 EEK (1,396,927,000 EUR) as of August 31, 2006 and 6,136,720,000 EEK (392,208,000 EUR) as of August 31, 2005) and the Group's intangible assets (with total book value of 1,258,432,000 EEK (80,428,000 EUR) as of August 31, 2006 and 176,153,000 EEK (11,258,000 EUR) as of August 31, 2005) has been disclosed in Notes 16 and 17, respectively.

Fair value of ships

For the purpose of the revaluation of ships, the Group determined the fair value of its ships as of August 31, 2006. The fair value of ships depends on several circumstances, including a building year and other technical parameters as well as how the ships have been maintained (i.e., how much the owner has invested into maintenance of certain ship). In order to assess the fair value, the Group's management used the independent appraisers. The fair value of ships as of August 31, 2006 amounts to 21,053,598,000 EEK (1,345,570,000 EUR). Further details are given in Note 16.

Pension

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 15.

**Note 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****5.1. Foreign currency transaction**

The Parent's functional currency is the Estonian kroon. Due to Tallinn Stock Exchange requirements the Company also presents its consolidated financial statements in euros (see also Note 2). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognised under "financial income" or "financial expenses" in income statement. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of the foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currencies of the foreign operations are the following:

- Swedish kroons (SEK) for Tallink Sverige AB, Silja Line AB, Silja Cruise AB, Seawind Line AB, and Latvian lats (LAT) for Tallink Latvija S/A:  
As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of AS Tallink Grupp at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the financial year. The exchange differences arising on the translation are taken directly to a separate component of equity (i.e., "Unrealised exchange differences"). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.
- Euro (EUR) for all other foreign subsidiaries:  
As the Estonian kroon has been pegged to euro with the fixed exchange rate, then all transactions and balances are translated into the Estonian kroons at the fixed rate and no exchange rate differences arise in the translation of the financial statements of these subsidiaries.

**5.2. Segment information**

The primary segments of the Group are geographical segments (by the routes and mainland) and the secondary segments are business segments (tickets sales, sales of cargo transport, restaurant and shops sales on-board and on mainland, hotel (accommodation) sales and others). A geographical segment provides products or services within a particular economic environment that is subject to risks and benefits different from those of components operating in other economic environments. A business segment is a group of assets and operations providing products or services that are subject to risks and benefits different from those of other business segments.

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

these expenses relate to the segment's operating activities and they can be directly attributed or allocated to the segment.

Segment result is segment revenue less segment expenses.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets include receivables, except loans granted, prepaid expenses and inventories, property, plant and equipment and intangible assets related to the operating activities. If a particular item of depreciation or amortization is included in segment expenses, the related asset is also included in segment assets. Segment assets do not include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are those liabilities that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, accounts payables and other payables, accrued expenses, customers' prepayments, and provisions. Segment liabilities do not include loans, finance leases, bonds and other liabilities related to financing activities. Income tax liability is also not included in segment liabilities.

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

### 5.3. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

#### Sale of goods – sales in restaurants and shops

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, i.e. at the time of selling the goods to the customer at the retail stores, bars and restaurants, generally for cash or by card payment.

#### Ticket sale and sale of cargo transport

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

#### Sales of hotel rooms

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

#### Revenue from package deals

The Group sells also packages, which consist of the ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognises the sales of package in its

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revenue in full instead of recognising only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of package; (2) has discretion in selecting the suppliers for the service offer; and (3) bears any credit risks.

#### Rental income

Rental income arising from operating leases on ships is accounted for on a straight-line basis over the lease terms.

#### Interest

Revenue is recognised as the interest accrues (taking into account the effective interest rate).

#### Dividends

Revenue is recognised when the Group's right to receive the payment is established.

### 5.4. Cash and cash equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

### 5.5. Financial assets

All financial assets are initially recognised at cost, being the fair value of the consideration given, plus, in case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets within the scope of IAS 39 are classified as either (1) financial assets at fair value through profit or loss, (2) loans and receivables, (3) held to maturity investments, and (4) available for sale financial assets, as appropriate. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include:

- financial assets held for trading (i.e. financial assets acquired for the purpose of selling in the near term and derivatives with positive value unless they are designated as effective hedging instruments); and
- financial assets designated upon initial recognition as at fair value through profit or loss.

Gains or losses on these financial statements are recognised under "financial income" or "financial expenses" in income statement.

#### Held-to-maturity investments; loans and receivables

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, these financial assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

The Group assesses at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired, as well as through the amortisation process (under "financial income" or "financial expenses").

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity (under "net unrealised gains / (losses) reserve"), except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured (such investments are measured at cost). When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

When there is objective evidence that the available-for-sale assets measured at fair value is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument measured at cost, the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset is recognised as an impairment loss in the income statement.

#### Derecognition

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

#### 5.6. Inventories

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

Cost of both raw materials, consisting mostly of fuel, and merchandise purchased for resale are assigned by using the weighted average cost method.



## 5.7. Subsidiaries

A subsidiary is an entity in which the Group has majority of shareholding.

Name of subsidiary	Country of incorporation	Parent company
Hansaliin OÜ	Estonia	AS Tallink Grupp
Hansatee Kinnisvara OÜ	Estonia	AS Tallink Grupp
Tallink Duty Free AS	Estonia	AS Tallink Grupp
HT Laevateenindus OÜ	Estonia	AS Tallink Grupp
HT Meelelahutus OÜ	Estonia	AS Tallink Grupp
Tallink AS	Estonia	AS Tallink Grupp
Hansatee Cargo AS	Estonia	AS Tallink Grupp
TLG Hotell OÜ	Estonia	AS Tallink Grupp
Tallink Travel Club OÜ	Estonia	AS Tallink Grupp
V.S&I AS	Estonia	AS Tallink Grupp
TLG Meedia OÜ	Estonia	AS Tallink Grupp
Tallink Baltic AS	Estonia	AS Tallink Grupp
Mare Pharmaci OÜ	Estonia	AS Tallink Grupp
HTG Invest AS	Estonia	AS Tallink Grupp
Tallink Finland OY	Finland	AS Tallink Grupp
Tallink Latvija AS	Latvia	AS Tallink Grupp
Kapella Shipping Ltd	Bahamas	AS Tallink Grupp
Tallink Line Ltd	Cyprus	AS Tallink Grupp
Tallinn-Helsinki Line Ltd	Cyprus	AS Tallink Grupp
Vana Tallinn Line Ltd	Cyprus	AS Tallink Grupp
Tallink Fast Ltd	Cyprus	AS Tallink Grupp
Tallink Ltd	Cyprus	AS Tallink Grupp
Tallinn Swedish Line Ltd	Cyprus	AS Tallink Grupp
Tallinn Stockholm Line Ltd	Cyprus	AS Tallink Grupp
Tallink Victory Line Ltd	Cyprus	AS Tallink Grupp
Hansalink Ltd	Cyprus	AS Tallink Grupp
Tallink Autoexpress Ltd	Cyprus	AS Tallink Grupp
Tallink High Speed Ltd	Cyprus	AS Tallink Grupp
Tallink Sea Line Ltd	Cyprus	AS Tallink Grupp
Tallink Superfast Ltd	Cyprus	AS Tallink Grupp
Tallink-Ru OOO	Russia	AS Tallink Grupp
HTG Stevedoring Oy	Finland	HTG Invest AS
Ingleby (1699) Ltd.	UK	AS Tallink Grupp
HT Hulgi Tolliladu OÜ	Estonia	Tallink Duty Free AS
TDF Kommerts OÜ	Estonia	Tallink Duty Free AS
Tallink Sverige AB	Sweden	Hansatee Cargo AS
Tallink Scandinavian AS	Estonia	AS Tallink Grupp
Silja Oy Ab	Finland	Tallink Scandinavian AS
Silja Cruise AB	Sweden	Silja Oy Ab
Sally AB	Finland	Silja Oy Ab
Silja Europa Oy	Finland	Silja Oy Ab
Silja Line AB	Sweden	Silja Oy Ab
Silja Line Eesti AS	Estonia	Silja Oy Ab

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Silja Line Gmbh	Germany	Silja Oy Ab
Oy Turun Meritalo Sjöhuset i åbo Ab	Finland	Silja Oy Ab
Sea Wind Line Oy Ab	Finland	Silja Oy Ab
SeaWind Line AB	Sweden	Sea Wind Line Oy Ab
Neptun Juridica Oy	Finland	Silja Oy Ab
Nimtacos Oy	Finland	Neptun Juridica Oy
Eff-Shipping Ltd	Cayman Isl.	Silja Oy Ab
Crown Cruise Line Inc	Panama	Eff-Shipping Ltd
EffJohn International Cruise Holdings Inc	Cayman Isl.	Eff-Shipping Ltd

### 5.8. Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The Group's investments in its associates are accounted for under the equity method of accounting, i.e., the investments are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

The income statement reflects the shares of the results of operations of the associates. Where there has been a change recognised directly in the associates' equity, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profit and losses resulting from transactions between the Group and its associates are eliminated to the extent of the interest in the associates.

The financial statements of the associates used in applying the equity method are prepared as of the same reporting date and using consistent accounting policies.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value and the carrying amount of the investment.


### 5.9. Property, plant and equipment

Property, plant and equipment, except ships, are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any impairment in value. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised (e.g. replacements of part of some items, dry-dockings with intervals of two or five years) are added to the carrying amount of the assets, if the recognition criteria are met, i.e. (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognised. All other expenditures are recognised as an expense in the period in which it is incurred.

Ships are measured at fair value (i.e., revalued amount) less depreciation and impairment charged subsequent to the date of the revaluation. Revaluation is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

At the revaluation date, the current cost of ships is replaced by their fair value at the date of revaluation and accumulated depreciation is eliminated. Any revaluation surplus is credited to "revaluation of ships" included in the equity of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset

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previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the "revaluation of ships".

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is stopped when the carrying value of an asset equals with its residual value. The residual value of hull is based on the current prices of relevant metals and the probable quantity of scrap metals realisable at the end of ships' useful life. The Group estimates that the residual value of other items of property, plant and equipment is zero.

The residual value, method of depreciation and useful lives of items of property, plant and equipment are reviewed at least at each financial year and; if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimation.

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

#### 5.10. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

After initial recognition, the goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated (1) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment based on the Group primary reporting format.

#### 5.11. Intangible assets

Intangible assets acquired separately from a business are initially recognised at cost. The cost of intangible assets acquired as the part of an acquisition of a business is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either a finite or indefinite life. Intangible assets with finite lives are amortised over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite life are reviewed at each financial year-end. Changes in the expected

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useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite is made on a prospective basis.

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

#### Research and development expenditures

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

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

#### **5.12. Impairment of non-financial assets**

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (e.g., for goodwill, intangible assets with indefinite useful lives and capitalised development expenditures during the period of development), the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds the estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group performs its annual impairment test of goodwill as of August 31.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for ships previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indications exist, the Group makes an estimate of the recoverable amount. A previously recognised impairment is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last

impairment loss was recognised. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

#### 5.13. Financial liabilities

Financial liabilities are recognised initially at the fair value of proceeds received, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial liability. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

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

#### 5.14. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to the passage of time is recognised under the "financial expense".

#### 5.15. Pensions

The Group subsidiary Silja Oy Ab has benefit pension plan, covering substantially all of its land-based employees, which require contributions to be made to separately administrated funds.

