

YEARBOOK 2009/2010



A S T A L L I N K G R U P P Y E A R B O O K 2 0 0 9 / 2 0 1 0

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STATEMENT OF THE SUPERVISORY BOARD

Dear shareholders, customers, partners and employees of AS Tallink Grupp,

I congratulate you and thank you for making Tallink the company most praised in Estonia. With the „Praise the customer service“ award, organized by the Association of Excellent Service, AS Tallink Grupp is among the most praised service companies in Estonia in the year 2009 and 2010.

AS Tallink Grupp has received numerous awards by many organizations for achievements in the fields of corporate social responsibility, business activities and innovative approach. The company values highly the good work of the whole team, which has resulted with positive feedback from the public and organizations.

I have the pleasure to note that the Group's target for the 2009/2010 financial year was to be profitable and the target was met. The net profit for the year was 341.9 million EEK (21.9 million EUR).

The Group has entered into a new phase. After the extensive investment and new projects in the past years the Group's focus is now prioritized on the core operations to realize results of the recent investments and repay the loans. Restructuring of the Group's debt repayment has significantly improved the Group's liquidity position.

During the past financial year the meetings of the Supervisory Board of AS Tallink Grupp were held in all together 5 times and without calling a meeting written resolutions were adopted in all together 11 times. The most important resolution adopted by the Supervisory Board during the past financial year was: Approving of the resolutions of the Management Board amending the Loan Agreements which are secured with the mortgages on the motorvessels Baltic Queen, Regal Star, Star, Galaxy, Superfast VII, VIII, IX, Victoria I, Baltic Princess, Superstar, Silja Europa, Silja Serenade, Silja Symphony, Sea Wind and Silja Festival, in regards to the repayments during the 2 years time period.



Toivo Ninnas

Chairman of the Supervisory Board

The Supervisory Board has regularly reviewed the financial results and the Management's economic activity overviews of the Group. The Management Board's activities during the period have also been regularly reviewed by the Supervisory Board.

On behalf of the Supervisory Board, I would like to thank all members of our Management Board and all our employees who have contributed largely to the success of the company. I would also like to thank all of our customers, passengers, partners and shareholders for putting their trust in Tallink. Although we have achieved a lot, there's still plenty to work on to ensure the great results in the coming years.



HIGHLIGHTS OF FINANCIAL YEAR 2009 / 2010

PERSONNEL

- According to the survey of TNS Emor, Tallink was mentioned as one of the best employers in Estonia in 2007, 2008, and 2009.
- With launching the new Tallink Hotel Riga in April, Tallink created 100 new jobs in Latvia in 2010.
- Libraries for ships` personnel were launched.

CUSTOMERS

- Fifth hotel in Tallink Hotels chain, Tallink Hotel Riga is an additional value for our clients, who want to spend relaxing time in the capital of Latvia.
- The development of self service check-in to several harbours was completed.
- The new and more comfortable online booking engine was launched in 2010.
- The premises of Tallinn Port D-terminal were reconstructed taken into consideration the welfare of the customers and employees.
- According to the campaign „Praise the customer service“ organized by the Association of Excellent Service, AS Tallink Grupp is among the most praised service companies in Estonia in the year 2010. The company gained the recognition also in 2009.
- Tallink gained the Finnish Quality Innovation Prize of the Year 2010. The Quality Innovation Prize of the Year was awarded to the subsidiary of AS Tallink Grupp, Tallink Silja Oy for its product development concept “1000 Tuotekehittäjä”. The quality centre Excellence Finland grants this prize annually as an acknowledgement for a particularly innovative product, service or operation concept.
- Worlds leading consumer magazine Reader’s Digest acknowledged Tallink’s Silja Line routes to be the most reliable Finnish cruise lines in 2010; the magazine has acknowledged the Silja Line branded routes also in seven previous years.

ENVIRONMENT

- New environmentally friendly high speed service concept Tallink Shuttle on Tallinn-Helsinki route was successfully operated throughout the year.
- High international certificates for Tallink`s subsidiaries were extended. AS Tallink Grupp subsidiaries` HT Shipmanagement and HT Shipmanagement SIA international certificates confirming companies` congruity to ISM (International Safety Management) code were revalidated by Swedish, Finnish, Latvian and Estonian Maritime Administrations.
- Also the certificate for ISO 14001:2004 was revalidated for all Tallink and Silja brand vessels.

BUSINESS

- Launching of Tallink Hotel Riga in April 2010.
- Reaching a new record in the passenger volumes of a calendar month in July 2010 with over one million passengers.
- The development of self service check-in to several harbours was completed.
- Reaching the traffic volumes of 8.4 million passengers and revenue volumes of 814 million Euros.
- AS Tallink Grupp was voted the most competitive Estonian company in 2010 by the Estonian Chamber of Commerce & Industry and Estonian Employer’s Confederation. AS Tallink Grupp was voted the most competitive Estonian company and the best Estonian company also in 2007 and 2008 and the most competitive Estonian company in the field of transportation and logistics in 2009.



FIVE-YEAR FINANCIAL REVIEW

Million EUR	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	Change
Net sales	405	761	786	792	814	3%
Gross profit	117	201	164	165	168	2%
EBITDA	94	159	126	133	145	9%
Net profit	95	67	19	-8	22	
Depreciation	27	59	62	70	73	5%
Investments	1,039	141	271	163	6	-96%
Total assets	1,657	1,698	1,898	1,947	1,871	-4%
Total liabilities	1,077	1,050	1,247	1,305	1,204	-8%
Interest-bearing liabilities	956	948	1,120	1,181	1,068	-10%
Total equity	580	648	651	643	668	4%
Weighted average number of ordinary shares outstanding*	521,527,764	673,817,040	671,245,086	669,882,040	669,882,040	0%
Number of ordinary shares outstanding*	673,817,040	673,817,040	669,882,040	669,882,040	669,882,040	0%
Earnings per share (EPS) euros*	0.18	0.10	0.03	-0.01	0.03	
Shareholders' equity per share euros*	0.86	0.96	0.97	0.96	1.00	4%
Price-Earnings ratio (P/E)*	5	13	21	-29	19	
<i>* the share and per share information has been adjusted with the share bonus issues</i>						
Gross profit margin	29%	26%	21%	21%	21%	
EBITDA margin	23%	21%	16%	17%	18%	
Net profit margin	23%	9%	2.5%	-1.0%	2.7%	
Return on assets (ROA)	8%	6%	3.6%	3.3%	3.8%	
Return on equity (ROE)	31%	11%	3.0%	-1.3%	3.3%	
Return on capital employed (ROCE)	10%	7%	4.2%	3.8%	4.3%	
Equity ratio	35%	38%	34%	33%	36%	
Number of passengers	4,203,163	6,873,339	7,070,264	8,124,561	8,428,055	4%
Cargo Units	188,330	359,781	331,149	252,026	258,773	3%
Average number of employees	3,463	6,227	6,564	6,853	6,612	-4%

EBITDA – Earnings before net financial items, taxes, depreciation and amortization;

Earnings per share – net profit / weighted average number of shares outstanding;

Equity ratio – total equity / total assets;

Shareholder's equity per share – shareholder's equity / number of shares outstanding;

Gross margin – gross profit / net sales;

EBITDA margin – EBITDA / net sales;

Net profit margin – net profit / net sales;

ROA – Earnings before net financial items, taxes / Average of total assets;

ROE – Net profit / Average shareholders' equity;

ROCE – Earnings before net financial items, taxes / (Total assets – Current liabilities (average for the period)).

COMPANY OVERVIEW



Tallink Grupp with its subsidiaries (hereinafter also referred to as “the Group”) is the leading European ferry operator offering high quality mini-cruise and passenger transport services in the Baltic Sea region, as well as a leading provider of ro-ro cargo services on selected routes. The Group provides its services on the various routes between Finland-Sweden, Estonia-Finland, Estonia-Sweden, Finland-Germany and Latvia-Sweden under the brand names of “Tallink” and “Silja Line”. The Group’s fleet consists of 19 vessels: eleven cruise ferries, five high-speed ro-pax ferries and three ro-ro cargo vessels. In addition the Group operates four hotels in Tallinn and one in Riga. Hotels offer great additional value to the selection of the Group’s travel related services.

Tallink Grupp’s investments into the modern fleet built in 2000 or later, exceed 1.3 billion euros. As a result of the recent investment and fleet renewal program the Group currently deploys some of the most advanced cruise ferries in the Baltic Sea. In particular, the Group management believes that the newest cruise vessels Romantika, Victoria I, Galaxy, Baltic Princess and Baltic Queen with state-of-the-art facilities, improved accommodation, larger onboard shopping areas and high quality onboard services, have set a new benchmark for travel standards in the Baltic Sea. The Group delivered its last cruise vessel under the fleet renewal program, MS Baltic Queen in 2009. There are currently no new vessels ordered. The Management is focusing on the improvement of the results of past investments and estimates that it will take a few years before the need, if any, for further new vessels will become clear.

The Group’s new high-speed ro-pax ferries with ice class are designed to combine the best features of a traditional cruise ferry, cargo vessel and a high-speed ferry. They can be operated year-round at high speed transporting around 2000 passengers and 2 kilometres of vehicles offering at the same time thousands of square metres for shopping and dining.

Through the fleet renewal program Tallink Grupp has established a versatile fleet, which allows offering a wide range of constantly improving services and frequent departures.

COMPANY OVERVIEW

STRATEGY

The Group's vision is to be the market pioneer in Europe by offering excellence in leisure and business travel and sea transportation services.

The Group's strategy is to

- strive for the highest level of customer satisfaction.
- increase the volumes and strengthen the market position in the region.
- develop wide range of quality services for different customers and to pursue new growth opportunities.

Modern fleet, wide route network, strong market share & brand awareness and high safety, security and environmental standards are the main competitive advantages for the Group. They make the cornerstones for successful and profitable operations.

SALES AND MARKETING

Products and Services

We focus on offering our customers a wide range of transport and leisure products and services varying from a one-way high speed Tallink Shuttle service to a complete leisure and fun-filled short cruise with possible overnight hotel and spa stays at various destinations. A large proportion of our products are sold as combined services and travel packages. Travel packages may be tailored to suit customer preferences in each market as to the type of vessel, length of trip, use of conference services, hotel accommodations and other leisure products.

Cruises

With the most modern fleet operating in the Baltic Sea today, we offer a variety of short cruises on all our routes which include Helsinki-Stockholm, Turku-Stockholm, Helsinki-Tallinn, Stockholm-Tallinn and Riga-Stockholm. We also sell short day cruises to Åland island from both Stockholm and Turku.

On our short overnight cruises either one or two nights between Stockholm and Helsinki, Tallinn and Riga our passengers not only enjoy the various restaurants, bars, shops, spa facilities or excellent entertainment on board but can also purchase the many various day shore excursions that we offer in all the cities where we arrive and depart daily. We market and sell a variety of services that people can enjoy while taking a city break. Whether it be golf, opera, museums or special water amusement parks for children, everything we

do is catered to making a cruise onboard one of our vessels a memorable experience.

Throughout the year we will market various activities onboard our vessels. For example Latino months in the spring- to remind people that the dark and cold winter is almost over, Circus weeks in the fall, or being highly visible during the holiday season in December. We also have focused marketing onboard our restaurants which includes themes such as Russian Weeks or Asparagus Weeks highlighting the fabulous and rich variety of restaurants from which passengers can choose from. During school holidays and summer holidays we have special children's entertainment programmes onboard so that families together can experience our special leisure cruise products.

Because we have such a diverse target group segment we offer a wide selection of cabin categories. This also allows for flexible pricing depending on the selected route and departure date. For individuals and groups most onboard services and shore excursions can be purchased easily online or through our contact centres or travel agencies. For large groups we have a separate group sales department offering individual attention and personalised service which handles special requests including conference facilities and special group menus. We also sell the vessel to companies that want to have exclusive cruises.

Transportation

Of course everyone can enjoy the cruise experience onboard even if they purchase a one-way ticket. Our Tallink Shuttle product which includes the vessels Star and Superstar sails between Tallinn and Helsinki 10 times a day. The voyage lasts only 2 hours but passengers can enjoy a wide selection of restaurants, bars, cafes and shops. Tallink Shuttle accommodates cars and trucks with 2000 lane meters of capacity.

Cargo

In our business we operate under a mixed tonnage concept which means that our vessels carry both passengers and cargo. We carry only ro-ro cargo mainly trucks and trailers and do not carry container cargo. Our vessels are equipped with separate car decks onto which private cars, buses and ro-ro cargo can be driven while passengers are safely embarking. Cargo traffic is related to business logistics and its development is often linked to the overall general economic conditions and trade activities. Our customer base for cargo services consists

COMPANY OVERVIEW

of a wide range of clientele, from large transport companies to small and medium-sized companies. The goods carried by them vary from building materials to consumer essentials. We aim to work closely with our customers in order to continuously improve our efficiencies and service levels offering a flexible, affordable and efficient service.

Hotel Packages

We can combine our cruise and one-way transport services with overnight stays in all of our markets. In Tallinn where we operate 4 hotels under the Tallink Hotel brand we can easily extend the leisure offer to our customers. In Tallinn, Tallink Hotel is the primary choice for our hotel packages. Here as in other markets we have agreements with a select few hotel chains offering hotel packages combined with transport or cruise products. In the winter months we also sell hotel ski packages with ferry transport to Finland and Sweden's popular ski destinations.

Tallink Hotels

Tallink operates the largest hotel chain in Estonia with 4 hotels. Two trendy business class hotels in the heart of Tallinn – Tallink Spa and Conference Hotel right on the seaside and next to the historic Old Town and Tallink City Hotel in the center of downtown Tallinn. Tallink Express Hotel near the harbour is meant for budget travellers and the Pirita Top Spa Hotel catering to medical and wellness treatment clientele. The hotels are operated under the hotel chain brand „Tallink Hotels“. It is an extension of our leisure services that we offer our customers.

In the spring of 2010 Tallink Hotels opened the brand new Tallink Hotel Riga making Tallink Hotels the second biggest hotel chain in the Baltic countries.

Onboard services

Tallink Grupp is amongst the 10 leading travel retail outlets in the world. In the Nordic region, we are the number one outlet in terms of sales. Restaurants and bars onboard contribute over half of our overall revenues. All our cruise and transport passengers can dine for varying price levels ranging from traditional a la carte and buffet restaurants to fast food dining areas and pubs to even trying our exclusive gourmet restaurants run by some of the best chefs in the region. We have developed menus suited for Nordic tastes, accompanied by culinary inspiration from other ethnic cuisines. We focus strongly on the quality of our food and service and many of our chefs and catering staff have won numerous awards

reflecting our excellent onboard service. Onboard sales in restaurants and bars are tax-free on all our routes. Everyone can purchase dining vouchers in advance when making their voyage booking and receive an early bird discount.