Pension benefits for personnel are arranged on the basis of local practice. Most part of the pension liability is insured by external insurance companies and a minor part by Silja Oy Ab pension fund. The capital value of pension obligations at Silja Oy Ab risk is reported as liability in the balance sheet and the change during the year is reported as expense. For more information see Note 15.

#### 5.16 Mandatory legal reserve

Mandatory legal reserve is formed according to the Estonian Commercial Code. At least 5% of the net profit must be transferred to the mandatory legal reserve each financial year, until the mandatory legal reserve amounts to at least 10% of the share capital. The mandatory legal reserve cannot be paid out as dividends. Still, it can be used for covering the loss, if loss cannot be covered from the distributable shareholder's equity. The mandatory legal reserve can also be used for increasing the share capital of the company.

#### 5.17. Leases

Group as a lessee

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

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

Group as a lessor

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

**5.18. Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grants related to an expense item are recognised as a reduction of the expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

**5.19. Income tax**

Income tax contains current income tax and deferred income tax.

The Group companies in Estonia

According to Estonian Income Tax Law the company's net profit is not subject to income tax, but all dividends paid by the company are subject to income tax (24/76 of net dividend paid out before December 31, 2005; 23/77 of net dividend paid / payable out during the calendar year 2006 and after that the rate will decrease every year by one point until 20/80 of net dividends paid out after January 1, 2009). Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The amount of potential tax liability related to the distribution of dividends depends on when, how much and from which sources the dividends are paid out.

Income tax from the payment of dividends is recorded as income tax expense at the moment of declaring the dividends.

The Group companies in Cyprus, Bahamas, Panama and Cayman Island

The net profit of shipping companies registered in Cyprus, Bahamas, Panama and Cayman Island and dividends paid by these companies are treated without income tax. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

Other foreign Group companies

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in other countries where the Group companies have been registered (i.e., current income tax).

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

#### 5.20. Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and options to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the financial year.

The fair value of interest rate derivative contracts is determined using the generally accepted mathematical valuation methods.

For the purpose of hedge accounting, hedges are classified:

- fair value hedges;
- cash flow hedges; and
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they are actually highly effective throughout the financial reporting periods for which they were designated.

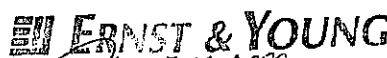
#### Cash flow hedges

The effective portion of gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statements.

#### 5.21. Investments into subsidiaries and associates in the non-consolidated main financial statements of the Parent

Investments in subsidiaries and associates are measured at cost in the non-consolidated financial statements of the Parent.

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Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or changes in circumstances indicate that the carrying value may exceed the recoverable amount of the investment. If such indications exist, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount (higher of the two: fair value less costs to sell and its value in use). Impairment loss is recognised in the income statement as financial cost for the period.

Dividends paid by the subsidiaries and associates are recognised, at the moment when the Group's right to receive the dividends is established, as financial income, excluding the part of the dividends disbursed from the free equity accumulated prior to the acquisition of the investment by the Group. That proportion of the dividends is recorded as a decrease in the carrying value of the investment.

## Note 6 BUSINESS COMBINATION

In April 2006 AS Tallink Grupp purchased 100% of voting shares of AS HTG Invest from Transiidikeskuse AS. The purchase price was 17,500,000 EEK (1,118,000 EUR). AS HTG Invest is a stevedoring company operating in Port of Tallinn. The fair values of the identifiable assets and liabilities of AS HTG Invest acquired are as follows:

	In thousand EEK Carrying value	In thousand EEK Recognised on acquisition	In thousand EUR Carrying value	In thousand EUR Recognised on acquisition
Cash and bank accounts	7,419	7,419	474	474
Receivables and prepayments	3,329	3,329	213	213
Inventories	218	218	14	14
Property, plant & equipment	1,094	4,065	70	260
Other intangible assets	0	7,338	0	469
<b>Total assets</b>	<b>12,060</b>	<b>22,369</b>	<b>771</b>	<b>1,430</b>
Short term liabilities	4,869	4,869	312	312
<b>Total liabilities</b>	<b>4,869</b>	<b>4,869</b>	<b>312</b>	<b>312</b>
<b>Fair value of net assets</b>	<b>7,191</b>	<b>17,500</b>	<b>459</b>	<b>1,118</b>
<b>Purchase price</b>		<b>17,500</b>	<b>0</b>	<b>1,118</b>

### Cash outflow on acquisition:

	In thousand EEK	In thousand EUR
Net cash acquired with the subsidiary	7,419	474
Cash paid	-17,500	-1,118
<b>Net cash outflow</b>	<b>-10,081</b>	<b>-644</b>

Assets and liabilities of AS HTG Invest as of 31 August 2006 and its income and expenses for the period of April 2006 to August 2006 do not influence the financial position of the Group at the reporting date and results of the Group for the reporting period significantly.

On 30 June 2006, AS Tallink Scandinavian (a subsidiary of the Group) purchased 100% of voting shares of Silja Oy Ab from Silja Holdings Ltd, an unlisted company specialising in the cargo and passenger transportation. Silja Holdings Ltd is owned by Sea Containers Ltd. The purchase price was 1,592,088,000 EEK (101,753,000 EUR). The

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share purchase agreement for Silja Oy Ab shares was signed on June 11, 2006 and the acquisition was closed on July 19, 2006 after Silja became shareholder of Tallink. Financially the Silja's business came over to the Group and is consolidated from July 01, 2006. The purchase price allocation is based on the data of June 30, 2006. The fair values of the identifiable assets and liabilities of Silja Oy Ab as at the date of acquisition were as follows:

	In thousand EEK Carrying value	In thousand EEK Recognised on acquisition	In thousand EUR Carrying value	In thousand EUR Recognised on acquisition
Cash and bank accounts	303,435	303,435	19,393	19,393
Receivables and prepayments	616,803	616,803	39,421	39,421
Inventories	105,615	105,615	6,750	6,750
Non-current financial assets	64,683	64,683	4,134	4,134
Property, plant & equipment	6,783,005	7,344,828	433,513	469,420
Trade mark of Silja	0	912,009	0	58,288
Other intangible assets	166,010	166,010	10,610	10,610
<b>Total assets</b>	<b>8,039,551</b>	<b>9,513,383</b>	<b>513,821</b>	<b>608,016</b>
Short term liabilities	2,152,691	2,152,691	137,582	137,582
Long term liabilities	5,058,108	5,058,108	323,272	323,272
<b>Total liabilities</b>	<b>7,210,799</b>	<b>7,210,799</b>	<b>460,854</b>	<b>460,854</b>
<b>Fair value of net assets</b>	<b>828,752</b>	<b>2,302,584</b>	<b>52,967</b>	<b>147,162</b>
<b>Purchase price</b>		<b>1,592,088</b>		<b>101,753</b>
<b>Negative goodwill</b>		<b>-710,496</b>		<b>-45,409</b>

1,241,401,000 EEK (79,340,000 EUR) was paid in cash and AS Tallink Grupp issued 5,000,000 ordinary shares with a fair value of 54.76 EEK (3.5 EUR) each, being published closing price on the Tallinn Stock Exchange at 30 June 2006. The final purchase price adjustments, which need to be agreed between the seller of Silja shares and the Group according to the Share Purchase Agreement, are still to be finalised. The parties are currently in disagreement on some closing balances as of transaction completion date. The Management believes that resolving of the disagreement may lead to the decrease in the purchase price. Therefore the purchase price allocation is provisional.

## Cost:

	In thousand EEK	In thousand EUR
Shares issued, at fair value	273,816	17,500
Cash paid	1,241,401	79,340
Costs associated with the acquisition	76,871	4,913
<b>Total</b>	<b>1,592,088</b>	<b>101,753</b>

## Cash outflow on acquisition:

	In thousand EEK	In thousand EUR
Net cash acquired with the subsidiary	303 435	19,393
Cash paid	1,241,401	79,340
Transaction costs*	-21 464	-1,372
<b>Net cash outflow</b>	<b>-959,430</b>	<b>-61,319</b>

\* as of 31 August 2006, the transaction costs of 55,407,000 EEK (3,541,000 EUR) was not paid.

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**Note 7 SEGMENT INFORMATION**

The Group's operating businesses are organised and managed separately according to the nature of the different markets. The Group operates (1) with six ships between Estonia-Finland, (2) with four ships between Estonia-Sweden, (3) with one ship between Latvia-Sweden, (4) with three ships between Germany-Finland, (5) with six ships between Finland-Sweden, (6) with one ship leased out from the Group and (7) with one hotel and one shop in Estonia, which represent different business segments.

The Group's market share on Estonia-Finland route is about 44% passenger transportation and about 51% cargo transportation, Tallinn-Stockholm route is about 100% passenger transportation and about 100% cargo transportation, Paldiski-Kapellskär route is about 100% passenger transportation and about 65% cargo transportation. The market share

on Riga-Stockholm route is about 100% both passenger and cargo transportation, estimated market share on Finland-Germany route is about 80% passenger transportation and about 30% cargo transportation. The estimated passenger transportation market share on Helsinki-Stockholm and on Turku-Stockholm/Kapellskär is about 56% and about 34% cargo transportation.

In the opinion of the Group's management the prices used in inter-segment transactions do not significantly differ from the prices used in transactions with external customers.

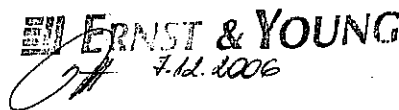
The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 August 2006 and 2005.

## Geographical segments - assets' location

for the year ended 31 August and as of 31 August, respectively  
in thousands of EEK

2006	Estonia-		Latvia-		Germany-		Finland-		Estonia mainland business	Others	Elimination of inter-segment sales	Total
	Finland route	Sweden routes	Sweden route	Finland route	Finland route	Sweden route	Sweden route	Sweden route				
Revenue												
Sales to external customers	2,656,856	1,370,932	137,854	598,886	1,324,219	183,985	58,179	0	6,330,911			
Inter-segment sales	0	38,866	0	0	0	60,319	0	-99,185	(			
	<u>2,656,856</u>	<u>1,409,798</u>	<u>137,854</u>	<u>598,886</u>	<u>1,324,219</u>	<u>244,304</u>	<u>58,179</u>	<u>-99,185</u>	<u>6,330,911</u>			
Result												
Segment result	582,112	163,353	-32,646	156,944	441,028	53,924	12,736	0	1,377,451			
Unallocated expenses									-330,921			
Negative goodwill									710,491			
Net financial items									-271,711			
Profit before income tax									<u>1,485,304</u>			
Income tax									-31			
Net profit									<u>1,485,271</u>			
Assets and liabilities												
Segment assets	4,041,046	4,812,159	348,827	5,185,296	9,243,149	41,848	271,321	-4,521	23,939,121			
Unallocated assets									<u>1,992,437</u>			
									<u>25,931,561</u>			
Segment liabilities	404,187	146,963	24,805	7,064	1,073,575	31,455	63	-4,521	1,683,591			
Unallocated liabilities									<u>15,172,691</u>			
									<u>16,856,284</u>			

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<b>Other segment information</b>									
<b>Capital expenditures:</b>									
- segment's property, plant and equipment ("PP&E")	2,390,305	9,914	2,464	4,855,110	6,259	6,481	17,488	0	7,288,021
- unallocated PP&E									521,921
- segment's intangible assets ("IA")	207	0	0	0	14,443	124	0	0	14,771
Depreciation	137,577	103,772	11,479	56,268	54,875	3,117	26,461	0	393,541
Unallocated depreciation									8,261
Amortization	1,275	66	0	0	15,881	630	0	0	17,851

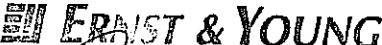
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2005	Estonia- Finland route	Estonia- Sweden routes	Estonia mainland business	Others	Elimination of inter- segment sales	Total
<b>Revenue</b>						
Sales to external customers	2,442,325	1,391,979	87,808	140,849		4,062,961
Inter-segment sales	0	21,905	59,206	0	-81,111	0
	<b>2,442,325</b>	<b>1,413,884</b>	<b>147,014</b>	<b>140,849</b>	<b>-81,111</b>	<b>4,062,961</b>
<b>Result</b>						
Segment result	371,780	327,386	50,401	-2,315	0	747,252
Unallocated expenses						-118,478
Net financial items						-158,706
Share of profit of associates						3,643
<b>Profit before income tax</b>						<b>473,711</b>
Income tax						-356
<b>Net profit</b>						<b>473,171</b>
<b>Assets and liabilities</b>						
Segment assets	3,047,100	2,982,700	17,662	281,129	-4,129	6,324,462
Unallocated assets						602,709
						<b>6,927,171</b>
Segment liabilities	224,475	139,491	15,440	4,827	-4,129	380,104
Unallocated liabilities						3,891,245
						<b>4,271,349</b>
<b>Other segment information</b>						
<b>Capital expenditures:</b>						
- segment's property, plant and equipment ("PP&E")	69,802	14,246	1,708	1,259	0	87,015
- unallocated PP&E						270,254
- segment's intangible assets ("IA")	1,076	0	0	0	0	1,076
Depreciation	131,777	106,473	1,935	24,197	0	264,382
Unallocated depreciation						6,130
Amortization	1,015	351	0	0	0	1,366

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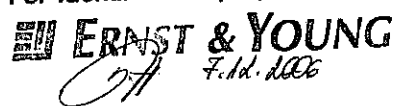
in thousands of EUR

2006	Estonia- Finland routes		Estonia- Sweden route		Latvia- Sweden route		Germany- Finland route		Finland- Sweden route		Estonia mainland business		Elimination of inter- segment sales		Total
<b>Revenue</b>															
Sales to external customers	169,804		87,619		8,810		38,276		84,633		11,759		0		404,619
Inter-segment sales	0		2,484		0		0		0		3,855		-6,339		0
	<b>169,804</b>		<b>90,103</b>		<b>8,810</b>		<b>38,276</b>		<b>84,633</b>		<b>15,614</b>		<b>-6,339</b>		<b>404,619</b>
<b>Result</b>															
Segment result	37,204		10,440		-2,087		10,031		28,187		3,446		0		88,035
Unallocated expenses															-21,150
Negative goodwill															45,409
Net financial items															-17,366
Profit before income tax															<u>94,928</u>
Income tax															<u>-2</u>
Net profit															<u>94,926</u>
<b>Assets and liabilities</b>															
Segment assets	258,270		307,553		22,294		331,401		590,745		2,675		-289		1,529,989
Unallocated assets															<u>127,340</u>
															<u>1,657,329</u>
Segment liabilities	25,833		9,393		1,585		451		68,614		2,010		-289		107,601
Unallocated liabilities															<u>969,712</u>
															<u>1,077,313</u>

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Other segment information									
Capital expenditures:									
- segment's property, plant and equipment ("PP&E")	152,768	634	157	310,298	400	414	1,118	0	465,789
- unallocated PP&E									33,357
- segment's intangible assets ("IA")	14	0	0	0	923	8	0	0	945
Depreciation	8,793	6,632	734	3,596	3,507	199	1,691	0	25,152
Unallocated depreciation									528
Amortization	82	4	0	0	1,015	40	0	0	1,142

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2005	Estonia- Finland routes	Estonia- Sweden route	Estonia mainland business	Others	Elimination of inter- segment sales	Total
<b>Revenue</b>						
Sales to external customers	156,093	88,964	5,612	9,002		259,671
Inter-segment sales	0	1,400	3,784	0	-5,184	
	<b>156,093</b>	<b>90,364</b>	<b>9,396</b>	<b>9,002</b>	<b>-5,184</b>	<b>259,671</b>
<b>Result</b>						
Segment result	23,761	20,924	3,221	-148	0	47,758
Unallocated expenses						-7,572
Net financial items						-10,143
Share of profit of associates						233
<b>Profit before income tax</b>						<b>30,276</b>
Income tax						-23
Minority interests						-12
<b>Net profit</b>						<b>30,241</b>
<b>Assets and liabilities</b>						
Segment assets	194,745	190,629	1,129	17,967	-263	404,207
Unallocated assets						38,520
						<b>442,727</b>
Segment liabilities	14,346	8,914	987	309	-263	24,293
Unallocated liabilities						248,695
						<b>272,988</b>
<b>Other segment information</b>						
Capital expenditures:						
- segment's property, plant and equipment ("PP&E")	4,461	911	109	80	0	5,561
- unallocated PP&E						17,273
- segment's intangible assets ("IA")	69	0	0	0	0	69
Depreciation	8,422	6,805	124	1,546	0	16,897
Unallocated depreciation						392
Amortization	65	23	0	0	0	88

As of 31 August 2006 unallocated liabilities include the loans received to finance the ships operating between (1) Estonia and Finland in the amount of 2,321,753,000 EEK (148,387,000 EUR), 2005: 1,636,978,000 EEK (104,622,000 EUR), to finance the ships operating between (2) Estonia and Sweden in the amount of 3,154,407,000 EEK (201,603,000 EUR), 2005: 1,677,645,000 EEK (107,221,000 EUR), to

finance the ships operating between (3) Germany and Finland in the amount of 3,658,194,000 EEK (233,801,000 EUR) and to finance the ships operating between (4) Finland and Sweden in the amount of 5,414,709,000 EEK (346,063,000 EUR). Corresponding interest expenses amounted to (1) 43,774,000 EEK (2,798,000 EUR), (2) 116,414,000 EEK (7,440,000 EUR), (3) 70,255,000 EEK (4,490,000



EUR), (4) 30,273,000 EEK (1,935,000 EUR) 2005: (1) 68,714,000 EEK (4,392,000 EUR) and (2) 74,655,000 EEK (4,771,000 EUR).

**Information by operational segments**  
for the year ended 31 August

in thousands of EEK

	2006	2005
Ticket sales	1,803,179	1,018,683
Revenue from packages	157,622	163,175
Sales of cargo transport	1,229,382	721,690
Accommodation sales <sup>1</sup>	95,043	86,876
Restaurant and shops sales on-board and on mainland	2,776,707	1,912,232
Income from leases of vessels	57,316	95,416
Other	211,662	64,889
<b>Total revenue of the Group</b>	<b>6,330,911</b>	<b>4,062,961</b>

in thousands of EUR

	2006	2005
Ticket sales	115,244	65,106
Revenue from packages	10,074	10,429
Sales of cargo transport	78,572	46,125
Accommodation sales <sup>1</sup>	6,074	5,552
Restaurant and shops sales on-board and on mainland	177,464	122,214
Income from leases of vessels	3,663	6,098
Other	13,528	4,147
<b>Total revenue of the Group</b>	<b>404,619</b>	<b>259,671</b>

<sup>1</sup> includes also accommodation in the hotel operated by the Group, but which is a part of package sold together with ship tickets. The accommodations in hotels operated by third parties, which is a part of package sales have been presented in the row of "revenue from packages".

Most of the Group's assets (incl. property, plant and equipment) are related to sea transportation. As it's not practicable to divide the assets related to the sea transportation by the different operational segments of sea transportation, then the information about assets and purchases of property, plant and equipment by operational segments has not been disclosed in the notes to the financial statements.

**Note 8 OPERATING EXPENSES AND FINANCIAL ITEMS**

for the year ended 31 August

Cost of sales	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
Cost of goods	-1,160,791	-878,311	-74,188	-56,135	
Port charges	-766,645	-530,175	-48,998	-33,884	
Bunker cost	-848,032	-401,593	-54,199	-25,666	
Staff costs	-679,125	-413,369	-43,404	-26,419	
Depreciation and amortization	-389,941	-260,281	-24,922	-16,635	16, 17
Spare parts and maintenance expenses	-168,284	-146,618	-10,755	-9,371	
Cost of package sales, except ship tickets	-120,961	-134,862	-7,731	-8,619	
Other costs	-365,161	-214,297	-23,338	-13,696	
<b>Total cost of sales</b>	<b>-4,489,940</b>	<b>-2,979,506</b>	<b>-287,535</b>	<b>-190,425</b>	

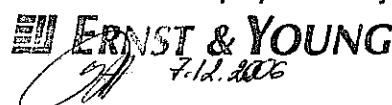
Marketing expenses	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
Advertising expenses	-154,491	-97,104	-9,874	-6,206	
Staff costs	-214,202	-152,469	-13,690	-9,744	
Depreciation and amortization	-4,849	-5,267	-310	-337	16, 17
Other costs	-80,978	-81,363	-5,175	-5,200	
<b>Total marketing expenses</b>	<b>-454,520</b>	<b>-336,203</b>	<b>-29,049</b>	<b>-21,487</b>	

Administrative expenses	in thousands of EEK		in thousands of EUR		Notes
	2006	2005	2006	2005	
Staff costs	-66,457	-44,029	-4,247	-2,814	
Depreciation and amortization	-24,874	-6,330	-1,590	-405	16, 17
Office lease	-44,514	-8,179	-2,845	-523	
Office equipment & supplies	-22,264	-2,227	-1,423	-142	
IT	-22,159	-1,423	-1,416	-91	
Other costs	-149,530	-57,756	-9,557	-3,691	
<b>Total administrative expenses</b>	<b>-329,798</b>	<b>-119,944</b>	<b>-21,078</b>	<b>-7,666</b>	

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

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Wages and salaries	-700,923	-447,845	-44,797	-28,622
Social security costs	-239,021	-147,521	-15,276	-9,428
Cost of training of staff	-5,604	-4,969	-358	-318
Other staff costs	-14,236	-9,532	-910	-609
<b>Total staff costs</b>	<b>-959,784</b>	<b>-609,867</b>	<b>-61,341</b>	<b>-38,977</b>

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## Finance income and finance expenses

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
<b>Financial income</b>				
Net foreign exchange gains	0	454	0	29
Income from interest rate swap	12,993	0	830	0
Other interest income	23,208	2,963	1,483	189
Other financial income	8,653	0	554	0
	<b>44,854</b>	<b>3,417</b>	<b>2,867</b>	<b>218</b>
<b>Financial expenses</b>				
Net foreign exchange losses	-1,080	0	-69	0
Interest expenses	-298,028	-160,781	-19,048	-10,276
Expenses from interest rate swap	-17,463	-1,342	-1,116	-85
	<b>-316,571</b>	<b>-162,123</b>	<b>-20,233</b>	<b>-10,361</b>

## Note 9 TAXES

Income tax contains current income tax and deferred income tax.

Swedish, Finnish and Russian subsidiaries:

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject

to income tax in Finland, Sweden and Russia (in Finland tax rate is 26%, in Sweden - 28%, in Latvija 15% and in Russia - 22%).