All our vessels have onboard shops where passengers can purchase consumer goods, alcohol, tobacco, cosmetics, confectionary, clothing, toys and accessories. Our onboard shops compete with land shops and thus the price levels onboard must be competitive in order to attract our passengers to purchase goods onboard. On all our routes from Estonia to Stockholm and Finland to Stockholm, we stop at Åland Island making it possible to sell goods with no excise or VAT thus making our products readily available to passengers at very favourable prices.

On all our cruise vessels we also offer gambling as a means of entertainment. The vessels are equipped with slot machines and on the bigger cruise vessels black jack and roulette.

Sales Segments and Channels

Our services are available everywhere but active sales efforts are targeted towards our home markets which include Finland, Sweden, Estonia and Latvia and our key markets which include Germany, Russia, Lithuania. In Norway, Denmark and the Far East we use travel agencies in selling our products and services. Furthermore, with our different routes and wide range of products and services we truly can offer something to everyone. In sales operations we have divided the sales into three main segments each with its' own sales channels. The three major segments are the individual, group and conference passenger and tour operator group. Each segment is broken down further into specific target groups. For example individual target groups include: couples, families, seniors etc. For tour operators we have developed special prices from which they put together their own products that they market and sell to their own customer base. Depending on sales results we may from time to time assist in marketing efforts.

The group and conference market is an important segment for the company. We actively target companies, associations, unions and charity clubs to hold their seminars, events and exhibitions onboard our vessels. With our spacious conference facilities with its state of the art technical equipment and flawless internet connection, we can accommodate, depending on the vessel, over 500 persons. During the day our modern showbar lounges can be converted to seat up to 1000 people with high-tech sound and lighting possibilities. Combined with

COMPANY OVERVIEW

our extensive and flexible catering possibilities and onboard entertainment, our vessels are the ideal place to combine business and leisure making any large gathering a success.

All individuals and group and conference passengers can make direct bookings and reservations and special requests through our contact centers. Individuals can also make bookings online via our website. As we continue to develop making the online booking more easy to use, we have seen a noticeable shift from using the contact center to make bookings to making bookings online.

We also have a network of 21 of our own ticket offices in Tallinn, Tartu, Helsinki, Stockholm, Turku, Riga and St. Petersburg and customers can of course purchase tickets at all of our port terminals.

Another important component of our sales channels is our extensive network of travel agencies in all our markets. All of the travel agencies support our sales and marketing activities and use an easy to use online connection named Seaweb to our central booking system named Seaware. With our state of the art reservation system, we have the flexibility of making

special promotions to be used only by our travel agencies in specified markets or if required make promotions that can be purchased only by our own individual online booking engine.

Customer loyalty programme

Club One is our customer loyalty programme connecting together more than 600 000 households. In 2010 we expanded our programme by awarding more points to customers for their travel and onboard purchases. Also members now enjoy wide variety of services and products where they can burn their points including in our hotels. Club One is designed to offer versatile, high-quality travel services to meet the needs of our frequent passengers. Members receive discount on tickets, collect points which can be redeemed for future trips and special offers, take advantage of our special service telephone line for convenient booking of their trips and receive the latest information of club activities. Members also receive a newsletter containing up to the minute information on the latest special members-only offers and travel opportunities. Cooperation agreements with various onshore shops and restaurants provide members with added value incentives and bonuses. Onboard the vessels Club One members can enjoy special benefits in our restaurants, bars and tax-free shops.



VESSELS AND OTHER INVESTMENTS

The Group's main revenue generating assets are vessels, which account for approximately 85% of total assets. At the end of

the financial year, the Group owned 19 vessels. Their types and operations are described in the table below:

Vessel Name	Vessel type	Built / Converted	Route	Remark
Baltic Princess	Cruise ferry	2008	Finland-Estonia	overnight cruise
Superstar	High-speed ro-pax	2008	Finland-Estonia	shuttle service
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Silja Europa	Cruise ferry	1993	Finland-Sweden	overnight cruise
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Sweden	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Silja Festival	Cruise ferry	1986	Sweden-Latvia	overnight cruise
Superfast VII	High-speed ro-pax	2001	Finland-Germany	transportation
Superfast VIII	High-speed ro-pax	2001	Finland-Germany	transportation
Superfast IX	High-speed ro-pax	2002	in charter since 2008	renamed as "Atlantic Vision"
Regina Baltica	Cruise ferry	1980	available for charter	
Vana Tallinn	Cruise ferry	1974	available for charter	
Kapella	Ro-ro cargo vessel	1974	available for charter	

As of 31 August 2010 the value of the ships amounted to 1,651 million EUR. The Group's vessels are regularly valued by 2-3 independent international ship brokers who are also approved by the lenders & mortgagees.

The Group has no new vessels under construction.

All of our vessels have protection and indemnity insurance (P&I), hull and machinery insurance (H&M) and they meet all

applicable safety regulations. In addition to the economic benefits of the upgrade of the fleet through new vessel investments, the Group is now employing one of the most environment friendly fleets as the vessels are equipped with the latest available machinery and technology.

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

FLEET

**BALTIC QUEEN**

Built	2009
Length	212.1 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

**SUPERSTAR**

Built	2008
Length	175.1 m
Passengers	2080
Lanemetres	1930
Ice class	1 A

**BALTIC PRINCESS**

Built	2008
Length	212.1 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

**STAR**

Built	2007
Length	186 m
Passengers	1900
Lanemetres	2000
Ice class	1 A

**GALAXY**

Built	2006
Length	212.1 m
Passengers	2800
Lanemetres	1130
Ice class	1 A Super

FLEET

**VICTORIA I**

Built	2004
Length	193.8 m
Passengers	2500
Lanemetres	1000
Ice class	1 A Super

**SILJA EUROPA**

Built	1993
Length	201.8 m
Passengers	3123
Lanemetres	932
Ice class	1 A Super

**ROMANTIKA**

Built	2002
Length	193.8 m
Passengers	2500
Lanemetres	1000
Ice class	1 A Super

**SILJA SYMPHONY**

Built	1991
Length	202.9 m
Passengers	2852
Lanemetres	950
Ice class	1 A Super

**SILJA FESTIVAL**

Built	1986 / 1992
Length	170.7 m
Passengers	2023
Lanemetres	885
Ice class	1 A Super

**SILJA SERENADE**

Built	1990
Length	202.9 m
Passengers	2852
Lanemetres	950
Ice class	1 A Super

FLEET

**REGINA BALTICA**

Built	1980
Length	145.2 m
Passengers	1500
Lanemetres	780
Ice class	1 A

**REGAL STAR**

Built	1999
Length	149.9 m
Passengers	80
Lanemetres	2087
Ice class	1 A

**VANA TALLINN**

Built	1974
Length	153.8 m
Passengers	800
Lanemetres	650
Ice class	1 B

**SEA WIND**

Built	1972 / 1984 / 1989
Length	155.0 m
Passengers	260
Lanemetres	1050
Ice class	1 B

**SUPERFAST VII / VIII / IX**

Built	2001 / 2001 / 2002
Length	203.3 m / 203.3 m / 203.3 m
Passengers	717 / 717 / 728
Lanemetres	1900
Ice class	1 A Super

**KAPELLA**

Built	1974
Length	110.1 m
Passengers	50
Lanemetres	663
Ice class	1 B

PERSONNEL

EMPLOYEES – FUELLING TALLINK'S SUCCESS

Tallink's greatest assets are the thousands of employees over six countries, as they are the power behind the company's achievements. The duty of the employees is to assure the satisfaction of our passengers with our services every single day. Likewise, the company is also trying to do its best to secure that its employees feel great.

AS Tallink Grupp has about 6,700 employees, most of whom work at sea. This is natural, of course, since the company does specialise in maritime transport - it owns a total of nineteen vessels and operates seven different routes. Onshore personnel is mainly occupied by the managing, supportive and administrative services for the operations of the vessels, where in addition the staff of the ticket sales of the contact centres and passenger terminals are in important place. Tallink is also operating already four big hotels in Tallinn and one in Riga, the employees working there are accomplishing one of the sizeable and growing part of the company. Planning, recruitment, training, crewing and payroll administration are the topics included into the human resources management. All of these are handled internally within Tallink.

The proficiency of language within the company is at a very high level due to the nature of the services - our international

maritime transport routes serve per year almost eight and half million passengers coming mainly from European countries. Tallink is a real international company which employs people from six different countries in which at least seven different languages can be heard daily. Nevertheless, this does not hold back cooperation between our staff members. On the contrary, our people have so much to learn from each other that we consider this exchange of experience to be of major added value.

The constant development of knowledge, skills and competence are required. The training system is developed in order to guarantee safe operations and a high level of service on board the vessels and in hotels. Our training program comprises the best of our internal knowledge but also the qualified external expertise. Tallink will continue to cooperate with various educational institutions, including most vocational schools and especially Maritime Academies and other organisations in this field, in order to introduce young people to the maritime industry. We try to actively promote maritime transport as a field of employment and to introduce the employment opportunities at Tallink with the primary aim of attracting employees with relevant specialised education, so that even years from now our staff will still be amongst the best in the Baltic Sea region.

ON AUGUST 31, 2010 THE GROUP EMPLOYED 6,715 EMPLOYEES (6,767 ON AUGUST 31, 2009).

	Average of 12 months			End of financial year		
	2009/2010	2008/2009	change %	31.08.2010	31.08.2009	change %
Onshore total	1,493	1,610	-7.3%	1,529	1,639	-6.7%
Estonia	745	783	-4.9%	767	762	0.7%
Finland	499	556	-10.3%	496	564	-12.1%
Sweden	176	194	-9.3%	196	233	-15.9%
Latvia	54	52	3.8%	55	55	0.0%
Germany	13	19	-31.6%	9	19	-52.6%
Russia	6	6	0.0%	6	6	0.0%
At sea	4,628	4,734	-2.2%	4,648	4,648	0.0%
Hotel*	491	509	-3.5%	538	480	12.1%
Total	6,612	6,853	-3.5%	6,715	6,767	-0.8%

* The number of hotel personnel is not included in the total number of onshore personnel

In the 2009/2010 financial year the staff costs in the cost of sales decreased by 0.8% to 118.0 million EUR in combination of slight increase in salaries in some segments and personnel optimisation. The Group continued to improve the personnel costs in the administrative areas. The administration staff costs

decreased by 7.4 million EUR or 34%. Due to increased traffic volumes and active sales activities the personnel cost in the sales & marketing increased by 24% or by 5.6 million EUR. Overall, the Group personnel expenses decreased by 1.7% to 161.2 million EUR.

SAFETY & SECURITY

In the Group operations the safety and security of people, environment and property is ultimately important. Tallink's Safety Management System adheres to the ISM (International Safety Management), ISPS (International Ship Port Facility Security) Codes and the requirements according to the ISO 14001 environmental management standard in order to guarantee the operations of the ships and onshore organisation prevent accidents, loss of human lives and environmental damages caused to marine environment. Safety Management System is audited by Lloyds Register and Estonian, Swedish, Latvian, and Finnish Maritime Administrations.

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

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

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

All the Group's vessels carry lifesaving equipment which meets the highest safety standards and are always ready for immediate use. Nevertheless the Group's highest-level nautical and good-seamanship practices together with top-level safety and security organisations are designed to prevent situations where all this safety equipment should be put in use.

ENVIRONMENTAL & CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that environmental protection and management is one of its highest priorities. Every effort is to be made to preserve and protect the environment from marine and atmospheric pollution and any other form of pollution, including office-based waste.

The maintenance and operations of the Group vessels is conducted in accordance with the MARPOL convention (the

International Convention for the Prevention of Pollution from Ships). This ensures that air and sea pollution is kept to the lowest practicable levels.

The Group operates a zero spill policy. The Group's objective is to eliminate the possibility of pollution at the source by ensuring that high standards of safety and awareness are maintained and that all relevant legislation and conventions are followed for both its sea and shore activities. Additionally the Group is committed to the continuous improvement of the methods that are used to carry out and achieve this objective, including the use of equipment and practices that minimises waste generation.

Selection of international certificates for the Group companies:

- ISO 14001:2004 environmental certificate by Lloyds Register
- MARPOL Sewage Pollution Prevention Certificate
- MARPOL Air Pollution Prevention Certificate
- IAFS International Anti-Fouling System Certificate
- MARPOL Oil Pollution Prevention Certificate
- Document of Compliance for Anti-fouling System
- MARPOL Garbage Pollution Prevention Attestation
- Document of Compliance by Lloyds Register
- Document of Compliance by Estonian Maritime Administration
- Document of Compliance by Finnish Maritime Administration
- Document of Compliance by Swedish Maritime Administration
- Document of Compliance by Latvian Maritime Administration

As a major tax-payer in Estonia, Finland and Sweden, the Group believes that financial success can only be guaranteed through responsible and sustainable development. Therefore, each year, the Group gives a significant share of its success back to society and the environment in which the company operates.

The Group entities are actively involved in supporting many public initiatives and events, especially youth and sports organisations. Being one of the largest Estonian companies in terms of its number of employees, it has also always been the goal to motivate Group employees to participate in social events for the sake of the environment and society.

There are many areas in which the Group is supporting and sponsoring; the environment, children and young people and sports are the major areas which are considered to be most important in all the countries in which Tallink has its operations. A more detailed overview and policies regarding the environment and social responsibility activities are provided in the Group's Environmental and Corporate Social Responsibility Report.

SHARES AND SHAREHOLDERS

As of August 31, 2010 AS Tallink Grupp had total of 673,817,040 shares issued and fully paid. There were no changes to the share capital during the 2009/2010 financial year.

All the shares are of the same kind and each share carries one vote at the shareholders' general meeting. The par value of one share is 0.639 EUR. No preference shares or shares with special rights have been issued. According to the articles of association AS Tallink Grupp shares can be freely transferred. No authorization shall be obtained in order to buy or sell AS Tallink Grupp shares.

As a result of share buybacks carried out in during the period of December 2007-January 2008 the Group owns 3,935,000 own shares which represent 0.584% of the total share capital.