Income tax

Major components of the Group's income tax expense for the years ended 31 August are:

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Income tax from profit of Swedish subsidiaries	191	-365	12	-23
Income tax from profit of Finnish subsidiaries	-219	0	-14	0
Income tax from profit of Russian subsidiary	-5	9	0	0
<b>Total income tax expense</b>	<b>-33</b>	<b>-356</b>	<b>-2</b>	<b>-23</b>

According to Russian, Latvian, Finnish and Swedish legislation it is permissible for accounting and taxation purposes to charge the profit and loss account with accelerated depreciation and thereby accomplish a postponement of tax payments. These postponements are shown as deferred tax liability. The Finnish subsidiary Silja Oy Ab has also carry-

forwards of tax losses, which are considered in calculation of the deferred tax asset.

As of 31 August 2006 and 2005 the Swedish subsidiary - Tallink Sverige AB - has a deferred tax liability, the Finnish subsidiaries - Tallink Finland OY and Silja Oy Ab - have an unrecorded deferred tax asset (it is probable that future taxable profit will be available against which the unused tax

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losses can be utilised) and the Russian subsidiary – Tallink-Ru OOO - has no significant deferred tax

liability or asset:

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Deferred tax liability (non-current liability)	69	329	4	21
Unrecorded deferred tax asset of Silja Oy Ab*	115,018		7,351	
Unrecorded deferred tax asset of Tallink Finland Oy	2,222	2,430	142	155

\*For more information see also Note 6 Business Combination

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Deferred tax liability				
Fair value adjustments on acquisition - PPA	- 146,077	0	-9,336	0
Fair value adjustments on acquisition - intangible assets	-237,124	0	-15,155	0
<b>Total</b>	<b>- 383,201</b>	<b>0</b>	<b>-24,491</b>	<b>0</b>

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Deferred income tax assets				
Losses available for offset against future taxable income	383,201	0	24,491	0
<b>Total</b>	<b>383,201</b>	<b>0</b>	<b>24,491</b>	<b>0</b>

	2006	2005	2006	2005
Deferred tax liabilities net	0	0	0	0

#### Tax balances

As of 31 August tax assets and liabilities recorded as current assets and liabilities are divided as follows:

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
<b>Tax assets</b>				
VAT	13,109	4,360	838	279
Other taxes	4,535	152	290	10
	<b>17,644</b>	<b>4,512</b>	<b>1,128</b>	<b>289</b>
<b>Tax liabilities</b>				
Salary related taxes	54,427	37,244	3,479	2,380
Excise duties	6,563	5,724	419	366
VAT	50,898	27,828	3,253	1,778
Other taxes	173	9	11	1
	<b>112,061</b>	<b>70,805</b>	<b>7,162</b>	<b>4,525</b>

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**Note 10 EARNINGS PER SHARE**

for the year ended 31 August

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. As the

Group does not have any potential ordinary shares, then the diluted earnings per share are equal to basic earnings per share.

Weighted average number of ordinary shares (in thousands)  
Net profit attributable to equity holders of the Parent  
Earnings per share (in EEK/EUR per share)

in thousands of EEK		in thousands of EUR	
2006	2005	2006	2005
130,382	110,000	130,382	110,000
1,484,206	473,171	94,858	30,241
11.38	4.30	0.73	0.27

The calculation of weighted average number of ordinary shares for the year ended 31 August 2006 was following:

- period from 01 September to 07 December 2005 (98 days) 110,000,000 shares;
- period from 08 December 2005 to 30 June 2006 (205 days) 136,500,000 shares;

- period from 01 July to 29 August 2006 (60 days) 141,500,000 shares;
- period 30 August to 31 August 2006 (2 days) 168,454,260 shares.

For additional information on issues of shares see also Note 20.

**Note 11 CASH AND CASH EQUIVALENTS**

as of 31 August

Cash at bank and in hand  
Short-term deposits  
Total cash and cash equivalents

in thousands of EEK		in thousands of EUR	
2006	2005	2006	2005
401,733	82,048	25,676	5,244
1,005,875	244,738	64,287	15,641
1,407,608	326,786	89,963	20,885

Cash at bank earns interest at floating rates based on daily bank deposit rates (rates in 2005/2006 were in the range of 0.25-3.30% and in 2004/2005 in the range of 0.25-2.37%).

August 2006 and 2005 the short-term deposits in the total amount of 152,236,000 EEK (9,729,654 EUR) and 128,301,000 EEK (8,199,928 EUR) can be used only for bank loan repayments.

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the Balance Sheet as of 31 August 2006 are in the range of 1 September 2006 (overnight deposits) and 15 November 2006. As of 31

For the purpose of the Cash Flow Statement, the amount of cash and cash equivalents is equal to the amount of cash and cash equivalents recorded in the Balance Sheet.

**Note 12 RECEIVABLES AND PREPAYMENTS**

as of 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Trade receivables	468,672	117,510	29,954	7,510
Allowance for trade receivables	-560	-3,337	-36	-213
Receivables from associates	14,911	0	953	0
Other receivables	359,819	34,275	22,996	2,191
Accrued interest income	614	413	39	26
<b>Total receivables and prepayments</b>	<b>843,456</b>	<b>148,861</b>	<b>53,906</b>	<b>9,514</b>
<b>Prepaid expenses</b>	<b>235,890</b>	<b>49,167</b>	<b>15,076</b>	<b>3,142</b>

During the reporting period 1,313,000 EEK (84,000 EUR) was expensed as doubtful and uncollectible trade receivables, 2005: 15,514,000 EEK (992,000 EUR).

As of 31 August 2006 and 2005 the balance of other receivables of the Group includes the sold goods' discounts receivable for last 5 months, 2005: 8 months in the amount of 48,631,000 EEK (3,108,000 EUR) and 18,502,000 EEK (1,182,000 EUR),

respectively. As of 31 August 2006 other receivable includes the state subsidy 140,866,000 EEK (9,003,000 EUR) and receivable from Sea Containers Ltd in the amount of 103,565,000 EEK (6,619,000 EUR).

The balance of prepaid expenses of the Group mostly includes prepayments for insurance and fairway dues.

**Note 13 INVENTORIES**

as of 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Raw materials (mostly fuel)	39,553	14,135	2,528	903
Goods for sale	197,564	70,575	12,627	4,511
Prepayments for inventories	111	190	7	12
<b>Total inventories</b>	<b>237,228</b>	<b>84,900</b>	<b>15,162</b>	<b>5,426</b>

All inventories are accounted at the cost of purchase.

**Note 14 INVESTMENTS IN ASSOCIATES**

In the previous financial year the Group had one associate - AS HT Valuuta - with 25% of ownership and 100,000 EEK of acquisition cost during 2004/2005. The associate has been registered in Estonia. On 30 August 2005 the associate was sold to AS Infortar. The receivable from the sale of shares of AS HT Valuuta was settled in September 2005. In July 2006 the Group acquired four associates - Reisevarehuset AS, Baltic Tours AS, Suomen Jakelutiet OY, Searail EEIG - through the business combination. See also Note 6. The Group has investments in the following associates:

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In thousands Name of associate	Countries of incorporation	Interest	Acquisition cost		Equity	
			EEK	EUR	EEK	EUR
Reisevarehuset AS	Norway	50%	1,252	80	1,252	80
Baltic Tours AS	Estonia	50%	5,601	358	5,601	358
Suomen Jakelutiet OY	Finland	50%	2,191	140	2,191	140
Searail EEIG	Finland	33%	0	0	0	0
<b>Total</b>			<b>9,044</b>	<b>578</b>	<b>9,044</b>	<b>578</b>

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Investments at the beginning of financial year	0	2,557		163
Dividends received		-1,200		-77
Acquisition price of shares	9,044		578	
Share of profit of associates accounted for under equity method		645		41
Sales price of shares		-5,000		-319
Gain from sale of shares		2,998		192
<b>Investments at the end of year</b>	<b>9,044</b>	<b>0</b>	<b>578</b>	<b>0</b>

**Note 15 OTHER FINANCIAL ASSETS AND PENSION ASSETS**

as of 31 August

**Other financial assets**

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Other shares	6,275	0	401	0
Other receivables	1,965	72	126	5
<b>Total other financial assets</b>	<b>8,240</b>	<b>72</b>	<b>527</b>	<b>5</b>

**Pension assets**

The following tables illustrate the components of net benefit expense recognised in the consolidated income statement and the funded status recognised in the consolidated balance sheet.

the principal actuarial assumptions used as at August 31 2006:

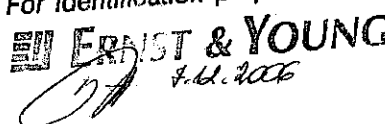
the discount rates	4.75%
the expected rates of return on any plan assets for the periods presented in the financial statements	4.75%
the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases)	3.50%
any other material actuarial assumptions used: inflation	2.00%

In thousands of EEK

**Reconciliation of assets (liabilities) recognised in balance sheet:**

	Aug-31-2006	June-30-2006
Present value of defined benefit obligation that are wholly unfunded (-)	-204,079	-201,732
Present value of defined benefit obligation that are wholly or partly funded (-)	0	0
Fair value of any plan assets (+)	249,313	249,219
<b>Benefit assets / (liabilities)</b>	<b>45,234</b>	<b>47,487</b>

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In thousands of EEK

Movements in recorded pension plan assets (or liabilities):

	Assets (+)	Liabilities (-)	Total
Balance as of June 30, 2006	258,044	-201,732	56,312
Interest cost from liabilities (-)		-1,705	-1,705
Current service cost (-)		-1,768	-1,768
Benefits paid (+)		923	923
Actuarial gain (+) / loss (-) on obligation		203	203
Exchange differences on foreign plans (+/-)		0	0
Expected returns of pension plan assets (+)	2,065		2,065
Contributions by employer (+)	-845		-845
Benefits paid (-)	-923		-923
Actuarial gains (+) / losses (-)	9,748		9,748
Exchange differences on foreign plans (+/-)	0		0
Balance as of August 31, 2006	268,089	-204,079	64,010

In thousands of EUR

Reconciliation of assets (liabilities) recognised in balance sheet:


	Aug-31-2006	June-30-2006
Present value of defined benefit obligation that are wholly unfunded (-)	-13,043	-12,893
Present value of defined benefit obligation that are wholly or partly funded (-)	0	0
Fair value of any plan assets (+)	15,934	15,928
Benefit assets / (liabilities)	2,891	3,035


In thousands of EUR

Movements in recorded pension plan assets (or liabilities):

	Assets (+)	Liabilities (-)	Total
Balance as of June 30, 2006	16,492	-12,893	3,599
Interest cost from liabilities (-)		-109	-109
Current service cost (-)		-113	-113
Benefits paid (+)		59	59
Actuarial gain (+) / loss (-) on obligation		13	13
Exchange differences on foreign plans (+/-)		0	0
Expected returns of pension plan assets (+)	132		132
Contributions by employer (+)	-54		-54
Benefits paid (-)	-59		-59
Actuarial gains (+) / losses (-)	623		623
Exchange differences on foreign plans (+/-)	0		0
Balance as of August 31, 2006	17,134	-13,043	4,091

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**Note 16 PROPERTY, PLANT AND EQUIPMENT**

for the year ended 31 August

in thousands of EEK

	Land and buildings	Ships	Plant and equipment	Construction in progress & Prepayments <sup>1</sup>	Total
Book value as of 31 August 2004	11,378	5,920,022	37,190	82,348	6,050,938
Additions	1,667	149,244	12,954	193,404	357,269
Disposals	0	0	-975	0	-975
Depreciation for the year	-1,458	-251,184	-17,870	0	-270,512
Book value as of 31 August 2005	11,587	5,818,082	31,299	275,752	6,136,720
Additions	5,923	7,513,559	24,609	265,850	7,809,941
Acquisition of subsidiaries (Note 6)	134,348	7,127,027	87,518	0	7,348,893
Revaluation	0	1,138,827	0	0	1,138,827
Exchange rate differences	0	0	23	0	23
Disposals	-673	-164,391	-10,375	0	-175,439
Depreciation for the year	-5,196	-379,506	-17,110	0	-401,812
Book value as of 31 August 2006	145,989	21,053,598	115,964	541,602	21,857,153

As of 31 August 2005

- cost	19,183	6,933,884	95,764	275,752	7,324,583
- accumulated depreciation	-7,596	-1,115,802	-64,465	0	-1,187,863

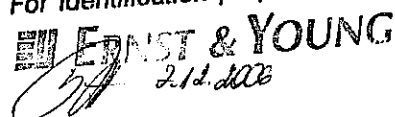
As of 31 August 2006

- cost	158,781	21,053,598	186,355	541,602	21,940,336
- accumulated depreciation	-12,792	0	-70,391	0	-83,183

in thousands of EUR

	Land and buildings	Ships	Plant and equipment	Construction in progress & Prepayments <sup>1</sup>	Total
Book value as of 31 August 2004	727	378,358	2,377	5,263	386,725
Additions	107	9,538	828	12,361	22,834
Disposals	0	0	-62	0	-62
Depreciation for the year	-93	-16,053	-1,143	0	-17,289
Book value as of 31 August 2005	741	371,843	2,000	17,624	392,208
Additions	378	480,204	1,573	16,991	499,146
Acquisition of subsidiaries	8,586	455,500	5,594	0	469,680
Revaluation	0	72,784	0	0	72,784
Exchange rate differences	0	0	1	0	1
Disposals	-43	-10,506	-663	0	-11,212
Depreciation for the year	-332	-24,255	-1,093	0	-25,680
Book value as of 31 August 2006	9,330	1,345,570	7,412	34,615	1,396,927

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**As of 31 August 2005**

- cost	1,226	443,156	6,120	17,624	468,126
- accumulated depreciation	-485	-71,313	-4,120	0	-75,918

**As of 31 August 2006**

- cost	10,148	1,345,570	11,910	34,615	1,402,243
- accumulated depreciation	-818	0	-4,498	0	-5,316

<sup>1</sup> The amount of construction in progress and prepayments includes mostly prepayments for ships in the total amount of 538,918,000 EEK (34,443,000 EUR) and 345,745,000 EEK (22,097,000 EUR) in the financial year ended 31 August 2006 and 2005, respectively.

**Depreciation**

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

- buildings 5 to 50 years;
- plant and equipment 3 to 10 years;
- ships 5 to 55 years;
- other equipment 2 to 5 years.

Land is not depreciated.

Depreciation charge is calculated separately for each significant part of ships on a straight-line basis over estimated useful life of each part as follows:

- hull 11 to 55 years;
- machinery 11 to 43 years;
- on-board equipment (short-term usage) 5 to 10 years;
- on-board equipment (long-term usage) 10 to 25 years;
- capitalised dry-dock expenses 2 to 5 years.


**Revaluation of the ships**

As of 31 August 2006, the Group carried out the revaluation of its ships for the first time (see also Note 3). The Group used the valuations of two independent appraisers to determine the fair value of ships. The fair value was determined by reference to market-based evidence.

As a result of the revaluations, the carrying amount of the Group's ships increased by the 1,138,827,000 EEK (72,784,000 EUR), which was taken directly to the equity of the Group. There were no ships, where the initial carrying amount was higher than its fair value.

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

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2006	In thousands of EEK	In thousands of EUR
Cost	21,266,498	1,359,177
Accumulated depreciation	-1,351,727	-86,391
Net carrying amount	19,914,771	1,272,786

For more information about the leased assets see also Note 18.


As of 31 August 2006 the Group's ships with book value of 21,053,598,000 EEK (1,345,570,000 EUR), 2005: 5,808,722,000 EEK (371,245,000 EUR) are

subject to a first or second mortgage to secure the Group's bank loans (see also Note 18).

### Note 17 INTANGIBLE ASSETS for the year ended 31 August

in thousands of EEK	Goodwill <sup>1</sup>	Trademark <sup>2</sup>	Others <sup>3</sup>	Total	Notes
Book value as of 31 August 2004	173,148	0	3,295	176,443	
Additions	0	0	1,076	1,076	
Amortization for the year	0	0	-1,366	-1,366	
Book value as of 31 August 2005	173,148	0	3,005	176,153	
Additions	0	0	14,774	14,774	
Acquisition of subsidiaries	0	912,009	173,348	1,085,357	6
Amortization for the year	0	-7,604	-10,248	-17,852	
Book value as of 31 August 2006	173,148	904,405	180,879	1,258,432	
As of 31 August 2005					
- cost	173,148	0	6,390	179,538	
- accumulated amortization	0	0	-3,385	-3,385	
As of 31 August 2006					
- cost	173,148	912,009	194,512	1,279,669	
- accumulated amortization	0	-7,604	-13,633	-21,237	
in thousands of EUR					
	Goodwill <sup>1</sup>	Trademark <sup>2</sup>	Others	Total	Notes
Book value as of 31 August 2004	11,066	0	211	11,277	
Additions	0	0	69	69	
Amortization for the year	0	0	-88	-88	
Book value as of 31 August 2005	11,066	0	192	11,258	
Additions	0	0	945	945	
Acquisition of subsidiaries	0	58,288	11,079	69,367	6
Amortization for the year	0	-486	-656	-1,142	
Book value as of 31 August 2006	11,066	57,802	11,560	80,428	

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## As of 31 August 2005

- cost	11,066	0	408	11,474
- accumulated amortization	0	0	-216	-216

## As of 31 August 2006

- cost	11,066	58,288	12,432	81,786
- accumulated amortization	0	-486	-872	-1,358

<sup>1</sup> Goodwill is fully related to the segment of Estonia-Finland routes. In the impairment test, the value in use is used for determining the recoverable amount. The management calculated the value in use based on the discounted 1-year approved budget and 4-years cash flow projections using the average gross margins achieved in the current year, the growth rate in revenue of 1-2% p.a. (growth rate reflects the minimum expected inflation rate in region countries) and the discount rate of 12% (2005: 1-2% and 12%, respectively).

<sup>2</sup> Trade mark in the amount of 912,009,000 EEK (58,288,000 EUR) was recognised in connection with the acquisition of Silja Oy Ab. The fair value of trade mark at the acquisition date was determined using the relief from royalty method and it's considered to be the cost of the trade mark. The trade mark is amortised over 20 years on straight-line basis. For more information see also Note 6.

<sup>3</sup> Other intangible assets include the licences and development costs for IT programs at the cost of 187,174,000 EEK (11,963,000 EUR). Licenses are with finite lives, which are amortised over 10 years. Other intangible assets include also customers' contracts at the cost of 7,338,000 EEK (469,000 EUR) recognised in connection with the acquisition of AS HTG Invest. The customers' contracts are amortised over 5 year on straight-line basis (see also Note 6).

## Note 18 INTEREST BEARING LOANS AND BORROWINGS

as of 31 August

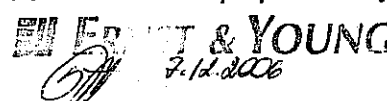
in thousands of EEK

2006	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2007	40,607	9,951	50,558
Long-term bank loans	2006-2016	1,048,215	13,717,546	14,765,761
Bonds	2006	139,276	0	139,276
<b>Total borrowings</b>		<b>1,228,098</b>	<b>13,727,497</b>	<b>14,955,595</b>

2005	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2008	981	935	1,916
Bank overdraft	2007	18,249	0	18,249
Long-term bank loans	2005-2014	538,848	2,985,488	3,524,336
Other long-term loans	2007	73,648	24,882	98,530
Bonds	2006	58,747	134,559	193,306
<b>Total borrowings</b>		<b>690,473</b>	<b>3,145,864</b>	<b>3,836,337</b>

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in thousands of EUR

2006	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2007	2,596	636	3,232
Long-term bank loans	2006-2016	66,993	876,711	943,704
Bonds	2006	8,901	0	8,901
<b>Total borrowings</b>		<b>78,490</b>	<b>877,347</b>	<b>955,837</b>

2005	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2008	62	60	122
Bank overdraft	2007	1,166	0	1,166
Long-term bank loans	2005-2014	34,439	190,807	225,246
Other long-term loans	2007	4,707	1,590	6,297
Bonds	2006	3,755	8,600	12,355
<b>Total borrowings</b>		<b>44,129</b>	<b>201,057</b>	<b>245,186</b>

As of 31 August 2006 the Group is allowed to use bank overdraft up to of 370,000,000 EEK and 7,000,000 EUR (2005: 200,000,000 EEK and 7,000,000 EUR). Bank overdrafts are secured with commercial pledge in the total amount of 266,120,000 EEK (17,008,000 EUR), 2005: 183,250,000 EEK (11,712,000 EUR) and ship mortgages (see Note 16). In the year ended 31 August 2006 the average effective interest rate of bank overdrafts was EURIBOR+1.6% (2005: +1.85%) for overdrafts from Estonian commercial banks and EURIBOR+1.25% (2005: +1.25%) from Finnish commercial bank. As of 31 August 2006 there were no outstanding overdraft balances. As of 31 August 2005 the balance of overdraft in use amounted to 18,249,000 EEK (1,166,000 EUR).

In the year ended 31 August 2006 the weighted average interest rate of bank loans of the Group was EURIBOR+1.33% (2005: +1.38%).

The long-term bank loans include the bank loan of Silja Oy Ab in the total amount of 5,476,310,000 EEK (350,000,000 EUR) which is divided into two tranches. The loan has an EURIBOR based interest rate and an additional interest margin, which is 1.25% on the larger 4,759,696,000 EEK (304,200,000 EUR) tranche and 2% on the smaller 716,614,000

EEK (45,800,000 EUR) tranche. The annual repayment amounts to 625,864,000 EEK (40,000,000 EUR) and the maturity of the loan is in the end of year 2013. The loan incorporates the guarantees customary for this type of loan, including mortgages of six Silja vessels, the guarantee from AS Tallink Grupp and the pledge on the shares of Silja Oy Ab. Base currency of the loan is euro.

Bonds with the book value of 139,276,000 EEK (8,901,000 EUR) as of 31 August 2006 and 193,306,000 EEK (12,355,000 EUR) as of 31 August 2005 are zero-coupon bonds. The total nominal value of these bonds is 140,000,000 EEK (8,948,000 EUR), 2005: 200,000,000 EEK (12,782,000 EUR). The difference between the nominal value and the received amount is expensed during the loan period - it means that average effective interest rate is approximately 3.5% (2005: 3.4%).