On January 29, 2008 the Annual General Meeting of AS Tallink Grupp among other things set the main terms of the share option program and in relation the Group is authorized to acquire its own shares. The maximum amount of own shares that can be acquired shall not exceed 10% of the total share capital and the maximum price per share shall not exceed the highest price paid at the market on the respective day. No share buyback has occurred since January 29, 2008. The Group has not issued any share options.

The Management Board of AS Tallink Grupp is not granted with the right to issue new shares. According to the resolution of the General meeting of AS Tallink Grupp of January 26, 2009 the Supervisory Council is within two years as from March 1, 2009 entitled to increase the share capital of AS Tallink Grupp by not more than 25.6 million EUR. The maximum share capital thereafter shall not exceed 456.2 million EUR. By the reporting date the Supervisory Council has not exercised its entitlement.

The table below presents the distribution of share capital by size of share ownership as at 31 August 2010:

Ownership size	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 - 99	602	4.95%	27,407	0.01%
100 - 999	3,480	28.62%	1,608,629	0.24%
1,000 - 9,999	7,134	58.67%	15,184,630	2.25%
10,000 – 99,999	802	6.60%	19,828,776	2.94%
100,000 – 999,999	100	0.82%	30,415,214	4.51%
1,000,000 – 9,999,999	34	0.28%	97,763,670	14.51%
10,000,000 +	7	0.06%	508,988,714	75.54%
TOTAL	12,159	100.00%	673,817,040	100.00%

As of 31 August 2010, 6.7% of the Group's shares were held by individuals.

SHARES AND SHAREHOLDERS

TRADING

The shares of AS Tallink Grupp are traded on the NASDAQ OMX Tallinn Stock Exchange under the symbol TAL1T (REUTERS: TAL1T.TL , BLOOMBERG: TAL1T ET).

During the 2009/2010 financial year, there were transactions with 134,836,353 shares of AS Tallink Grupp on Tallinn Stock Exchange. The highest daily average share price on Tallinn Stock Exchange was 0.72 EUR and the lowest daily average

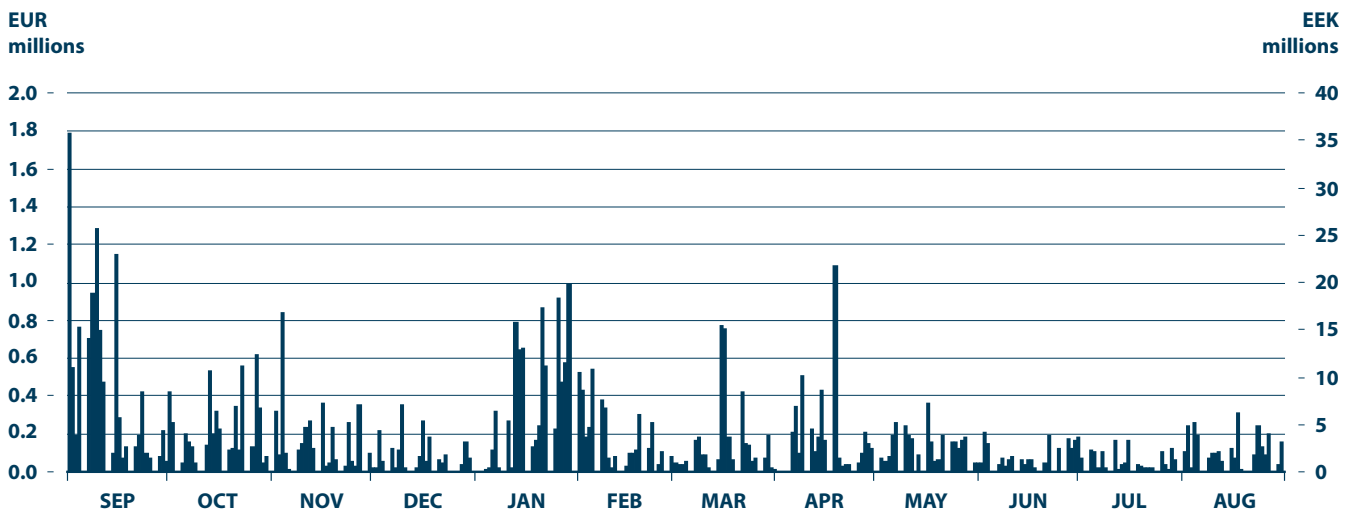
share price was 0.34 EUR. The weighted average share price in the 2009/2010 financial year was 0.52 EUR. The average daily turnover of the trade with AS Tallink Grupp shares on Tallinn Stock Exchange was 0.25 million EUR.

The following figures give an overview of the share price performance and trading on Tallinn Stock Exchange during the period of 1 September 2009 to 31 August 2010.

STOCK PRICE 2009/10



DAILY TURNOVER



SHARES AND SHAREHOLDERS

The table below presents the 10 largest shareholders of the Group as at 31 August 2010

Shareholder	No. of shares	%
INFORTAR AS	269,576,164	40.01%
NORDEA BANK FINLAND PLC/ NON-RESIDENT LEGAL ENTITIES	68,011,050	10.09%
ING LUXEMBOURG S.A.	67,850,776	10.07%
CITIGROUP VENTURE CAPITAL INTERNATIONAL JERSEY LIMITED	49,231,000	7.31%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	20,522,132	3.05%
JP MORGAN CHASE BANK/ITS LONDON CLIENT'S ACCOUNT VANGUARD MARKETING CORPORATION	16,950,000	2.52%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	16,847,592	2.50%
FIREBIRD REPUBLICS FUND LTD	8,122,614	1.21%
BNYM / ING BANK SLASKI AC LM AKCJI FIO	8,105,000	1.20%
MELLON TREATY OMNIBUS	5,597,433	0.83%

SHAREHOLDERS' AGREEMENT

Major shareholders of the Group have entered into the shareholders agreement on August 2006. The main terms of the agreement are published at the Group's website. The agreement sets forth among the other terms that the parties of the agreement and each shareholder of Tallink shall remain independent in their decisions and shall not be restricted by the agreement or otherwise, directly or indirectly, to exercise their voting rights or any other powers available to them, in the manner which, in its own opinion, best complies with its duties under Estonian laws, any Rules of Tallinn Stock Exchange or the Corporate Governance Recommendations.

TAKEOVER BIDS

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

DIVIDENDS

The Group's strong expansion and growth have been achieved due to significant investments in the recent past. To support these investments, no dividends have been paid and the profits have been reinvested which has resulted in strong shareholders' equity. Additionally, the Group's policy has been to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

No dividends were paid for the 2008/2009 financial year. The Group's investments to the fleet ended in 2009 and the Group entered into a new phase where one of the management focuses is to deleverage. In 2009/2010 financial year no dividends were paid. The management used most of the free cashflow to repay the Group's bank loans and to increase the Group liquidity.

In relation to the repayments restructuring of the Group's loans in the first half of the 2009/2010 financial year it was also agreed that the Group will keep its highest priority on the loan repayments and the dividend payments shall be agreed with the lenders until the Group repays the deferred amounts which were restructured.

The Group's operations showed a good recovery in the 2009/2010 financial year. The Group was able to strengthen its fundamentals, passenger number and market share and to generate solid improvement in the operating cash flow.

GROUP STRUCTURE

On the report date the Group consisted of 48 companies. Most of the subsidiaries are wholly-owned companies of AS Tallink Grupp.

In the 2009/2010 financial year the Group established a 100% subsidiary SIA TLG Hotel Latvia to be the operating company of the new hotel which started operations in Riga in 2010.

The Group Finnish entities SeaWind Line Oy, Nimitakos Oy and

Swedish entity Silja Cruise Ab were merged into other Group companies. The above transactions were made to simplify the Group's structure. The transactions will have no effect on Group operations or result.

The following graph represents the Group structure on the report date:



The Group further owns:

- 34% of AS Tallink Takso

CORPORATE GOVERNANCE REPORT

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

ORGANISATION AND ADMINISTRATION

Pursuant to the Commercial Code and the Articles of Association of AS Tallink Grupp (the Company), the right of decision and the administration of the company are divided between the shareholders represented by the shareholders' general meeting, the supervisory council and the management board.

SHAREHOLDERS' GENERAL MEETING

The Company's highest governing body is the shareholders' general meeting. The primary duties of the general meeting are to approve the annual report and the distribution of dividends, elect members to the supervisory council and recall members of the supervisory council, elect auditors, pass resolutions on any increase or decrease in share capital, change the Articles of Association and the other issues, which are the responsibility of the general meeting of shareholders by the law. According to the law the Articles of Association can be amended only by the shareholders' general meeting. In such a case it is required that 2/3 of the participating votes are for it.

Every shareholder or his/her proxy with a relevant written power of attorney may attend the general meeting, discuss about the items in the agenda, ask questions and make proposals.

The Group publishes a notice of an annual general meeting and extraordinary general meeting at least three weeks in advance in a national daily newspaper, through the stock exchange disclosure system and at the Company's website www.tallink.com. The notice includes information on where the meeting will be held.

The meeting agenda, board proposals and drafts of the decisions, comments and related materials will be all made available to the shareholders before the general meeting on the Company's website and through the information disclosure system of the stock exchange. The shareholders may ask questions before the general meeting by sending an email to info@tallink.ee.

The Company has not made it possible to observe and attend at the general meetings through electronic channels as there has not been any need for it (CGR 1.3.3).

In the reporting period AS Tallink Grupp held the annual general meeting on 29 January 2010. The meeting was attended by the management board members Enn Pant, Andres Hunt, Janek Stalmeister and Lembit Kitter. The Supervisory Council members present were Toivo Ninnas, Kustaa Äimä, Ain Hanschmidt, Eve Pant, Ashwin Roy and Kalev Järvelill. The meeting was attended also by the Company's auditor Andres Root. The chairman of the meeting was Aare Raig. The meeting was held in Estonian language. The shareholders represented at the annual general meeting 514,806,896 votes being 76.85% of the all votes.

There were no extraordinary general meetings during the 2009/2010 financial year.

THE SUPERVISORY COUNCIL

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

The supervisory council consists of 5 to 7 members. Members of the supervisory council are elected for periods of three years at a time. The supervisory council elects one of its members as chairman. In order to elect a member to the supervisory council his or her written consent is needed. The general meeting of the shareholders may recall any supervisory council member without a reason. Such a decision requires 2/3 of the votes represented at the general meeting. The member of the supervisory council can resign without a reason, informing the general meeting of the shareholders about the resignation.

The supervisory council is responsible for the supervision of administration of the Company and the appropriate organization of its operations. The supervisory council determines the principles for the Company's strategy, organization, annual operating plans and budgets, financing and accounting. The supervisory council elects the members of the management board and determines their salaries and benefits.

CORPORATE GOVERNANCE REPORT

The supervisory council has at present six members: Mr. Toivo Ninnas – Chairman, Ms. Eve Pant, Mr. Ain Hanschmidt, Mr. Lauri Kustaa Äimä, Mr. Ashwin Roy and Mr. Kalev Järvelill. The supervisory council members have the knowledge and experience necessary to fulfil their council member duties following the Corporate Governance Recommendations and legislation.

The supervisory council meetings are being held according to the needs, but at least once in every three months. The supervisory council convened five times during the 2009/2010 financial year. The Company's operations, development, strategies, targets and the budget were discussed. In 11 times the resolutions were adopted in the writing format without convening the meeting.

The supervisory council members avoid the conflicts of interest and observe the prohibition on competition. The supervisory council and management board work closely for the best for the Company's and its shareholders' interest acting in accordance with the articles of the association. The confidentiality rules are being followed when exchanging the information.

The supervisory council remuneration has been decided at the shareholders' general meeting on 17 January 2007. Accordingly, the chairman is remunerated with 1,900 EUR per month and the other members with 1600 EUR per month. There are no other benefits for the supervisory council members. At the shareholders general meeting in 29 January 2010 the supervisory council members remuneration was reduced by 20% temporarily until the end of the 2009/2010 financial year.

The direct shareholdings of the members of the supervisory council at the end of the 2009/2010 financial year:

- Toivo Ninnas – 19,200 shares
- Eve Pant – 530,000 shares
- Ain Hanschmidt – 1,800,000 shares
- Lauri Kustaa Äimä – 237,000 shares
- Ashwin Roy - Does not have any shares
- Kalev Järvelill – 1,276,800 shares.



CORPORATE GOVERNANCE REPORT

THE MANAGEMENT BOARD

The management board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example by entering into contracts on behalf of the Company. The management board is independent in their decisions and follows the best interest of the Company's shareholders. The management board must adhere to the decisions of general meeting of shareholders and lawful orders of the supervisory council. The management board ensures, at its best efforts, the Company's compliance with the laws and that the Company's internal audit and risk management procedures are functional.

The management board consists of 3 to 7 members. Members of the management board and the chairman of the management board are elected by the supervisory council for periods of three years at a time. In order to elect a member to the management board his or her written consent is needed. The chairman of the management board can propose to the supervisory council to appoint also a vice chairman of the management board, who in absence of the chairman fulfils the chairman's duties. Every member of the management board is entitled to represent the Company alone in any legal and business matter. According to the law the supervisory council can recall any management board member without a reason. The member of the management board can resign without a reason, informing the supervisory council about the resignation.

The management board has at present four members: Mr. Enn Pant – Chairman who's main field of responsibilities among the leading of the board is general and strategic management of the Group, Mr. Andres Hunt – Vice Chairman fulfils the chairman's duties in his absence and is also responsible for the legal matters, Mr. Janek Stalmeister, who was elected the member of the management board on 15.10.2009, is responsible for the IT, financial and investor relations areas, and Mr. Lembit Kitter is managing the Group's daily operations and development and is also responsible for the Group's sales & marketing. The supervisory council has concluded service agreements with the members of the management board.

In the 2009/2010 financial year the remuneration of the members of the Group's management board totalled 0.6 million EUR compared to 0.9 million EUR in 2008/2009.

The remuneration for the management board is set by the supervisory council according to the CGR. The pays and benefits of individual board members are not disclosed as the Group believes that for the investors such detailed information is insignificant and also outweighed by the possible harm and discomfort to the members of the management board from the disclosure of such sensitive private information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

Members of the management board avoid conflicts of interest and observe the prohibition on competition.

The direct shareholdings of the members of the management board at the end of the 2009/2010 financial year:

- Enn Pant – 3,632,413 shares
- Andres Hunt – 822,000 shares
- Lembit Kitter – Does not have any shares
- Janek Stalmeister – 20,400 shares

THE AUTHORITY OF THE MEMBERS OF MANAGEMENT BOARD TO ISSUE SHARES AND TO ACQUIRE THE SHARES

According to the decision of General Meeting on 26.01.2009 the Company is granted the right to acquire its own shares subject to the following conditions:

- 1) The company is entitled to acquire own shares within five years as from the adoption of this resolution.
- 2) The total nominal value of the shares owned by the company shall not exceed 10 % of the share capital.
- 3) The price payable for one share shall not be more than the highest price paid at Tallinn Stock Exchange for the share of AS Tallink Grupp at the day when the share is acquired.
- 4) Own shares shall be paid for from the assets exceeding the share capital, mandatory legal reserve and share premium.

Management Board has no right to issue the Company shares.

DISCLOSURE OF INFORMATION

The Company follows the CGR in its information disclosure procedures and treats all shareholders equally. All the released information is published on the Company's and Tallinn Stock Exchange's websites in Estonian and English languages.

CORPORATE GOVERNANCE REPORT

Meetings with investors have been arranged on an ad hoc basis as and when requested by the investors. The information shared in the meetings is limited to already disclosed data. The Company has published the times and locations of significant meetings with investors. The presentation addressed to investors is available at the Company's website. However, the Group does not meet the recommendation to publish the time and location of each individual meeting with the investor and to allow all of the Group's shareholders to participate in these events as it would be impractical and technically difficult to arrange (CGR 5.6).

FINANCIAL REPORTING AND AUDITING

Preparation of financial reports and statements is the responsibility of the Company's management board. The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRSs) and following also the Estonian regulations. The company issues quarterly interim financial reports and the annual report.

The Company's annual report will be audited and then agreed by the supervisory council. The annual report with the written report from the supervisory council will be sent to shareholders' general meeting for the final approval.

In the notice of shareholders' general meeting the candidate of auditor is provided. The Company has observed the auditors' rotation requirement. The auditing fees are set in the agreement concluded between the Company and the auditor where also the responsibilities of the auditors are included.

To the knowledge of the Company the auditors have fulfilled their contractual obligations and have audited the Company in accordance with the International Standards on Auditing.

For better risk management and control process the Company established the Audit Committee and Internal Audit Department.

Internal Audit Department took part in the process of preparing annual report. Internal audit is conducted to check that information presented in the annual report is reliable.

The consolidated financial statements of the 2009/2010 financial year are audited by KPMG Baltics.

AUDIT COMMITTEE

In July 2010 the supervisory council elected Mr. Ain Hanschmidt and Ms. Mare Puusaag to the Audit Committee. The Audit Committee is responsible for monitoring and analysing of processing of financial information, efficiency of risk management and internal control, the process of auditing of annual accounts and consolidated accounts, independence of the audit firm and auditor representing the auditor company on the basis of law. The Audit Committee is liable for making recommendations and proposals to the Supervisory Council.

SUBSTANTIAL SHAREHOLDERS

Infortar AS	269,576,164 shares	40.01%
Nordea Bank Finland PLC/ non-resident legal entities	68,011,050 shares	10.09%
ING Luxembourg S.A.	67,850,776 shares	10.07%

The related party transactions are disclosed in the notes to the financial statements.

RISKS

The Group's business, financial condition and results from operations could be materially affected by various risks. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are immaterial or unlikely, could also impair our business. The order of presentation of the risk factors below is not intended to be an indication of the probability of their occurrence or of their potential effect on our business.

- Accidents, disasters
- Macroeconomic development
- Changes in laws and regulations
- Relations with trade unions
- Increase in the fuel prices and interest rates
- Market and customer behaviour

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

From left:

**AIN HANSCHMIDT
(born 1961)**

Member of the supervisory council since 2005, also from 1997 to 2000

Chief Executive Officer of AS Infortar

For years he served as Chairman of the management board of AS SEB Eesti Ühispank

Graduated from the Tallinn Polytechnic Institute (Tallinn University of Technology), Estonia in 1984

Direct shareholding of 1,800,000 shares

**LAURI KUSTAA ÄIMÄ
(born 1971)**

Member of the supervisory council since 2002

Managing Director KJK Capital Oy

Chairman of the Management Board, KJK Fund SICAV-SIF and Amber Trust II SCA

Vice-chairman of the Management Board, Amber Trust SCA

Holds a Masters degree in Economics from the University of Helsinki, Finland in 1997

Direct shareholding of 237,000 shares

**ASHWIN ROY
(born 1975)**

Member of the supervisory council since 2009

Director of Citi Venture Capital International ("CVCI")

Has led all of CVCI's transactions in the Baltic States.

Previously a fund manager at Societe Generale Asset Management covering private and listed equities in Central and East Europe.

Has also worked for PriceWaterhouseCoopers in London for 3.5 years, in audit and transaction support.

He is a UK qualified Chartered Accountant and holds an MA (Hons) in Economics (First Class), from King's College, University of Cambridge, UK.

**KALEV JÄRVELLIL
(born 1965)**

Member of the supervisory council since 2007

Member of the supervisory council of AS Infortar

He was a member of the management board of AS Tallink Grupp from 1998-2006

General Director of the Estonian Tax Board from 1995 to 1998

Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995

Direct shareholding of 1,276,800 shares

**Mr. LEMBIT KITTER
(born 1953)**

Member of the management board, General Director since 2006

Worked in the banking sector in Estonia since 1992 at leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank

Graduated the Faculty of Economics in University of Tartu, Estonia, in 1976

**EVE PANT
(born 1968)**

Member of the supervisory council since 1997

Member of the management board of Infortar since 1997

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

Direct shareholding of 530,000 shares

**Mr. JANEK STALMEISTER
(born 1974)**

Member of the management board since 2009, Chief Financial Officer

Has been with the Group since 1999 in the positions of financial advisor, treasurer and financial director

Head of the External Debt Division at the Estonian Ministry of Finance from 1994-1997

Graduated the Faculty of Economics from the International University "LEX", Estonia, in 1999

Direct shareholding of 20,400 shares of Tallink Grupp

**TOIVO NINNAS
(born 1940)**

Chairman of the supervisory council since 1997

Served at ESCO (Estonian Shipping Company) 1973 to 1997 on various positions, Director General since 1987.

Graduated from the Far Eastern High Engineering Maritime College (FEHEMC), maritime navigation, in 1966.

Direct shareholding of 19,200 shares

SUPERVISORY COUNCIL AND MANAGEMENT BOARD



Mr. ANDRES HUNT
(born 1966)

Member of the management board since 2002

Has been with the Group since 1998 in the positions of Financial Director and Chief Financial Officer

Director of Tax Policy Department at the Ministry of Finance of Estonia from 1995 to 1998

Graduated the Faculty of Economics, Academy of Agriculture, Estonia, in 1992

Direct shareholding of 822,000 shares of Tallink Grupp

Mr. ENN PANT
(born 1965)

Chairman of the management board since 1996, Chief Executive Officer

Member of the supervisory council of AS Infortar

Chancellor of the Ministry of Finance of Estonia from 1992 to 1996

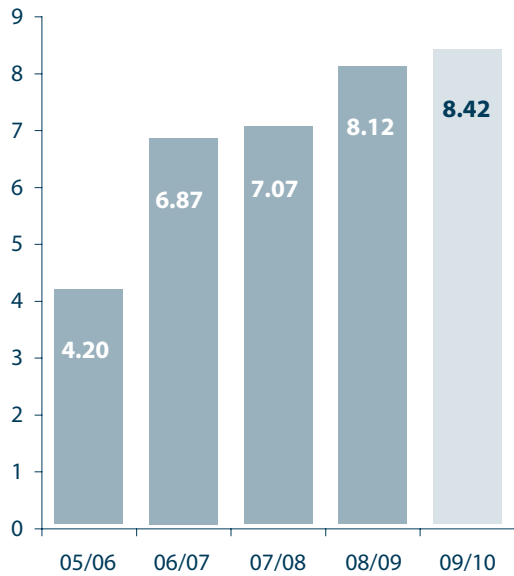
Graduated the Faculty of Economics, University of Tartu, Estonia, in 1990

Direct shareholding of 3,632,413 shares of AS Tallink Grupp

PERFORMANCE

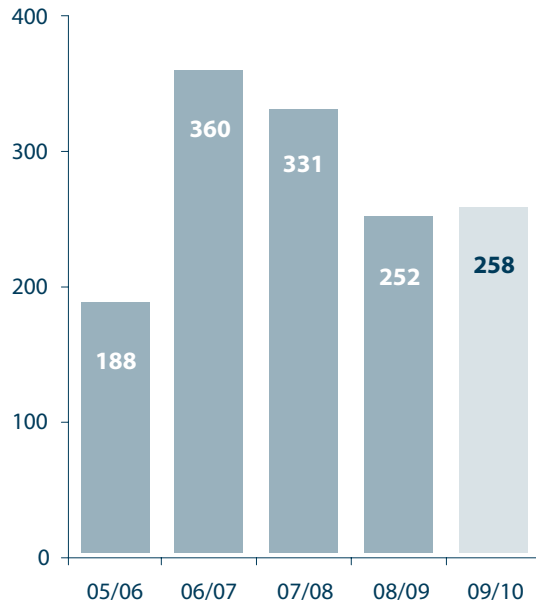
PASSENGERS

Million



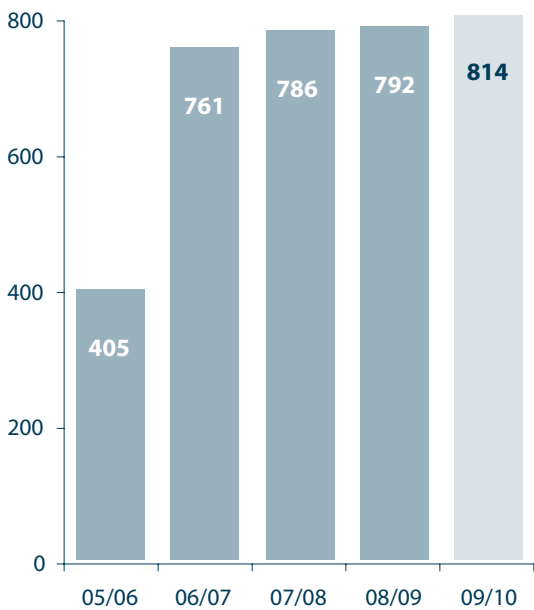
CARGO UNITS

Thousand



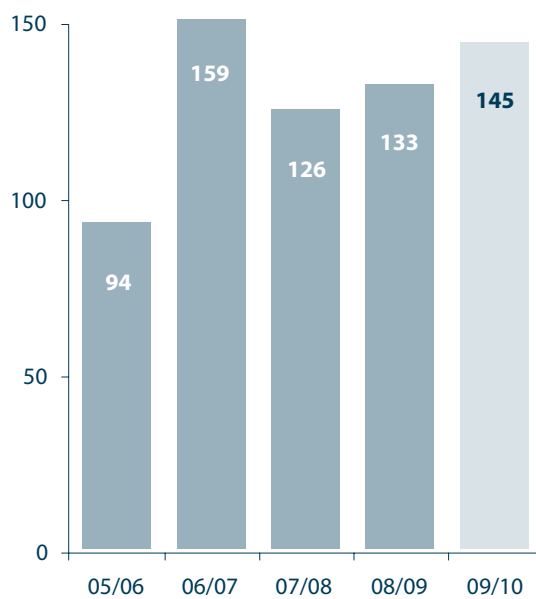
REVENUE

Million EUR



EBITDA

Million EUR



MANAGEMENT REPORT

During the 2009/2010 financial year (01.09.2009-31.08.2010) the volume of passengers transported by the Group's vessels was 8.4 million. The annual growth of passenger volume was 3.7%. The group was able to increase its market share in the Northern Baltic Sea. As a result of the growth in the passenger volume the Group's revenue increased by 2.8% to 813.9 million EUR.

In 2009/2010 the Group's operations improved mainly as a result of the increased passenger volume and a slight recovery in the revenues per passenger. As the economy in the region started to pick up the cargo volumes on the Group's ships increased, more noticeably in the second half of the financial year.

The Group was able to improve its operational efficiency. The EBITDA increased by 8.9% to 145.1 million EUR. EBITDA margin improved from 16.8% to 17.8%. The Group's target for the 2009/2010 financial year was to be profitable and the target was met. The net profit for the year was 21.9 million EUR.

The improvement in the Group's results is an effect contributed by several factors. After the extensive investment phase and several new projects in the past years the Group's units have now been able to dedicate more of their resources to the core operations. Focused sales activities and the coordination between the Group's market areas have led to increased passenger volumes. At the same time the Group was able to improve the revenue per passenger. This was a result of the development in the revenue management by introducing dynamic flexible pricing in the Shuttle product, as well as performing active sales onboard the vessels. The integration of the Group's IT systems has developed well. From one side it has delivered noticeable cost savings but even more importantly will give new opportunities for further maximisation of the Group's sales through revenue & inventory and customer relations management (CRM). In October 2010 the new and improved online booking engine for the customers was launched and in November 2010 the enhancement to the loyal customer program Club One was introduced.

The key highlights for the 2009/2010 financial year were the following:

- Restructuring of the Group's debt repayments, which significantly improved the Group's liquidity position
- Continuous focus on cost savings
- Improved revenue management with the start of dynamic & flexible pricing on the Shuttle service
- HSC Tallink Autoexpress 2 was sold
- Increased passenger number
- Increased revenue per passenger
- Increased cargo volume

SALES

The Group's consolidated net sales amounted to 813.9 million EUR in the 2009/2010 financial year compared to 791.9 million EUR in the 2008/2009 financial year (1 September 2008 – 31 August 2009).

The highest growth segment with a 13.3% increase was the Group's newest Latvia-Sweden route where the sales reached a total of 52.6 million EUR. In absolute terms the largest growth was in the Estonia-Finland route bringing a noticeable 22.7 million EUR increase to the Group's revenue. Due to the weak cargo transportation and a four months pause in the operations in the Finland-Germany route the segment revenue decreased by more than 38% to 22.3 million EUR.

In the operational segments the restaurant and shop sales increased by 20.2 million EUR (+4.8%) and ticket sales increased by 8.9 million EUR (+4.3%), as a result of the increased passenger volumes, improved spending per passenger and improved average ticket revenue per passenger. The Group's cargo sales decreased by 8.7 million EUR due to lower pricing and the structural changes in the operations as the Finland-Germany route where the cargo revenue share is higher decreased more than the other routes.