Lease liability of the Group as of 31 August 2006 is related to office equipment in Sweden and Finland. The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments have been presented below.

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For additional information about currency structure of borrowings and interest rate exposure see Note

23.

in thousands of EEK

	31 August 2006		31 August 2005	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	40,607	40,607	1,040	981
After 1 year, but not more than 5 years	9,951	9,951	1,051	935
<b>Total minimum lease payments</b>	<b>50,558</b>		<b>2,091</b>	
Future financial charges	0		-175	
<b>PV of minimum lease payments</b>	<b>50,558</b>	<b>50,558</b>	<b>1,916</b>	<b>1,916</b>

in thousands of EUR

	31 August 2006		31 August 2005	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	2,595	2,595	66	62
After 1 year, but not more than 5 years	636	636	67	60
<b>Total minimum lease payments</b>	<b>3,231</b>		<b>133</b>	
Future financial charges	0		-11	
<b>PV of minimum lease payments</b>	<b>3,231</b>	<b>3,231</b>	<b>122</b>	<b>122</b>

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
<b>Book value at the beginning of the year</b>	<b>1,830</b>	<b>1,678</b>	<b>117</b>	<b>107</b>
Additions	52,526	1,107	3,357	71
Disposals	-79	0	-5	0
Depreciation for the year	-4,947	-955	-316	-61
<b>Book value at the end of the year, incl.</b>	<b>49,330</b>	<b>1,830</b>	<b>-3,153</b>	<b>117</b>
- cost	56,640	4,078	3,620	261
- accumulated depreciation	-7,310	-2,248	-467	-144

**Note 19 PAYABLES AND DEFERRED INCOME**

as of 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Trade payables	704,952	229,729	45,054	14,683
Other payables	207,701	2,042	13,275	131
Payables to employees	357,807	54,857	22,868	3,506
Interests payable	111,261	41,542	7,111	2,655
Other accruals	211,305	2,978	13,505	190
<b>Total current payables and deferred income</b>	<b>1,593,026</b>	<b>331,148</b>	<b>101,813</b>	<b>21,165</b>

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As of 31 August 2006 other payables includes Payables to Sea Containers Ltd. in the amount of 176,900,000 EEK (11,306,000 EUR).

Deferred income 146,042 31,817 9,334 2,033

As of 31 August 2006 deferred income includes the prepaid ticket income in the amount of 71,098,000 EEK (4,544,000 EUR) and prepaid advertisement income in the amount of 31,512,000 EEK (2,014,000 EUR).

## Note 20 SHARE CAPITAL

As of 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005	2006	2005
Ordinary shares of 10 EEK each (in thousand )	168,454	110,000	168,454	110,000
Included the number of shares issued and fully paid (in thousand )	168,454	110,000	168,454	110,000
Included the number of shares issued but not registered (in thousand )	26,954		26,954	
Share capital	1,684,543	1,100,000	107,662	70,303
Share premium per share in EEK/EUR	19.11	0	1.22	0
Total share premium	3,218,578	0	205,704	0
Included share premium not registered	1,206,184	0	77,089	0

According to the Articles of Association of the Parent effective as of 31 August 2006 the maximum number of authorised common shares is 546,000,000 EEK (34,896,000 EUR), 2005: 160,000,000 EEK (10,226,000 EUR).

According to AS Tallink Grupp Shareholders' General Meeting on 05 February 2005 AS Tallink Grupp increased the share capital from 275,000,000 EEK (17,576,000 EUR) to 1,100,000,000 EEK (70,303,000 EUR) by issuing 82,500,000 new shares with the par value of 10 EEK (0.64 EUR) each. The previous year increase of share capital was a bonus issue, i.e. new shares were issued on account of share premium in the amount of 414,870,000 EEK (26,515,000 EUR) and retained earnings in the amount of 410,130,000 EEK (26,212,000 EUR) in the way that the Parent's shareholders received three new shares for each share owned before issue.

According to AS Tallink Grupp Shareholders' General Meeting on 30 November 2005, the Parent decided to increase the share capital from 1,100,000,000 EEK (70,303,000 EUR) to 1,365,000,000 EEK (87,239,000 EUR) by issuing 26,500,000 new

shares with par value of 10 EEK (0.64 EUR) each. The new shares were issued at a premium of 72.50 EEK (4.63 EUR) per share. These new shares were sold during IPO. The payment for new shares was made on 08 December 2005. The share premium has been reduced by the expenses of 132,457,000 EEK (8,465,000 EUR) related to the issuing of shares.

According to AS Tallink Grupp Shareholders Extraordinary General Meeting on 22 June 2006, The Parent decided to increase the share capital by 50,000,000 EEK (3,196,000 EUR) by issuing 5,000,000 new shares with nominal value of 10 EEK (0.6 EUR). The new shares were issued at a premium of 44.76 EEK (2.86 EUR). These new shares were paid as a non-monetary contribution for the shares of the Silja Oy Ab. The share premium of the last issue has been reduced by the transaction expenses of 199,000 EEK (13,000 EUR)

According to AS Tallink Grupp Shareholders Extraordinary General Meeting on 02 August 2006, the Parent decided to issue new 28,300,000 shares with nominal value of 10 EEK (0.6 EUR). Shareholders were given the right to subscribe for new shares in proportion to the sum of the nominal

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values of the shareholders own shares. During the subscription 95.2 % of the shares were subscribed, not subscribed shares of 1,345,740 was annulled by the Management Board of AS Tallink Grupp. 26,954,260 new shares with nominal value 10 EEK (0.64 EUR) were issued at a premium of 45 EEK (2.88 EUR). The payment for new shares was made

on 30 August 2006. The last increase in share capital was registered after balance sheet date. The share premium of the last issue has been reduced by the transaction expenses. The share premium of the last issue has been reduced by the transaction expenses of 6,758,000 EEK (432,000 EUR).

## Note 21 CONTINGENCIES AND COMMITMENTS

### Legal claim

On 30 June 2005 AS Tallink Grupp submitted an action complaint to the Tallinn Administrative Court against Estonian Maritime Administration and the Ministry of Economic Affairs and Communications for unlawfully levying and receiving payment for icebreaker services and lighthouse dues. A court date has not yet been scheduled.

Cargo claiming 33,500,000 EEK (2,100,000 EUR) for unpaid lighthouse and ice breaking dues from the time period of June 2003 to June 2004 on June 30, 2006. The claim registration number is 2-06-20151. AS Tallink Grupp has responded to the claim being totally unfounded on October 11, 2006 and therefore no provisions have been made. The Harju County Court has not yet announced the time for the litigation.

Estonian Republic filed a law suit against AS Tallink Grupp and its subsidiary AS Hansatee

**Income tax on dividends**  
The Group's retained earnings as of August 31, 2006 were 3,012,254,000 EEK (192,518,000 EUR), 2005: 1,528,048,000 EEK (97,660,000 EUR). The maximum possible income tax liability as of August 31, 2006, which would become payable if retained earnings were fully distributed is 692,818,000 EEK (44,279,000 EUR), 2005: 366,732,000 EEK (23,438,000 EUR). Income tax rate effective for

dividends paid out before January 01, 2007 (2005: January 01, 2006) was used for the calculation of the maximum income tax liability and on the assumption of distributable dividends and related income tax together cannot exceed the amount of retained earnings as of August 31, 2006 and 2005, respectively.

### Non-cancellable operating leases

On October 01, 2003 the Group concluded a non-cancellable lease agreement for the hotel building. The lease period of 10 years started on May 2004. The Group has also the option to renew the agreement for further 5 years. The annual non-cancellable lease payments will be in the range of 36,000,000 EEK (2,301,000 EUR) to 45,000,000 EEK (2,876,000 EUR) (depends on the result of hotel's operations).

start at the end of year 2006. The Group has also the option to renew the agreement for further 10 years. The annual non-cancellable minimum lease payments will be 45,000,000 EEK (2,876,000 EUR).

On May 02, 2006 the Group concluded a non-cancelable lease agreement for the hotel building Tallink Spa Hotel. The lease period of 10 years will

On May 11, 2006 the Group concluded a non-cancellable charter agreement for M/S Fantaasia which was renewed on August 18, 2006. As of August 31, 2006 the total non-cancellable minimum charter receivables until January 10, 2007 will be 39,946,000 EEK (2,553,000 EUR). The charterers have the option to extend the charter agreement until February 10, 2007 after which they have

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another option to extend the charter agreement until March 10, 2007.

**Capital investment commitments**

On August 01, 2005 Aker Finnyards OY and AS Tallink Grupp signed a shipbuilding contract to construct a new fast passenger ship. The construction value of new ship is 110,000,000 EUR. 20% will be paid during construction and 80% will be paid at delivery of the ship. By August 31, 2006 the Group has made the prepayments for the ship in the total amounts of 19,000,000 EUR.

On October 12, 2005 Fincantieri Navali Italiani S.p.A. and AS Tallink Grupp signed a shipbuilding contract to construct a new ro-pax type ferry. The new ship should be delivered in 2008. The construction value of the new ship is 113,000,000 EUR. 20% will be paid during construction and 80%

will be paid at delivery of the ship. By August 31, 2006 the Group has made the prepayments for the ship in the total amounts of 11,300,000 EUR.


On December 17, 2005 Aker Finnyards OY and AS Tallink Grupp signed a shipbuilding contract to construct a new passenger cruise ship. The new ship should be delivered in summer 2008. The shipbuilding contract price of new ship is approximately 165,000,000 EUR. 20% will be paid during construction and 80% will be paid on delivery of the ship. By August 31, 2006 the Group has made the prepayments for the ship in the total amounts of 4,000,000 EUR.

**Note 22 RELATED PARTY DISCLOSURES**

The Group has entered into the following transactions with related parties and has the following balances with related parties (for the year ended 31 August and as of 31 August, respectively).

Prices used in sales to and purchases from related parties of the Group do not significantly differ from normal market prices.