MANAGEMENT REPORT

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

Geographical segments	09/10	08/09
Finland - Sweden	43.5%	44.3%
Estonia - Finland	29.5%	27.5%
Estonia - Sweden	11.1%	11.4%
Finland - Germany	2.7%	4.6%
Latvia – Sweden	6.5%	5.9%
Other	6.7%	6.4%

Operational segments	09/10	08/09
Restaurant and shop sales on-board and on mainland	54.2%	54.1%
Ticket sales	26.7%	25.4%
Sales of cargo transportation	12.1%	13.5%
Accommodation sales	1.4%	1.3%
Income from leases of vessels	2.1%	2.1%
Other sales	3.5%	3.6%

EARNINGS

During the 2009/2010 financial year the Group's gross profit was 168.1 million EUR, a 2.1% increase and EBITDA increased by 11.9 million EUR to 145.1 million EUR. The net profit for the year was 21.9 million EUR compared to the net loss of 8.2 million EUR in the 2008/2009 financial year. Basic earnings per share and diluted earnings per share were 0.03 EUR in the 2009/2010 financial year.

Whereas the shops and restaurant sales increased the Group was able to increase the margin on the goods. The largest cost group, cost of goods, decreased by 4.1 million EUR to 170.0 million EUR.

The increase in the reference fuel price (Fuel oil 1%) was approximately 38%, measured in euros, when comparing the average price in the 2009/2010 financial year with the average price in the 2008/2009 financial year. The volatility in the fuel prices in the previous years has been high which resulted in very low prices during part of the comparison period - financial year 2008/2009. Due to the price development, increased consumption during the harsh winter of 2010 but at the same time less sailings in the Finland-Germany route the overall increase in the Group's fuel cost was 20.2 million EUR or 22%. A portion of the fuel purchases for 2009/2010 financial year was hedged with fuel derivatives.

The Group personnel expenses decreased by 1.7% to 161.2 million EUR. The average number of employees for the 2009/2010 financial year was 6,612 (6,853 in 2008/2009).

As a result of continuous cost saving activities the Group's administrative expenses decreased by 9.2 million EUR in the 2009/2010 financial year.

The depreciation and amortisation of the Group's assets increased by 3.2 million EUR mainly due to the new vessel MS Baltic Queen.

The financial expenses decreased by 20.6 million EUR in the 2009/2010 financial year. Interest expenses decreased by 12.9 million EUR whereas the derivative transactions (interest rate swaps and fuel swaps) expenses decreased by 6.2 million EUR.

The Group's exposure to credit risk, liquidity risk and market risks and financial risk management activities are described in the notes to the financial statements.

LIQUIDITY AND WORKING CAPITAL

At the beginning of the 2009/2010 financial year the liquidity was lower than usual when approaching the low season in winter. As the risk of uncertainties resulted from the global recession was present, it was then agreed with the international lenders that the Group's original loan repayments will be deferred by approximately 60 million EUR per year for the next two years. The repayment restructuring reduces significantly the liquidity risks and gives more flexibility for the Group to maintain sufficient working capital to meet its present and future needs.

The net operating cash flow increased by 18.1 million EUR to 163.8 million EUR in the 2009/2010 financial year, primarily due to the improved operational results and the changes in the working capital.

The net cash flows used in investing activities decreased to 6.1 million EUR as the Group has ended the fleet renewal program.

During the 2009/2010 financial year, the Group did not receive any cash from new borrowings but repaid its existing loans and overdrafts in total of 106.5 million EUR.

MANAGEMENT REPORT

As of 31 August 2010, the Group's cash and cash equivalents totalled 57.5 million EUR. In addition the Group is allowed to use overdraft credit lines in the amount of 46.8 million EUR.

In the management's opinion the Group has sufficient liquidity to support its operations.

CAPITAL RESOURCES

We finance our future investments with operating cash flows, debt and equity financing, and proceeds from potential disposals of assets. At 31 August 2010, the Group's debt as a percentage of capitalization (total debt and shareholders' equity) was 61.5% compared to 64.8% at 31 August 2009. The reduction results from a 113.4 million EUR decrease in debt and a 25.0 million EUR increase in retained earnings and reserves.

LOANS AND BORROWINGS

At the end of the 2009/2010 financial year, interest-bearing liabilities totalled 1,067.9 million EUR, 9.6% lower than a year ago. In the reporting period, the Group did not take any new loans. The granted overdraft limits were repaid but remain available for the Group to maintain the liquidity position if needed.

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

SHAREHOLDERS' EQUITY

Consolidated equity increased by 3.9% from 642.7 million EUR to 667.7 million EUR, mainly on account of net profit for the financial year. Shareholders' equity per share, excluding own shares, was 1.0 EUR. At the end of the 2009/2010 financial year the Group's share capital amounted to 430,647,578 EUR. For further information about shares, please see the "Shares and Shareholders" section of this report.



MANAGEMENT REPORT

MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2009/2010 financial year was 8.4 million, which is 3.7% more than the in previous financial year. The number of cargo units carried by the Group's vessels was 259 thousand, a 2.7% increase on the previous financial year. The number

of passenger cars increased by 11.8% and reached 965 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2009/2010 and 2008/2009 financial years.

Passengers	2009/2010	2008/2009	change
Finland-Sweden	3,136,360	3,169,453	-1.0%
Estonia-Finland	3,790,030	3,485,359	8.7%
Estonia-Sweden	837,935	850,098	-1.4%
Latvia-Sweden	605,837	520,505	16.4%
Finland-Germany	57,893	99,146	-41.6%
Total	8,428,055	8,124,561	3.7%

Cargo units	2009/2010	2008/2009	change
Finland-Sweden	91,412	87,627	4.3%
Estonia-Finland	104,388	94,311	10.7%
Estonia-Sweden	33,278	31,266	6.4%
Latvia-Sweden	15,211	13,595	11.9%
Finland-Germany	14,484	25,227	-42.6%
Total	258,773	252,026	2.7%

Passenger vehicles	2009/2010	2008/2009	change
Finland-Sweden	181,451	181,130	0.2%
Estonia-Finland	617,689	528,681	16.8%
Estonia-Sweden	66,197	56,923	16.3%
Latvia-Sweden	82,584	68,757	20.1%
Finland-Germany	16,955	27,526	-38.4%
Total	964,876	863,017	11.8%

The following operational factors influenced traffic volumes development in 2009/2010 financial year.

Finland-Sweden:

M/S Silja Europa was out of operations for about three weeks in the end of 2009 due to technical fault. She was replaced by M/S Baltic Queen.

Cargo vessel M/S Regal Star operating on the Turku-Stockholm route as an additional cargo vessel in the summer period.

Estonia-Sweden:

For about three weeks in the end of 2009 the route was serviced only with one cruise ferry, Victoria as the second vessel Baltic Queen was temporarily in the Finland-Sweden operations.

Smaller cargo vessel M/S Kapella replaced M/S Regal Star on the Paldiski-Kappellskär route in the summer period.

Finland-Germany:

The operations in the route were stopped for four months in 2010 (January-April).

The Group's market shares on routes operated during the 2009/2010 financial year were as follows:

- The Group carried approximately 57% of the passengers and 53% of ro-ro cargo on the route between Tallinn and Helsinki;
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.

MANAGEMENT REPORT

- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm;
- The Group carried approximately 55% of passengers and 34% of ro-ro cargo on the routes between Finland and Sweden;
- The Group's approximate market share of passenger transportation on the route between Finland and Germany was 23% and the approximate market share of ro-ro cargo transportation was 5%.

OUTLOOK

The Group has entered into a new phase. The significant investment program has been completed with the delivery of last cruise ferry MS Baltic Queen in 2009. Thus the Group's investment requirement is very small going ahead. The Group's focus is now prioritized on the core operations to realize results of the recent investments and repay the loans. It is also high priority to find better utilisation and improve the return on the vessels currently operating on the not so well performing Finland-Germany route. The Management is actively working towards the chartering or sale of the currently unemployed old vessels to improve the Group's cost effectiveness.

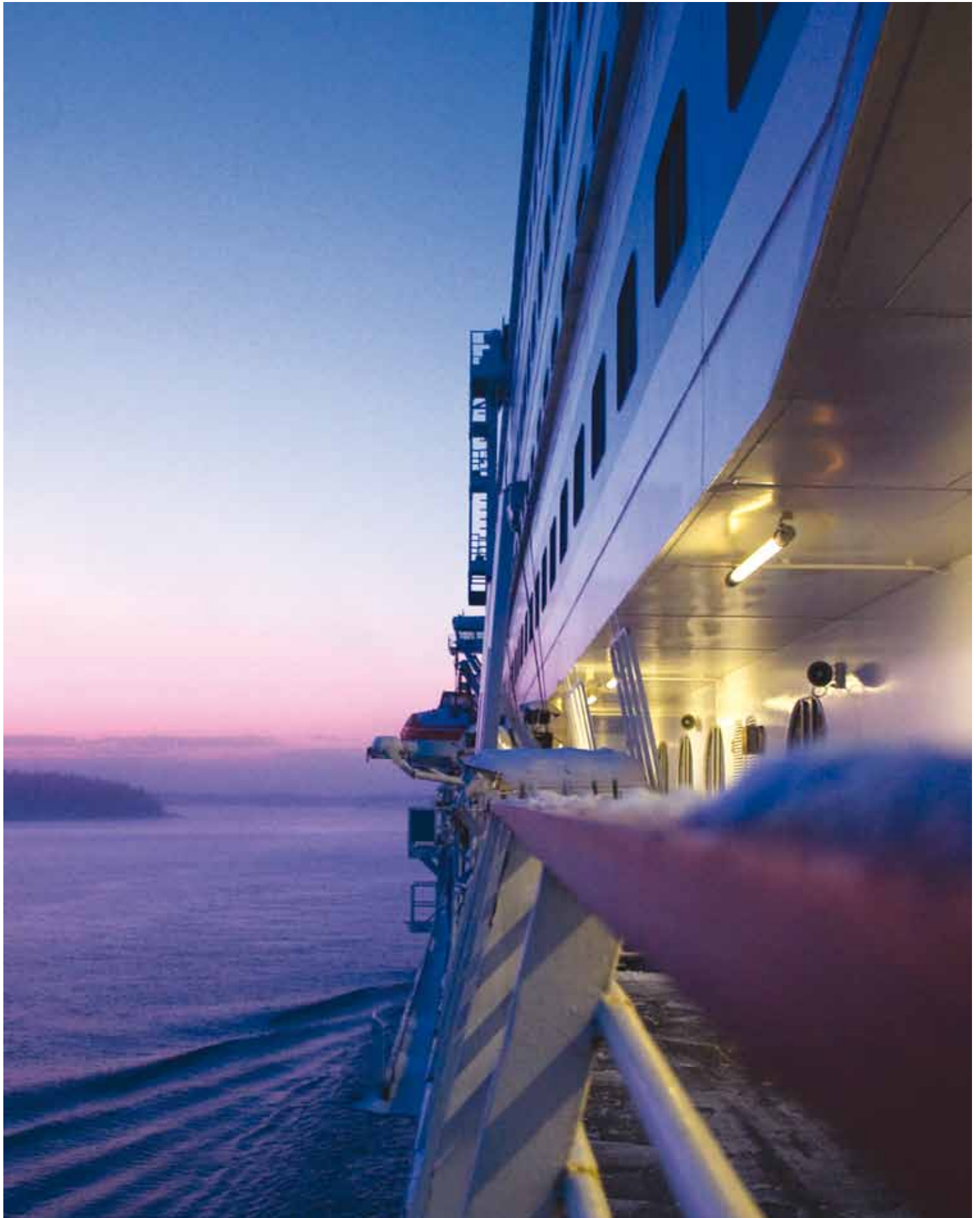
The Management continues to focus on cost efficiency and on the Group's profitability. The sale or charter of older and non performing vessels has high priority. There are currently several negotiations open to either charter or sell some of the older and non performing vessels.

The Management estimates that the macroeconomic recovery continues and no major changes are foreseen in the Group operations in the 2010/2011 financial year. The Group's results are estimated to improve further.



Chairman of the Management Board
Enn Pant





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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

	in thousands of EUR		Notes
	2010	2009	
Revenue	813,872	791,863	4
Cost of sales	-645,730	-627,104	5
Gross profit	168,142	164,759	
Marketing expenses	-54,273	-51,327	5
Administrative expenses	-40,259	-49,506	5
Other income	906	356	
Other expenses	-2,236	-544	
Results from operating activities	72,280	63,738	
Finance income	5,238	347	5
Finance costs	-52,661	-73,238	5
Share of loss of associates	-373	-483	12
Profit/-loss before income tax	24,484	-9,636	
Income tax	-2,634	1,461	6
Net profit/-loss for the financial year	21,850	-8,175	
Other comprehensive income/-expense			
Exchange differences on translating foreign operations	709	-268	
Changes in fair value of cash flow hedges	732	-27	
Revaluation of property, plant and equipment	1,730	0	
Other comprehensive income/-expense for the period	3,171	-295	
Total comprehensive income/-expense for the period	25,021	-8,470	
Profit attributable to:			
Equity holders of the Parent	21,850	-8,175	
Total comprehensive income/-expense attributable to:			
Equity holders of the parent	25,021	-8,470	
Basic and diluted earnings per share (in EUR per share)	0.03	-0.01	7

The notes on pages 39 to 69 are an integral part of these consolidated financial statements.

FINANCIALS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 August

	in thousands of EUR		Notes
	2010	2009	
ASSETS			
Current assets			
Cash and cash equivalents	57,488	49,982	8
Trade and other receivables	42,040	50,986	9
Prepayments	9,752	11,497	10
Derivatives	705	415	25
Inventories	20,035	19,015	11
	130,020	131,895	
Non-current assets			
Investments in associates	214	0	12
Other financial assets	317	490	13
Deferred income tax assets	10,664	13,259	6
Investment property	300	300	14
Property, plant and equipment	1,663,100	1,728,771	15
Intangible assets	66,700	72,523	16
	1,741,295	1,815,343	
TOTAL ASSETS	1,871,315	1,947,238	
LIABILITIES AND EQUITY			
Current liabilities			
Interest-bearing loans and borrowings	63,627	105,822	17
Trade and other payables	94,054	90,484	18
Deferred income	23,965	21,175	19
Derivatives	17,634	11,494	25
	199,280	228,975	
Non-current liabilities			
Interest-bearing loans and borrowings	1,004,244	1,075,482	17
Other liabilities	74	85	20
	1,004,318	1,075,567	
Total liabilities	1,203,598	1,304,542	
EQUITY			
Equity attributable to equity holders of the Parent			
Share capital	430,648	430,648	21
Share premium	639	639	21
Reserves	72,607	71,862	21
Retained earnings	163,823	139,547	
Total equity attributable to equity holders of the Parent	667,717	642,696	
Total equity	667,717	642,696	
TOTAL LIABILITIES AND EQUITY	1,871,315	1,947,238	

The notes on pages 39 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August

	in thousands of EUR		Notes
	2010	2009	
Cash flows from operating activities			
Net profit/-loss for the financial year	21,850	-8,175	
Adjustments:	127,208	140,029	
Depreciation and amortisation	71,920	69,939	15,16
Impairment loss	1,257	0	15
Net gain on disposals of property, plant and equipment	-344	-77	
Net interest expense	39,433	52,140	5
Net expense from derivatives	11,411	19,271	5
Loss from equity accounted associates	373	483	12
Net foreign exchange gain / loss related to investing and financing activities	524	-266	
Income tax	2,634	-1,461	6
Changes in receivables and prepayments related to operating activities	10,816	19,508	
Changes in inventories	-1,020	3,896	
Changes in liabilities related to operating activities	5,009	-9,555	
Income tax paid	-71	-32	
	163,792	145,671	
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	-6,112	-162,964	15,16
Proceeds from disposals of property, plant and equipment	6,704	1,080	
Proceeds from disposals of associates	0	50	12
Payments from settlement of derivatives	-4,460	-3,995	
Issue of shares by associates	-587	-391	12
Interest received	173	371	
	-4,282	-165,849	
Cash flows from /used in financing activities			
Proceeds from loans	0	155,123	
Redemption of loans	-60,348	-108,618	
Change in overdraft	-46,115	13,051	17
Payment of finance lease liabilities	-403	-423	
Interest paid	-45,138	-55,683	
	-152,004	3,450	
TOTAL NET CASH FLOW	7,506	-16,728	
Cash and cash equivalents:			
- at the beginning of period	49,982	66,710	
- increase / decrease	7,506	-16,728	
- at the end of period	57,488	49,982	8

The notes on pages 39 to 69 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August, in thousands of EUR

	Share capital ¹	Share premium ¹	Translation reserve	Ships' revaluation reserve ²	Cash flow hedge reserve	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As of 31 August 2008	430,648	639	-56	67,932	0	9,853	-4,163	146,313	651,166	651,166
Transfer from profit for 2007/2008	0	0	0	0	0	1,016	0	-1,016	0	0
Total comprehensive expense										
Net loss for the year 2008/2009	0	0	0	0	0	0	0	-8,175	-8,175	-8,175
Total other comprehensive expense for the year 2008/2009	0	0	-268	0	-27	0	0	0	-295	-295
Total comprehensive expense for the year 2008/2009	0	0	-268	0	-27	0	0	-8,175	-8,470	-8,470
Transfer from revaluation reserve	0	0	0	-2,425	0	0	0	2,425	0	0
As of 31 August 2009	430,648	639	-324	65,507	-27	10,869	-4,163	139,547	642,696	642,696
Total comprehensive income										
Net profit for the year 2009/2010	0	0	0	0	0	0	0	21,850	21,850	21,850
Total other comprehensive income for the year 2009/2010	0	0	709	1,730	732	0	0	0	3,171	3,171
Total comprehensive income for the year 2009/2010	0	0	709	1,730	732	0	0	21,850	25,021	25,021
Transfer from revaluation reserve	0	0	0	-2,426	0	0	0	2,426	0	0
As of 31 August 2010	430,648	639	385	64,811	705	10,869	-4,163	163,823	667,717	667,717

¹ For further information see also Note 21 Share Capital and Reserves² For further information see also Note 15 Property, Plant and Equipment and Note 21 Share Capital and Reserves

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The consolidated financial statements of AS Tallink Grupp (the "Parent") and its subsidiaries (together referred to as the "Group") for the year ended 31 August 2010 were authorised for issue by the management board on 16 December 2010.

According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the management board must be agreed by the supervisory council, and approved by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the management board and the right to request that a new annual report be prepared.

AS Tallink Grupp is a public limited company incorporated and domiciled in Estonia, with registered office at Sadama 5/7 Tallinn. AS Tallink Grupp's shares have been publicly traded on Tallinn Stock Exchange since 9 December 2005.

The principal activities of the Group are related to marine transportation (passenger and cargo transportation). Further information on the principal activities of the Group is presented in Note 4 "Segment Information". As of 31 August 2010 the Group employed 6,715 people (6,767 as of 31 August 2009).

Note 2 BASIS OF PREPARATION

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate financial statements (i.e. statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, collectively referred to as primary financial statements) of the Parent. The separate primary financial statements of AS Tallink Grupp are disclosed in Note 27 "Primary Financial Statements of the Parent". These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries and associates which are stated at cost in the separate primary financial statements of the Parent.

2.1. Statement of compliance

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

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value
- ships are measured at fair value.

2.3. Presentation currency

The Group's consolidated financial statements are presented in Euros (EUR).

2.4. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Fair value of ships

For the purpose of revaluation, the Group determined the fair value of its ships as of 31 August 2010. The fair value of ships depends on many factors, including the year of building, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Further details are given in Note 3.4 and Note 15.

Financial instruments – whether derivatives qualify for hedge accounting

As of 31 August 2010, the Group had entered into five derivative agreements (2009: eight agreements). The Group has determined that three of the interest rate derivatives and one foreign exchange derivative do not qualify for cash flow hedge accounting. One fuel price swap agreement qualifies for hedge accounting. See Notes 25 and 3.3. for more detailed information on the interest swap agreements and related accounting policies.

Operating lease – Group as lessee

As of 31 August 2010, the Group has entered into a lease agreement for five hotel buildings (2009: four hotel buildings). The management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 22 for more detailed information on the minimum lease payments of the lease agreements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which goodwill is allocated. Estimating value-in-use

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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 31 August 2010 amounted to 11,066,000 EUR, 2009: 11,066,000 EUR. Further details are given in Note 16.

Deferred tax

Deferred tax assets and liabilities are recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management 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.

Customer loyalty programmes

Customer loyalty programmes (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale.

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 the volumes of business activities, historical experience in this area and future outlook. Management's opinion on the useful lives of the Group's property, plant and equipment and the Group's intangible assets is disclosed in Notes 15 and 16 respectively.

2.5. Changes in accounting policies

Presentation of financial statements

The Group applies revised IAS 1 "Presentation of Financial Statements", which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is in conformity with the revised standard. As the change in policy only impacts presentation aspects, there is no impact on earnings per share.

Determination and presentation of operating segments

As of 1 September 2009, the Group determines and presents operating segments based on the information that internally is provided to the Group's management board that is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 "Operating Segments". Previously operating segments were determined

and presented in accordance with IAS 14 Segment Reporting. The change in accounting policy only impacts the presentation and disclosure aspects and there is no impact on earnings per share. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's management board to make decisions about resources to be allocated to the segment and to assess its performance and for which financial information is available. Segment results that are reported to the Group's management board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Note 3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

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

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

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

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

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

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing

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

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned by the Group and are presented separately within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent, where relevant.

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

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

3.2. Foreign currency

Foreign currency transactions

The Parent's functional currency and presentation currency is the Estonian kroon. Due to Tallinn Stock Exchange requirements the Group 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. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference

between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation for qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

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

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

3.3. Financial instruments

Non-derivative financial assets

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents are cash on hand, call deposits, short-term bank deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, are recognised directly in equity.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments, including hedge accounting

The Group uses derivative financial instruments such as swaps, options and forwards to hedge its risks associated with currency exchange rate changes, interest rate and fuel price 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. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the

embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Any gain or loss 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 generally accepted mathematical valuation methods such as Cox-Ingersoll-Rose Model, Black & Scholes Model, Calibration of Volatility, Monte Carlo Simulation or Hull-White Model.

For the purpose of hedge accounting, hedges are classified into:

- fair value hedges
- cash flow hedges

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 actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and presented in the hedging reserve in equity, while any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

Share capital

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

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

3.4. Property, plant and equipment

Recognition and measurement

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

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

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

Ships are measured at fair value (i.e. a revalued amount) less depreciation charged subsequent to the date of the revaluation. Revaluation is normally performed every 3 to 5 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

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

Subsequent costs

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised (e.g. replacements of parts of some items, dry-dockings with intervals of two or five years) 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 they are incurred.

Depreciation

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

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

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

Land is not depreciated.

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

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

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

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

From 1 September 2006 the residual value is calculated as a percentage of the gross carrying amount of the ship. Residual value for ships is 15%, except for MS Kapella whose residual value is 40%.

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 profit or loss (in "other operating income" or "other operating expenses") in the financial year the asset is derecognised.

3.5. Leased assets

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

3.6. Intangible assets

Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

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Research and development

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

Following the initial recognition of development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and 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.

Other intangible assets

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

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

Subsequent expenditure

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

Amortisation

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

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

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 the indefinite life

assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to definite is made on a prospective basis.

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

3.7. Investment property

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

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

3.8. Inventories

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

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

3.9. Financial liabilities

Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between the 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.

3.10. Borrowing costs

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

3.11. Impairment

Financial assets

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

An impairment loss in respect of a financial asset measured at amortised

cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets

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

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

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

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

3.12. Employee benefits

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

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

3.13. 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 in "finance costs".

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

3.14. Leases

The Group as a lessee

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

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

The Group as a lessor

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

3.15. Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration

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received or receivable, excluding trade discounts, volume rebates and sales taxes or duties. For customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (Club One points) and ticket sale. For further information see Note 19. 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 is recognised as the services are rendered. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to the tickets and cargo shipments prepaid.

Sales of hotel rooms (accommodation)

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

Revenue from travel packages

The Group sells packages, which consist of a ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognises the sales of packages in its 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. Revenue from sales of packages is recognised when package is used by the clients.

Charter income

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

3.16. Government grants

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

3.17. Lease payments

Payments made under operating leases are recognised in profit or loss on straight-line-basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance lease are apportioned between the finance expense and the reduction of the outstanding

liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when lease adjustment is confirmed.

3.18. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

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

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

3.19. Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Group companies in Estonia

According to Estonian Income Tax Act, for Group companies in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax (21/79 of net dividend). The Parent's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the statement of financial position. 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 in the period the dividends are declared.

Group companies in Cyprus

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

Group company in the Bahamas

According to the income tax law of the Bahamas, the net profit of shipping companies registered in the Bahamas and the dividends paid by these companies are not subject to income tax. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause deferred income tax.

Other foreign Group companies

In accordance with the income tax laws of other jurisdictions, the company's net profit adjusted for temporary and permanent differences determined by the income tax acts is subject to current income tax in those countries in which the Group companies have been registered.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. Maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 22.

3.20. Earnings per share

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

3.21. Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Group's management board that is the Group's chief operating decision maker. An operating

segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

Segment information is presented in respect of the Group's geographical and operational segments. The primary segments of the Group are geographical segments (by the routes) and the secondary segments are operational segments (ticket sales, sales of cargo transport, restaurant and shop sales on-board and on mainland, hotel (accommodation) sales and others).

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 administrative expenses, interest expenses, income tax expense and other expenses that arise at the Group level and are related to the Group as a whole. Expenses incurred at the Group level on behalf of a segment are allocated 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 results that are reported to the management board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Segment liabilities are those liabilities that are 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.

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.

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

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3.22. New standards and interpretations not yet adopted

A number of new International Financial Reporting Standards, amendments to standards and interpretations are effective for accounting periods beginning after 1 September 2009, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

3.23. Determination of fair values

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

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property, plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available. The Group uses independent appraisers to determine the fair value of the ships. The frequency of revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required.

Intangible assets

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

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

Investment property

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The Group uses independent appraiser, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

Derivatives

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

Non-derivative financial liabilities

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

Deferred income

The amount allocated to the Club One points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the Club One points themselves is not directly observable. The fair value of the services for which the Club One points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. Such amount is recognised as deferred income.

Note 4 SEGMENT INFORMATION

The Group's operations are organised and managed separately according to the nature of the different markets. The Group operates (1) three ships between Estonia and Finland, (2) three ships between Estonia and Sweden, (3) two ships between Latvia and Sweden, (4) two ships between Germany and Finland, (5) five ships between Finland and Sweden, (6) two ships were leased out from the Group, (7) two ships were not in operations, (8) four hotels and seven shops in Estonia and (9) one hotel in Latvia, which represent different business segments.

The Group's market share on the Estonia-Finland route is about 57% of passenger transportation and about 53% of cargo transportation, on the Estonia-Sweden route it is about 100% of passenger transportation and about 64% of cargo transportation. The market share on the Riga-Stockholm route is about 100% for both passenger and cargo transportation, and the estimated market share on the Finland-Germany route is about 23% of passenger transportation and about 5% of cargo transportation. The estimated passenger transportation market share on the Group's Finland-Sweden routes is about 55% and the cargo transportation market share is about 34%.

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 2010 and 2009.

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Information by operational segments

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Ticket sales	217,234	208,357
Sales of cargo transport	98,495	107,175
Accommodation sales	10,998	9,865
Restaurant and shop sales on-board and on mainland	441,640	421,418
Income from leases of vessels	17,062	16,903
Other	28,443	28,145
Total revenue of the Group	813,872	791,863

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

Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

for the year ended 31 August

Cost of sales	in thousands of EUR		Note
	2010	2009	
Cost of goods	-169,981	-174,145	
Port & stevedoring costs	-91,546	-90,947	
Fuel cost	-110,793	-90,576	
Staff costs	-118,048	-119,029	
Ships operating expenses	-61,527	-64,736	
Depreciation and amortisation	-64,657	-60,999	15, 16
Cost of package sales	-14,156	-13,241	
Other costs	-15,022	-13,431	
Total cost of sales	-645,730	-627,104	

for the year ended 31 August

Marketing expenses	in thousands of EUR		Note
	2010	2009	
Advertising expenses	-22,091	-24,098	
Staff costs	-28,889	-23,331	
Depreciation and amortisation	-1,408	-1,438	15, 16
Other costs	-1,885	-2,460	
Total marketing expenses	-54,273	-51,327	

for the year ended 31 August

Administrative expenses	in thousands of EUR		Note
	2010	2009	
Staff costs	-14,262	-21,685	
Depreciation and amortisation	-7,112	-7,502	15, 16
Other costs	-18,885	-20,319	
Total administrative expenses	-40,259	-49,506	

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

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Wages and salaries	-136,643	-138,232
Social security costs	-21,682	-23,749
Staff training costs	-1,203	-1,071
Other staff costs	-1,671	-993
Total staff costs	-161,199	-164,045

Finance income and finance costs recognised in profit or loss

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Finance income		
Net foreign exchange gains	3,421	0
Income from derivatives	1,644	0
Interest income	173	347
	5,238	347
Finance costs		
Net foreign exchange loss	0	-1,142
Interest expenses	-39,606	-52,487
Losses from derivatives	-13,055	-19,271
Other finance costs	0	-338
	-52,661	-73,238
Net finance cost	-47,423	-72,891

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Note 6 INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, Latvian and Russian subsidiaries

In accordance with the Swedish, Finnish, Latvian and Russian tax laws, the company's net profit adjusted for temporary and permanent differences determined in the income tax acts is subject to income tax in Finland, Sweden, Latvia and Russia (in Finland the tax rate is 26%, in Sweden 26,3%, in Latvia 15% and in Russia 22%).