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In thousands of EEK

	Sales to related parties	Purchase from related parties	Receivables from related parties	Payables to related parties
<b>2006</b>				
AS Infortar - services	756	5,915	103	0
AS Infortar - guarantee fee	0	175	0	0
AS Infortar - interests	0	1,824	0	0
AS HT Valuuta - services	2,339	0	308	0
AS Vara HTG - leases	0	30,025	0	0
OÜ Mersok - leases	0	144	0	0
AS Vaba Maa - services	0	3,621	0	310
OÜ Infor Invest	0	50	0	0
OÜ Hera Salongid	221	0	37	0
AS Gastrolink	61	1,088	7	157
AS Baltic Travel	9,090	0	1,232	0
Searail EEIG	11,082	0	13,674	0
<b>2005</b>				
AS Infortar - services	99	6,430	0	0
AS Infortar - loans	0	0	0	98,530
AS Infortar - guarantee fee	0	537	0	0
AS Infortar - interests	0	6,993	0	0
AS Infortar - sale of AS HT Valuuta	5,000	0	5,000	0
AS HT Valuuta - services	2,247	0	3	0
AS HTG Vara - leases	0	30,000	0	0
OÜ Mersok - leases	0	144	0	14
AS Vaba Maa - services	0	2,916	0	75

In thousands of EUR

2006	Sales to related parties	Purchase from related parties	Receivables from related parties	Payables to related parties
AS Infortar - services	48	378	7	0
AS Infortar - guarantee fee	0	11	0	0
AS Infortar - interests	0	117	0	0
AS HT Valuuta - services	149	0	20	0
AS Vara HTG - leases	0	1,919	0	0
OÜ Mersok - leases	0	9	0	0
AS Vaba Maa - services	0	231	0	20
OÜ Infor Invest	0	3	0	0
OÜ Hera Salongid	14	0	2	0
AS Gastrolink	4	70	0	10
AS Baltic Travel	581	0	79	0
Searail EEIG	708	0	874	0

2005				
AS Infortar - services	6	411	0	0
AS Infortar - loans	0	0	0	6,297
AS Infortar - guarantee fee	0	34	0	0
AS Infortar - interests	0	447	0	0
AS Infortar - sale of AS HT Valuuta	319	0	319	0
AS HT Valuuta - services	144	0	0	0
AS Vara HTG - leases	0	1,917	0	0
OÜ Mersok - leases	0	9	0	1
AS Vaba Maa - services	0	186	0	5

**Related parties are:**

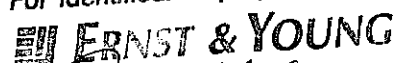
*The companies controlled by the shareholders with ownership over 20% (2005: by the parent or ultimate parent of the Group)*

See above for transactions with AS Infortar (before IPO in December 2005 AS Infortar was the parent and OÜ Linandell was the ultimate parent of the Group) AS Vaba Maa, AS HT Valuuta and AS HTG Vara. There are no transactions with other companies controlled by the parent or ultimate parent, i.e. AS Tailwind, OÜ Fastinvest, OÜ Sunbeam, OÜ Inforte, OÜ Inf Invest, OÜ Inf Maja and AS Infor Invest.

**The management and companies controlled by them**

There are no transactions with key management personnel (i.e. members of the management board and the supervisory board of the Parent and its subsidiaries), except the remuneration paid to them (see related information below) and with the companies controlled by them, except with OÜ Mersok. Other companies controlled by management are OÜ Tekali, OÜ Kümnis Konsultatsioonid.

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**Directors' remuneration and termination benefits**

The executive members of the Management Board received in 2005/2006 financial year a remuneration totaling 31,130,000 EEK (1,990,000 EUR) and in 2004/2005 financial year 7,658,000 EEK (489,000 EUR). The executive members of the Management Board do not receive pension entitlements from the Group. Some members of Management Board have a right to termination benefits. The maximum amount of such benefits as of 31 August 2006 is 12,966,000 EEK (829,000 EUR) compared to: 6,480,000 EEK (414,000 EUR) in 2005.

**Note 23 FINANCIAL RISK MANAGEMENT**

AS Tallink Grupp is a shipping company with international operations. Therefore, it is exposed to currency, commodity and interest rate risks in its ordinary business activity. It is the Group's policy to limit such risks via systematic risk management.

The management of financial risks is centralized in the Group's financial department, which is responsible for funding, foreign exchange risk, interest rate risk and credit risk management for the Parent and for subsidiaries.

Derivative financial instruments are not used for speculative purposes; they serve only to hedge risks arising from operations.

**Currency risk**

Group is exposed to exchange rate risk rising from revenues or operating expenses in foreign currencies, mainly in US dollar and Swedish kroons. The Group is exposed to the USD for the purchase of ship fuel and insurance and to the SEK as an operational currency for Swedish routes.


The Group seeks to minimize currency transactions risk through using derivative instruments (currency forward contracts and currency swaps), through matching foreign currency inflows with outflows. As of the end of the financial year, there were no currency derivative instruments outstanding.

The following tables are presented the Group's net position in the currency exposure as of 31 August 2006.

As the exchange rate between EEK and EUR has been fixed, monetary assets and liabilities nominated in EEK and in EUR have been presented together. This column includes also immaterial RUR denominated financial assets and liabilities.

2006	EEK, EUR	USD	SEK	LVL	Total
Cash and cash equivalents	1,230,123	2,731	169,901	4,853	1,407,608
Trade receivables, net of allowance	398,893	0	69,217	2	468,112
Other financial assets	340,385	0	65,711	40	406,586
	<b>1,969,851</b>	<b>2,731</b>	<b>304,829</b>	<b>4,895</b>	<b>2,282,306</b>
Current portion of borrowings	-1,227,327	0	-771	0	-1,228,098
Trade payables	-580,309	-13,655	-105,976	-4,809	-704,749
Other current payables	-875,389	0	-145,883	-3,225	-1,024,497
Non-current portion of borrowings	-13,752,829	0	0	0	-13,752,829
	<b>-16,435,854</b>	<b>-13,655</b>	<b>-252,630</b>	<b>-8,034</b>	<b>-16,710,173</b>
Currency net position, EEK	-14,466,003	-10,924	52,199	-3,139	-14,427,867
Currency net position, EUR	-924,546	-698	3,336	-201	-922,109

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2005	EEK, EUR	USD	SEK	Total
Cash and cash equivalents	183,955	0	142,831	326,786
Trade receivables, net of allowance	98,338	0	15,835	114,173
Other financial assets	38,180	0	608	38,788
	<b>320,473</b>	<b>0</b>	<b>159,274</b>	<b>479,747</b>
Current portion of borrowings	-689,492	0	-981	-690,473
Trade payables	-204,524	-2,364	-22,841	-229,729
Other current payables	-159,933	0	-13,204	-173,137
Non-current portion of borrowings	-3,144,929	0	-935	-3,145,864
	<b>-4,198,878</b>	<b>-2,364</b>	<b>-37,961</b>	<b>-4,239,203</b>
Currency net position, EEK	<b>-3,878,405</b>	<b>-2,364</b>	<b>121,313</b>	<b>-3,759,456</b>
Currency net position, EUR	<b>-247,875</b>	<b>-151</b>	<b>7,753</b>	<b>-240,273</b>

**Interest rate risk**

AS Tallink Grupp is exposed to interest rate risk through funding and cash management activities. An interest rate risk – the possibility that the value of a financial instrument (fair value risk) or future cash flows from a financial instrument (cash flow risk) will change due to movement in market interest rates – applies mainly to assets and liabilities with maturities of more than one year.

The objective for interest rate risk management is to minimize interest cost and at the same time hold the volatility of future interest payments within acceptable limits.

The following tables present the analysis of the Group's borrowings as of 31 August 2006 and 2005 by fixed and floating interest rates. The division of interest-bearing liabilities between the groups of up

The Group applies interest rate derivatives to manage the interest rate risk of the debt portfolio. This typically involves interest rate swaps and interest rate options.

to 1 year, 1-5 years and after 5 years is based on maturity date in the case of liabilities with fixed interest rates and repricing date in the case of floating interest rate.

In thousands of EEK

2006	< 1 year	1-5 years	Total
<b>Fixed rate</b>			
Finance lease liability	40,607	9,951	50,558
Bonds	139,276	0	139,276
<b>Floating rate</b>			
Secured bank loans (based on 3- and 6 - months EURIBOR)	14,765,761	0	14,765,761

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2005	< 1 year	1-5 years	Total
<b>Fixed rate</b>			
Finance lease liability	981	935	1,916
Other loans	73,648	24,882	98,530
Bonds	58,747	134,559	193,306
<b>Floating rate</b>			
Bank overdraft	18,249	0	18,249
Secured bank loans (based on 3- and 6-months EURIBOR)	3,524,336	0	3,524,336

In thousands of EUR

2006	< 1 year	1-5 years	Total
<b>Fixed rate</b>			
Finance lease liability	2,596	636	3,232
Bonds	8,901	0	8,901
<b>Floating rate</b>			
Secured bank loans (based on 3- and 6-months EURIBOR)	943,704	0	943,704

2005	< 1 year	1-5 years	Total
<b>Fixed rate</b>			
Finance lease liability	62	60	122
Other loans	4,707	1,590	6,297
Bonds	3,755	8,600	12,355
<b>Floating rate</b>			
Bank overdraft	1,166	0	1,166
Secured bank loans (based on 3- and 6-months EURIBOR)	225,246	0	225,246

**Credit risk**

Credit risk is the loss that the Group would suffer if a counterpart failed to perform its financial obligations. There is limited credit risk related to the account receivables due to the high number of customers. The maximum credit risk exposure of unsecured receivables of the Group at the balance sheet date is

861,100,000 EEK (55,034,000 EUR) and 2005: 153,373,000 EEK (9,802,000 EUR).

AS Tallink Grupp invests surplus liquidity in short-term interest-bearing assets. Credit risk is inherent in such instruments.

Financial derivatives with positive replacement value for the Company, taking into account legal netting agreements (ISDA agreements), also represent a credit risk. Credit risk arising from financial transactions is reduced through diversification, through accepting counterparts with high credit ratings only and through setting strict limits on aggregated credit exposure towards each counterpart.

#### Bunker price risk

In the past, the Group has entered into swap contracts to hedge a portion of its forecasted fuel purchases for use in the operation. In addition, depending on market conditions, the

#### Liquidity risk

Liquidity risk is the risk that the Group does not have liquidity available to pay their obligations on time.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and other debentures. The Group has

#### Fair values of financial instruments

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

#### Hedge activities

All derivative financial instruments are recognized as assets or liabilities. They are stated at fair value regardless of their purpose. Many transactions constitute economic hedges but do not qualify for hedge accounting under IAS 39. Changes in the fair value of these derivative financial instruments are recognized directly in the income statement: fair value changes on forward exchange contracts and currency options are reflected in exchange gains and losses and those on interest-rate swaps and interest-rate options in interest income and expense.

Fair value of derivatives with positive replacement value for Group was equivalent to 11,633,000 EEK (743,000 EUR) as of 31 August 2006 and 743,000 EEK (47,000 EUR) as of 31 August 2006.

Group charges its customers a fuel surcharge to offset the effects of high fuel prices. At 31 August, 2006, there were no swap contracts for fuel outstanding.

established Group account systems in Estonia, Finland, Sweden and Latvia to manage the cash flows in the Group as efficient as possible. Excess liquidity is invested in short-term money market instruments. AS Tallink Grupp has also concluded three committed bank overdraft facilities to minimize the Group's liquidity risk.

accepted mathematical valuation methods and for pension assets based on market prices. The fair value of other financial assets and liabilities has been determined based on the discounted cash flow method.

Where the effectiveness of the hedge relationship in a cash flow hedge is demonstrated, changes in the fair value are included in the hedging reserve in shareholders' equity and released to match actual payments on the hedged item.

The fair value of hedged transactions at the end of year was as follows:

In thousands of EEK

Interest rate hedging	Maturity	2006		2005	
		Notional amount	Fair value	Notional amount	Fair value
Interest rate swap qualified as a cash flow hedge	2013	1,564,660	-7,636	0	0
Interest rate swap not qualified as a cash flow hedge	2007	53,088	430	106,177	-913
Interest rate swap not qualified as a cash flow hedge	2012	1,157,848	11,203	0	0
Interest rate swap not qualified as a cash flow hedge	2013	2,065,351	-16,523	0	0
Total derivatives with positive value			11,633		
Total derivatives with negative value			24,159		913

In thousand of EUR

Interest rate hedging	Maturity	2006		2005	
		Notional amount	Fair value	Notional amount	Fair value
Interest rate swap qualified as a cash flow hedge	2013	100,000	-488	0	0
Interest rate swap not qualified as a cash flow hedge	2007	3,393	27	6,786	-58
Interest rate swap not qualified as a cash flow hedge	2012	74,000	716	0	0
Interest rate swap not qualified as a cash flow hedge	2013	132,000	-1,056	0	0
Total derivatives with positive value			743		0
Total derivatives with negative value			1,544		58

**Note 24 EVENTS AFTER THE BALANCE SHEET DATE**

AS Tallink Grupp purchased from Mr. Peter Roose his 30% minority shareholding in OÜ TLG Meedia in the amount of 500,000 EEK (32,000 EUR), a subsidiary of AS Tallink Grupp. After the transaction AS Tallink Grupp is the sole owner of OÜ TLG Meedia

On 28 September 2006 the Group made a following prepayment 11,000,000 EUR to Aker Finnyards OY (see also Note 21).