Income tax expense

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

	in thousands of EUR	
	2010	2009
Current period tax expense		
Swedish subsidiaries	0	-23
Latvian subsidiary	-39	-34
Russian subsidiary	0	0
Total current tax expense	-39	-57
Deferred tax income/ expense		
Swedish subsidiaries	-5	-370
Finnish subsidiaries	-2,610	1,888
Latvian subsidiary	20	0
Total deferred tax expense	-2,595	1,518
Total income tax expense	-2,634	1,461

Reconciliation of income tax expense

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Profit/-loss for the period	21,850	-8,175
Total income tax	-2,634	1,461
Profit/-loss before income tax	24,484	-9,636

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Profit/-loss before income tax	24,484	-9,636
Income tax using Parent's domestic tax rate	0	0
Effect of changes in current tax in foreign jurisdictions	-39	-57
Change in temporary differences	-2,595	1,518
	-2,634	1,461

Deferred tax assets and liabilities

According to Finnish, Swedish, Latvian and Russian legislation it is permissible for taxation purposes to use higher depreciation and amortisation rates and thereby accomplish a postponement of tax payments. These postponements are shown as a deferred tax liability. The Finnish and Swedish subsidiaries have also carry-forwards of tax losses, which are considered in the calculation of the deferred tax asset.

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities	
	2010	2009	2010	2009
Tax loss carry-forward ¹	-22,620	-25,993	0	0
Property, plant and equipment	-40	-20	0	0
Intangible assets	0	0	11,996	12,754
Tax assets / liabilities	-22,660	-26,013	11,996	12,754
Offset of assets and liabilities	11,996	12,754	-11,996	-12,754
Tax assets-/ liabilities	-10,664	-13,259	0	0

¹ Tax loss carry forward expires in 2013-2019

Movements in temporary differences during the year

	Balance	Recognised	Balance
	31 August 2009	in profit or loss	31 August 2010
Tax loss carry-forward	-25,993	3,373	-22,620
Property, plant and equipment	-20	-20	-40
Intangible assets	12,754	-758	11,996
	-13,259		-10,664

Note 7 EARNINGS PER SHARE (EPS)

Basic EPS are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. As the Group does not have any potential ordinary shares, diluted EPS are equal to basic EPS.

At 31 August 2010 the Group held 3,935 thousand of the AS Tallink Grupp shares. Total cost of share buyback transactions of 3,935 thousand shares was 4,163 thousand EUR, including fees of 4 thousand EUR.

	Shares issued	Treasury shares	Shares outstanding
in thousands pcs			
As of 31 August 2009	673,817	3,935	669,882
As of 31 August 2010	673,817	3,935	669,882

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for the year ended 31 August

	in thousands of EUR	
	2010	2009
Weighted average number of ordinary shares outstanding (in thousands)	669,882	669,882
Net profit/-loss attributable to equity holders of the Parent	21,850	-8,175
Basic and diluted EPS (in EUR per share)	0.03	-0.01

Note 8 CASH AND CASH EQUIVALENTS

as of 31 August

	in thousands of EUR	
	2010	2009
Cash at bank and in hand	50,819	44,380
Short-term deposits	6,669	5,602
Total cash and cash equivalents	57,488	49,982

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2009/2010 the rates were in the range of 0.25-0.81% and in 2008/2009 in the range of 0.25-4.49%).

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the balance sheet as of 31 August 2010 range from 1 September 2010 (over-night deposits) to 14 October 2010. As of 31 August 2010 and 2009 short-term deposits of 5,642,000 EUR and 5,439,000 EUR respectively could only be used for repayment of bank loans.

The Group's exposure to interest rate risk is disclosed in Note 25.

Note 9 TRADE AND OTHER RECEIVABLES

as of 31 August

	in thousands of EUR	
	2010	2009
Trade receivables	26,772	28,344
Allowance for doubtful trade receivables (Note 25)	-1,298	-1,320
Government grants	10,081	9,245
Other receivables	6,350	14,532
Accrued interest income	135	185
Total trade and other receivables	42,040	50,986

During the reporting period 32,074,000 EUR was deducted from the cost of sales in connection with government subsidies related to the seamen salaries in Finland and Sweden; 2009: 32,625,000 EUR.

During the reporting period 713,000 EUR was expensed as doubtful and uncollectible; 2009: 1,320,000 EUR.

The Group's exposure to credit and currency risks to receivables is disclosed in Note 25.

Note 10 PREPAYMENTS

as of 31 August

	in thousands of EUR	
	2010	2009
Prepaid expenses	9,437	8,433
Tax prepayments	315	3,064
Total prepayments	9,752	11,497

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

as of 31 August

	in thousands of EUR	
	2010	2009
Tax prepayments		
VAT	314	3,064
Income tax	1	0
Total tax prepayments	315	3,064

Note 11 INVENTORIES

as of 31 August

	in thousands of EUR	
	2010	2009
Raw materials (mostly fuel)	3,736	3,132
Goods for sale	16,299	15,883
Total inventories	20,035	19,015

In 2009/2010 the write-down of inventories amounted to 61,000 EUR and in 2008/2009 86,000 EUR respectively. The write-downs are included in cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of a fuel price increases. At 31 August 2010 there was one derivative contract for fuel outstanding. For more information see Note 25.

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Note 12 INVESTMENTS IN ASSOCIATES

In February 2009 the share capital of AS Tallink Takso was increased, the change in share capital was registered in March 2009. The payment of 391 thousand EUR was made in February 2009. In November 2009

AS Tallink Takso increased share capital. AS Tallink Group made a 587 thousand EUR contribution to AS Tallink Takso, 65 thousand EUR to share capital and 522 thousand EUR to share premium. AS Tallink Grupp interest in AS Tallink Takso equity remained 34%.

The Group has an investment in the following associate:

as of 31 August 2010

Name of associate	Country of incorporation	Interest	Acquisition cost in thousands EUR	Equity in thousands EUR
AS Tallink Takso	Estonia	34%	1,173	629
Total			1,173	629

	in thousands of EUR	
	2010	2009
Investment at the beginning of financial year	0	142
Acquisition of shares	587	391
Sales of shares	0	-50
Share of loss in associates	-373	-483
Investment at the end of year	214	0

Key figures of associates

as of 31 August 2010, in thousands of EUR

Name of associate	Ownership (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/-loss
AS Tallink Takso	34%	705	286	991	200	162	362	1,360	-2,036	-676

as of 31 August 2009, in thousands of EUR

Name of associate	Ownership (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/-loss
AS Tallink Takso	34%	134	364	498	748	232	980	1,372	-2,728	-1,356

Note 13 OTHER FINANCIAL ASSETS

as of 31 August

	in thousands of EUR	
	2010	2009
Available-for-sale financial assets	172	214
Other receivables	145	276
Total other financial assets	317	490

Note 14 INVESTMENT PROPERTY

for the year ended 31 August

	in thousands of EUR
Fair value at 31 August 2009	300
Fair value at 31 August 2010	300

The property belongs to Tallink Silja OY. The Group acquired the property in the course of the purchase of Silja OY. The Group used the valuation of an independent appraiser to determine the fair value of the land.

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Note 15 PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR

	Land and buildings	Ships	Plant and equipment	Assets under construction	Total	Note
Book value as of 31 August 2008	8,269	1,584,770	6,577	31,301	1,630,917	
Additions	55	190,583	1,903	-29,863	162,678	
Exchange rate differences	0	0	-2	0	-2	
Disposals	-830	0	-148	-25	-1,003	
Depreciation for the year	-561	-59,838	-3,420	0	-63,819	
Book value as of 31 August 2009	6,933	1,715,515	4,910	1,413	1,728,771	
Additions	230	3,912	3,188	-1,388	5,942	
Exchange rate differences	197	0	-13	0	184	
Disposals	0	-6,075	-285	0	-6,360	
Reclassification	0	0	861	0	861	16
Revaluation	0	1,730	0	0	1,730	
Impairment loss	0	-1,257	0	0	-1,257	
Depreciation for the year	-1,426	-62,339	-3,006	0	-66,771	
Book value as of 31 August 2010	5,934	1,651,486	5,655	25	1,663,100	
As of 31 August 2009						
-gross carrying amount	9,002	1,868,740	17,210	1,413	1,896,365	
- accumulated depreciation	-2,069	-153,225	-12,300	0	-167,594	
As of 31 August 2010						
-gross carrying amount	9,429	1,651,486	19,708	25	1,680,648	
- accumulated depreciation	-3,495	0	-14,053	0	-17,548	

Assets held under finance lease

	in thousands of EUR	
	2010	2009
Book value at the beginning of the year	574	1,028
Additions	17	84
Depreciation for the year	-396	-538
Book value at the end of the year, incl.	195	574
- cost	474	4,317
- accumulated depreciation	-279	-3,743

Revaluation of ships

As of 31 August 2006, the Group revalued its ships for the first time (see also Note 3.4.). As a result of the revaluations, the carrying amount of the Group's ships increased by the 72,784,000 EUR, which was taken directly to equity. As at 31 August 2010, the Group revalued its ships for the second time. The Group used the valuations of two independent appraisers to determine the fair value of the ships. The fair value was determined by reference to market-based evidence. As a result of the revaluations, the carrying amount of some of the Group's ships increased by 21,967 thousand EUR. For some other ships the carrying amount decreased by 21,494 thousand EUR from which 20,237 thousand EUR was taken to other comprehensive income. Therefore the net amount charged to other comprehensive income was 1,730 thousand EUR. The remaining difference of 1,257 thousand EUR was expensed as impairment loss.

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

31 August 2010	In thousands of EUR
Cost	1,843,121
Accumulated depreciation	-256,446
Net carrying amount	1,586,675

31 August 2009	In thousands of EUR
Cost	1,857,103
Accumulated depreciation	-207,094
Net carrying amount	1,650,009

According to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as of 31 August 2010 by 2,426,000 EUR, 2009: 2,425,000EUR and retained earnings increased by the same amount.

As of 31 August 2010 the Group's ships with a book value of 1,651,486,000 EUR, 2009: 1,715,515,000 EUR were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 17).

Note 16 INTANGIBLE ASSETS

in thousands of EUR

	Goodwill¹	Trademark²	Other³	Total	Note
Book value as of 31 August 2008	11,747	51,970	14,640	78,357	
Additions	0	0	286	286	
Amortisation and impairment loss for the year	-681	-2,916	-2,523	-6,120	
Book value as of 31 August 2009	11,066	49,054	12,403	72,523	
Additions	0	0	187	187	
Reclassification	0	0	-861	-861	15
Amortisation and impairment loss for the year	0	-2,916	-2,233	-5,149	
Book value as of 31 August 2010	11,066	46,138	9,496	66,700	
As of 31 August 2009					
- cost	11,066	58,288	20,163	89,517	
- accumulated amortisation	0	-9,234	-7,760	-16,994	
As of 31 August 2010					
- cost	11,066	58,288	20,172	89,526	
- accumulated amortisation	0	-12,150	-10,676	-22,826	

¹ Goodwill in the amount of 11,066,000 EUR is related to the segment of Estonia-Finland route. In the impairment test of goodwill related to Estonia-Finland route, the recoverable amount was identified based on value in use. Management calculated value in use using the results and margins achieved in the 2009/2010 financial year and a revenue growth rate of 0% p.a. and a discount rate of 6%.

² A trade mark of 58,288,000 EUR was recognised in connection with the acquisition of Silja OY Ab on 2006 and is amortised on a straight-line bases over 20 years. The fair value of the trade mark at the acquisition date was determined using the relief

from royalty method. For testing purposes 20 year cash flows, the average revenue growth rate of 0%, royalty rate of 2.25% and discount rate of 6% was used.

³ Other intangible assets include the licences and development costs of IT programs of 19,703,000 EUR. The licenses have finite lives and are amortised over 10 years. Other intangible assets include customer contracts of 469,000 EUR recognised in connection with the acquisition of AS HTG Invest. Amortisation of intangible assets is recorded in the consolidated income statement under cost of sales, marketing expenses and administrative expenses.

Note 17 INTEREST-BEARING LOANS AND BORROWINGS

as of 31 August
in thousands of EUR

2010	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2010-2013	85	89	174
Long-term bank loans	2010-2021	63,542	1,004,155	1,067,697
Total borrowings		63,627	1,004,244	1,067,871

as of 31 August
in thousands of EUR

2009	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2009-2013	388	172	560
Bank overdraft	2009-2010	46,115	0	46,115
Long-term bank loans	2009-2021	59,319	1,075,310	1,134,629
Total borrowings		105,822	1,075,482	1,181,304

As of 31 August 2010 the Group has the right to use bank overdrafts up to 46,842,000 EUR (2009: 46,842,000 EUR). Bank overdrafts are secured with a commercial pledge of 20,204,000 EUR, 2009: 20,204,000 EUR and mortgages on ships (see Note 15). In the year ended 31 August 2010 the average effective interest rate of bank overdrafts was EURIBOR + 2,3% (2009: EURIBOR + 2%). As of 31 August 2010 the balance of overdraft in use amounted to 0 EUR, 2009: 46,115,000 EUR.

In the year ended 31 August 2010 the average effective interest rate of the Group's bank loans was EURIBOR + 2,36% (2009: EURIBOR + 1.37%).