**Note 25 MAIN STATEMENTS OF THE PARENT AS REQUIRED BY ESTONIAN  
ACCOUNTING ACT  
INCOME STATEMENT**

for the year ended 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005*	2006	2005*
Revenue	3,360,264	2,543,015	214,760	162,528
Cost of sales	-2,853,203	-2,182,565	-182,353	-139,491
<b>Gross profit</b>	<b>507,061</b>	<b>360,450</b>	<b>32,407</b>	<b>23,037</b>
Marketing expenses	-230,567	-191,337	-14,736	-12,228
Administrative expenses	-114,971	-83,596	-7,348	-5,343
Other operating income	5,151	1,303	329	83
Other operating expenses	-545	-278	-34	-18
Financial income	121,092	8,935	7,739	571
Financial expenses	-526,525	-261,799	-33,651	-16,732
Share of profit of associates	0	3,643	0	233
<b>Net profit for the financial year</b>	<b>-239,302</b>	<b>-162,679</b>	<b>-15,294</b>	<b>-10,397</b>

\* "restated"

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*[Signature]* 2.10.2006

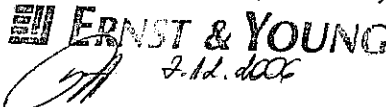
**BALANCE SHEET**

as of 31 August

	in thousands of EEK		in thousands of EUR	
	2006	2005*	2006	2005*
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	747,567	148,340	47,778	9,481
Receivables and prepayments	1,429,835	438,996	91,383	28,057
Derivatives	11,633	0	743	0
Tax assets	302	51	19	3
Inventories	64,231	40,103	4,105	2,563
	<b>2,253,568</b>	<b>627,490</b>	<b>144,028</b>	<b>40,104</b>
<b>Non-current assets</b>				
Investments in subsidiaries	821,512	801,880	52,504	51,249
Other financial assets and prepayments	4,938,908	734,354	315,654	46,934
Property, plant and equipment	7,848,596	2,182,630	501,617	139,496
Intangible assets	869	1,692	56	108
	<b>13,609,885</b>	<b>3,720,556</b>	<b>869,830</b>	<b>237,787</b>
<b>TOTAL ASSETS</b>	<b>15,863,453</b>	<b>4,348,046</b>	<b>1,013,859</b>	<b>277,891</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	1,075,511	582,617	68,738	37,236
Payables and deferred income	1,967,161	1,105,419	125,724	70,649
Derivatives	24,159	0	1,544	0
Tax liabilities	43,349	22,794	2,771	1,457
	<b>3,110,180</b>	<b>1,710,830</b>	<b>198,777</b>	<b>109,342</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	8,866,102	2,304,798	566,647	147,303
Other non-current liabilities	49,011	50,441	3,132	3,224
	<b>8,915,113</b>	<b>2,355,239</b>	<b>569,779</b>	<b>150,527</b>
<b>Total liabilities</b>	<b>12,025,293</b>	<b>4,066,069</b>	<b>768,556</b>	<b>259,869</b>
<b>Equity</b>				
Share capital	1,415,000	1,100,000	90,435	70,303
Share premium	2,012,394	0	128,615	0
Unregistered share capital with share premium	1,475,727	0	94,316	0
Reserves	19,864	27,500	1,270	1,758
Retained earnings	-1,084,825	-845,523	-69,333	-54,039
	<b>3,838,160</b>	<b>281,977</b>	<b>245,303</b>	<b>18,022</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>15,863,453</b>	<b>4,348,046</b>	<b>1,013,859</b>	<b>277,891</b>

\* "restated"

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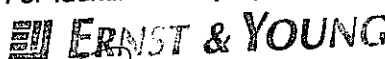
**CASH FLOW STATEMENT**

for the year ended 31 August


	in thousands of EEK		in thousands of EUR	
	2006	2005*	2006	2005*
<b>Cash flow from operating activities</b>				
Net profit for the financial year	-239,302	-162,679	-15,294	-10,397
Adjustments:	1,049,667	507,589	67,086	32,441
Depreciation and amortization	645,181	418,065	41,234	26,719
Net interest expense	404,836	252,168	25,874	16,117
Other adjustments	-350	-3,643	-22	-233
Changes in assets related to operating activities	-2,556,855	-50,987	-163,413	-3,259
Change in inventories	-24,128	-816	-1,542	-52
Changes in liabilities related to operating activities	876,373	352,368	56,010	22,520
	<b>-894,245</b>	<b>804,476</b>	<b>-57,153</b>	<b>51,415</b>
<b>Cash flow used for investing activities</b>				
Purchase of property, plant, equipment and intangible assets	-13,803	-4,589	-882	-293
Repayments of granted loans	512,614	138,766	32,762	8,869
Loans granted	-1,615,948	-266,357	-103,278	-17,023
Proceeds from disposals of associates	5,000	0	320	0
Acquisition of subsidiaries	-19,632	-300,666	-1,255	-19,216
Dividends received	350	1,200	22	77
Interest received	103,060	4,202	6,587	269
	<b>-1,028,359</b>	<b>-427,444</b>	<b>-65,724</b>	<b>-27,317</b>
<b>Cash flow from (+) / used for (-) financing activities</b>				
Proceeds from issue of shares	3,668,735	0	234,475	0
Transaction costs of issue of shares	-132,891	0	-8,493	0
Proceeds from loans and bonds	0	458,028	0	29,273
Redemption of loans and bonds	-196,553	-209,792	-12,562	-13,408
Change in overdraft	-18,249	18,249	-1,166	1,166
Repayment of finance lease liabilities	-585,530	-408,563	-37,423	-26,112
Interest paid	-213,681	-257,834	-13,657	-16,479
	<b>2,521,831</b>	<b>-399,912</b>	<b>161,174</b>	<b>-25,560</b>
<b>TOTAL NET CASH FLOW</b>	<b>599,227</b>	<b>-22,880</b>	<b>38,297</b>	<b>-1,462</b>
<b>Cash and cash equivalents:</b>				
- at the beginning of period	148,340	171,220	9,481	10,943
- increase (+) / decrease (-)	599,227	-22,880	38,297	-1,462
- at the end of period	<b>747,567</b>	<b>148,340</b>	<b>47,778</b>	<b>9,481</b>

\* "restated"

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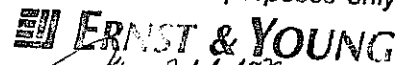
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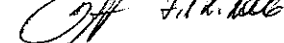
## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August, in thousands of EEK

	Share capital	Share premium	Unregistered share capital with share premium	Revaluation reserve	Mandatory legal reserve	Retained earnings	Total Equity
As of 31 August 2004 as reported previously	275,000	414,870	0	0	27,500	1,465,007	2,182,377
The effect of change in accounting principle	0	0	0	0	0	-1,737,721	-1,737,721
As of 31 August 2004	275,000	414,870	0	0	27,500	-272,714	444,656
Issue of shares	825,000	-414,870	0	0	0	-410,130	0
Net profit for the financial year 2004/2005	0	0	0	0	0	-162,679	-162,679
As of 31 August 2005 as reported previously	1,100,000	0	0	0	27,500	1,528,048	2,655,548
The effect of change in accounting principle	0	0	0	0	0	-2,373,571	-2,373,571
As of 31 August 2005	1,100,000	0	0	0	27,500	-845,523	281,977
Issue of shares	315,000	2,012,394	1,475,727	0	0	0	3,803,121
Adjustments for financial year 2005/2006	0	0	0	-7,636	0	0	-7,636
Net profit for the financial year 2005/2006	0	0	0	0	0	-239,302	-239,302
As of 31 August 2006	1,415,000	2,012,394	1,475,727	-7,636	27,500	-1,084,825	3,838,160
Adjustments according to Estonian Accounting Act	0	0	0	0	0	4,097,079	0
As of 31 August 2006 according to Estonian Accounting Act	1,415,000	2,012,394	1,475,727	-7,636	27,500	-3,012,254	7,935,239

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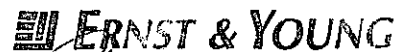

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for the year ended 31 August, in thousands of EUR

	Share capital	Share premium	Unregistered share capital with share premium	Revaluation reserve	Mandatory legal reserve	Retained earnings	Total Equity
<b>As of 31 August 2004 as reported previously</b>	17,576	26,515	0	0	1,758	93,631	139,480
The effect of change in accounting principle	0	0	0	0	0	-111,061	-111,061
<b>As of 31 August 2004</b>	17,576	26,515	0	0	1,758	-17,430	28,419
Issue of shares	52,727	-26,515	0	0	0	-26,212	0
Net profit for the financial year 2004/2005	0	0	0	0	0	-10,397	-10,397
<b>As of 31 August 2005 as reported previously</b>	70,303	0	0	0	1,758	97,660	169,721
The effect of change in accounting principle	0	0	0	0	0	-151,699	-151,699
<b>As of 31 August 2005</b>	70,303	0	0	0	1,758	-54,039	18,022
Issue of shares	20,132	128,615	94,316	0	0	0	243,063
Adjustments for financial year 2005/2006	0	0	0	-488	0	0	-488
Net profit for the financial year 2005/2006	0	0	0	0	0	-15,294	-15,294
<b>As of 31 August 2006</b>	90,435	128,615	94,316	-488	1,758	-69,333	245,303
Adjustments according to Estonian Accounting Act	0	0	0	0	0	261,851	0
<b>As of 31 August 2006 according to Estonian Accounting Act</b>	90,435	128,615	94,316	-488	1,758	192,518	507,154

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9.11.2006

Translation of the Estonian Original

## AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS TALLINK GRUPP

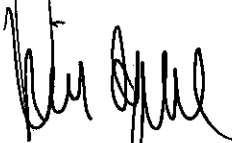
We have audited the consolidated financial statements of AS Tallink Grupp (hereafter "the Company") and its subsidiaries (hereafter "the Group") for the financial year ended August 31, 2006, which we have identified on the accompanying pages. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The subsidiary Silja Oy Ab, whose aggregated total assets and total revenues comprised 32% and 21% of the total consolidated amounts as of August 31, 2006 and for the financial year then ended, respectively, and are included into these consolidated Group's financial statements, were audited by another auditor. We have not audited the financial statements of Silja Oy Ab, but we have received the auditor's report of the company and our report, insofar as it is related to the amounts of the subsidiary Silja Oy Ab included into the consolidated financial statements of the Group, is solely based on this auditor's report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of another auditor, these financial statements present fairly, in all material respects, the financial position of the Group as of August 31, 2006, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Tallinn, December 7, 2006



Hanno Lindpere  
Ernst & Young Baltic AS