As of 31 August 2010 AS Tallink Grupp has given guarantees to HSH Nordbank AG, Nordea Bank Plc, Skandinaviska Enskilda Banken AB, KfW IPEX Bank, Danske Bank A/S and HSBC Bank Plc. for the loans granted to overseas subsidiaries amounting to 846,502,000 EUR, 2009: 890,913,000 EUR. The primary securities for these loans are the pledge of shares of the overseas subsidiaries and mortgages on the ships belonging to the above-mentioned subsidiaries. AS Tallink Grupp has given guarantee to HSH Nordbank AG for the loan granted to Tallink Silja Oy amounting to 221,195,000 EUR, 2009: 242,863,000 EUR. The primary securities for these loans are the pledge of shares of Tallink Silja Oy and mortgages on several Group's ships.

The Group has issued counter guarantees to the commercial banks who have issued guarantees to several governmental authorities in favour of the Group entities required in order to perform the Group's daily operations. The total amount of the guarantees as of 31 August 2010 amounts to 6,956,000 EUR, 2009: 6,232,000 EUR.

In connection with loan agreements with banks, the Group has agreed to comply with financial covenants related to ensuring required equity, liquidity and other ratios. As of 31 August 2010 the Group has met the financial covenants.

The Group's lease liabilities as of 31 August 2010 are related to equipment in Estonia, Sweden and Finland. The future minimum lease payments under finance leases and the present value (PV) of the net minimum lease payments are presented below
For further information about the currency structure of borrowings and interest rate exposures, see Note 25.

Obligation under finance lease

	in thousands of EUR	
Minimum lease payments	2010	2009
Within one year	85	388
After 1 year, but not more than 5 years	89	172
Total minimum lease payments	174	560

Note 18 TRADE AND OTHER PAYABLES

as of 31 August

	in thousands of EUR	
	2010	2009
Trade payables	48,840	43,234
Payables to associates	9	8
Other payables	719	683
Payables to employees	17,929	22,116
Interest payable	7,951	6,580
Tax liabilities	11,803	10,831
Other accruals	6,803	7,032
Total trade and other payables	94,054	90,484

The Group's exposure to currency and liquidity risks is disclosed in Note 25

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as of 31 August

	in thousands of EUR	
	2010	2009
Tax liabilities		
Salary related taxes	8,632	7,430
Excise duties	952	704
VAT	2,179	2,664
Income tax	2	33
Other taxes	38	0
Total tax liabilities	11,803	10,831

Note 19 DEFERRED INCOME

	in thousands of EUR	
	2010	2009
Club One points	14,349	13,438
Prepaid revenue	9,616	7,737
Total deferred income	23,965	21,175

The Group measures the liability of the outstanding Club One points in combination of the value of its services and averages of the Club One points used to redeem these services, taken into account also the customers' Club One points usage patterns and points expiry rates. The calculations are performed for each segment.

Note 20 OTHER LIABILITIES

The Swedish pension liability as of 31 August 2010 in the amount of 74,000 EUR has been calculated for three former Johnson Line (Eff-Shipping Ltd) employees (Johnson Line was merged with Tallink Silja over 20 years ago). The pension liability as of 31 August 2009 was 85,000 EUR.

Note 21 SHARE CAPITAL AND RESERVES

as of 31 August

	2010	2009
The number of shares issued and fully paid (in thousands)	673,817	673,817
Total number of shares of 10 EEK each (in thousands)	673,817	673,817

as of 31 August

	in thousands of EUR	
	2010	2009
Share capital (registered)	430,648	430,648
Total share capital	430,648	430,648
Share premium (registered)	639	639
Total share premium	639	639

According to the Articles of Association of the Parent effective as of 31 August 2009, the maximum number of authorised common shares is 2,000,000,000. Each share is granted one vote at the Shareholder's General meeting. Shares acquired by the transfer of ownership are eligible for participating and voting at a Shareholder's Meeting only if the ownership change is reflected in the Estonian Central Registry of Securities at the moment which is used to determine the shareholders list for given Shareholder's General Meeting.

Common shares grant their holders all the rights provided for under the Estonian Commercial Code – the right to participate in the general meeting, the distribution of profits, and in the distribution of residual assets upon the dissolution of the company; the right to receive information from the management board about the activities of the company; a pre-emptive right to subscribe new shares in proportion to the sum of the par values of the shares already held when share capital is increased, etc.

Reserves

as of 31 August

	in thousands of EUR	
	2010	2009
Translation reserve	385	-324
Ships' revaluation reserve	64,811	65,507
Cash flow hedge reserve	705	-27
Mandatory legal reserve	10,869	10,869
Reserve for treasury shares	-4,163	-4,163
Total reserves	72,607	71,862

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Ships' revaluation reserve

The revaluation reserve relates to the revaluation of ships. The ships' revaluation reserve may be transferred directly to retained earnings when the ship is disposed. However, some of the revaluation surplus may be transferred when the ship is used by the Group. In such a case, the amount of surplus transferred is the difference between depreciation based on the revalued carrying amount of the ship and depreciation based on the original cost of the ship (for further information see Note 15).

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Mandatory legal reserve

The mandatory legal reserve has been formed in accordance with the Estonian Commercial Code. The mandatory legal reserve is formed by means of yearly appropriations from the net profit. At least 1/20 of net profit must be transferred to the mandatory legal reserve, until the mandatory legal reserve amounts to 1/10 of share capital. The mandatory

legal reserve can be used to cover losses and to increase share capital. No payments can be made to the owners from the mandatory legal reserve.

Reserve for treasury shares

Reserve for treasury shares comprises the cost of the AS Tallink Grupp's shares held by the Group. At 31 August 2010 the Group held 3,935 thousand of the AS Tallink Grupp's shares (2009: 3,935 thousand shares).

Note 22 CONTINGENCIES AND COMMITMENTS

Legal claims

AS Tallink Grupp and AS Hansatee Cargo filed complaints with Tallinn Administrative Court on 30 June 2005 against Estonian Maritime Administration and the Ministry of Transport and Communications claiming the unlawfully collected and paid lighthouse and ice breaking dues. The total amount of AS Tallink Grupp claim is 1,256,000 EUR and of AS Hansatee Cargo claim 754,000 EUR. As the above cases were connected with each other, the court decided to consolidate these. Tallinn Administrative Court did not satisfy the claim by its decision of 20.10.2008. AS Tallink Grupp and AS Hansatee Cargo filed appeals that were not satisfied by the decision of the Tallinn Circuit Court of 30.06.2009. On 29.07.2009 AS Tallink Grupp and AS Hansatee Cargo filed appeals in cassation to the Supreme Court. It was decided not to accept the appeal in cassation by the ruling of the Supreme Court of 25.11.2009. AS Tallink Grupp and AS Hansatee Cargo filed an appeal to the European Court of the Human Rights on 18.05.2010.

A claim was filed against AS Tallink Grupp at 25.09.2009 by Limited Partnership Homburg Baltic (ES) Investment (the plaintiff) in the amount of 364,000 EUR due to the premature cancellation of the lease agreement concluded about the building at Tartu mnt 13. The plaintiff has increased its claim by its application of 20.04.2010 to 805,000 EUR. Harju County Court has accepted the claim (civil matter no 2-09-48782) and the first preliminary hearing was held on 27.04.2010. The court ruled that the next preliminary hearing would be held on 10.09.2010 and obliged the parties to present the necessary materials. The court session would take place on 4.11.2010.

The above lawsuits or appeals filed against or by the Group have not been recorded in the financial statements since the impact, if any, to the result of the Group is not yet determinable or is immaterial.

Income tax on dividend

The Group's retained earnings as of 31 August 2010 were 163,823,000 EUR, 2009: 139,547,000 EUR. At 31 August 2010, the maximum income tax liability, which would arise if retained earnings were fully distributed was 34,403,000 EUR, 2009: 29,304,000 EUR. The maximum income tax liability has been calculated using the income tax rate effective for dividends paid out before 1 January 2012 (2009: 1 January 2010) under the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as of 31 August 2010 (2009: 31 August 2009).

Non-cancellable operating leases

On 1 October 2003 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period of 10 years started in May 2004. The Group may renew the agreement for a further 5 years. The annual non-cancellable lease payments fall between 2,301,000 EUR and 2,876,000 EUR depending on the result of hotel's operations.

On 2 May 2006 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period of 10 years started in March 2007. The Group may renew the agreement for a further 10 years. The non-cancellable lease payment from 01 September 2009 to 31 August 2010 was 3,097,000 EUR. From 01 September lease payment will increase 2.5% every financial year.

On 25 March 2008 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period of 12 years started in March 2008. The Group may renew the agreement for a further 15 years. The non-cancellable lease payment from 01 September 2009 to 31 August 2010 was 2,367,000 EUR. From January 2010 the lessor has the right to increase lease payments 2.5% every year.

On 29 September 2008 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period of 10 years started in January 2009. The Group has an option to renew the agreement for further 10 years. The non-cancellable lease payment from 01 September 2009 to 31 August 2010 was 750,000 EUR. From 01 September lease payment will increase 2.5% every financial year.

On 26 March 2010 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period is 10 years starting from the day when the Group commences the hotel services in the hotel building. The annual non-cancellable lease payment will be 3,300,000 EUR.

Note 23 RELATED PARTY DISCLOSURES

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

The companies controlled by shareholders whose ownership interest exceeds 20%

See below for transactions with AS Infortar, AS Vaba Maa, AS HT Valuuta, OÜ Gastrolink, OÜ Sunbeam, OÜ TOP Kinnisvara, OÜ Fastinvest, OÜ Hansa Hotell, SIA Happy Trails and AS HTG Vara.

The management and companies controlled by them

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

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Associated companies

See below for transactions with AS Tallink Takso.

The Group has entered into following transactions with related parties and has following balances with related parties. The prices used in sales to and purchases from related parties do not significantly differ from normal market prices.

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

2010	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
AS Infortar - services	3	73	1	0
AS HT Valuuta - services	184	0	0	0
AS Vara HTG - leases	0	2,301	0	0
OÜ Sunbeam - leases	0	3,097	0	0
OÜ Topspa Kinnisvara - leases	0	2,367	0	0
OÜ Mersok - leases	0	9	0	0
OÜ Hansa Hotell - leases	0	752	0	0
OÜ Fastinvest - leases	0	1,016	0	0
OÜ Fastinvest - leases	0	1,774	0	539
AS Vaba Maa - services	9	836	1	47
AS Gastrolink - goods	1	851	0	34
Eesti Laevaomanike Liit-membership	0	13	0	0
AS Tallink Takso - services	0	73	0	9
2009				
AS Infortar - services	112	73	0	0
AS HT Valuuta - services	182	0	0	0
AS Vara HTG - leases	0	2,603	0	0
OÜ Sunbeam - leases	0	3,062	0	128
OÜ Topspa Kinnisvara - leases	0	2,538	0	233
OÜ Mersok - leases	0	9	0	1
OÜ Hansa Hotell - leases	0	413	0	0
OÜ Fastinvest - leases	0	413	0	0
AS Vaba Maa - services	8	553	1	12
AS Gastrolink - goods	2	621	0	51
Eesti Laevaomanike Liit-membership	0	11	0	0
AS Tallink Takso - services	0	57	0	8

Directors' remuneration and termination benefits

In the 2009/2010 and 2008/2009 financial years, the remuneration of the members of the management board totalled 618,000 EUR and 898,000 EUR respectively. The members of the management board do not receive pension entitlements from the Group. Members of the management board have a right to termination benefits. At 31 August 2010 the maximum amount of such benefits was 972,000 EUR compared to: 686,000 EUR in 2009.

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Note 24 GROUP ENTITIES

Group entities	Interest As of 31 August 2010	Interest As of 31 August 2009	Country of incorporation	Parent company
OÜ Hansaliin	100%	100%	Estonia	AS Tallink Grupp
OÜ Hansatee Kinnisvara	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Duty Free	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Laevateenindus	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Meelelahutus	100%	100%	Estonia	AS Tallink Grupp
AS Tallink	100%	100%	Estonia	AS Tallink Grupp
AS Hansatee Cargo	100%	100%	Estonia	AS Tallink Grupp
OÜ TLG Hotell	100%	100%	Estonia	AS Tallink Grupp
OÜ Tallink Travel Club	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Baltic	100%	100%	Estonia	AS Tallink Grupp
OÜ Mare Pharmaci	100%	100%	Estonia	AS Tallink Grupp
AS HTG Invest	100%	100%	Estonia	AS Tallink Grupp
Tallink Finland OY	100%	100%	Finland	AS Tallink Grupp
Tallink Latvija AS	100%	100%	Latvia	AS Tallink Grupp
Kapella Shipping Ltd	100%	100%	Bahamas	AS Tallink Grupp
Tallink Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn-Helsinki Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Vana Tallinn Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Fast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Swedish Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Victory Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Hansalink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Autoexpress Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink High Speed Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Sea Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Superfast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VIII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF IX Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Hansaway Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink-Ru OOO	100%	100%	Russia	AS Tallink Grupp
HTG Stevedoring Oy	100%	100%	Finland	AS Tallink Grupp
Ingleby (1699) Ltd.	100%	100%	UK	AS Tallink Grupp
OÜ HT Hulgi Tolliladu	100%	100%	Estonia	AS Tallink Duty Free
AS Tallink Scandinavian	100%	100%	Estonia	AS Tallink Grupp
Tallink Silja Oy	100%	100%	Finland	AS Tallink Scandinavian
Silja Cruise AB	-	100%	Sweden	Tallink Silja Oy
Sally AB	100%	100%	Finland	Tallink Silja Oy
Silja Europa Oy	100%	100%	Finland	Tallink Silja Oy
Tallink Silja AB	100%	100%	Sweden	Tallink Silja Oy

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Silja Line Gmbh	100%	100%	Germany	Tallink Silja Oy Ab
Sea Wind Line Oy Ab	-	100%	Finland	Tallink Silja Oy
Exlaw Oy	100%	100%	Finland	Tallink Silja Oy
Nimtakos Oy	-	100%	Finland	Neptun Juridica Oy
OÜ Hera Salongid	100%	100%	Estonia	OÜ TLG Hotell
SIA HT Shipmanagement	100%	100%	Latvia	OÜ HT Laevateenindus
SIA TLG Hotel Latvija	100%	-	Latvia	OÜ TLG Hotell

Note 25 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The management board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial department is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss that the Group would suffer if the counterparty fails to perform its financial obligations, and arises principally from Group's receivables from customers and investment securities. The credit risk concentration related to accounts receivable is reduced due to the high number of customers. At the balance sheet date, the maximum credit risk was as follows:

	in thousands of EUR	
	2010	2009
Available-for-sale financial assets	172	214
Cash and cash equivalents	57,488	49,982
Receivables	42,185	51,262
Interest rate swaps used for hedging:		
Assets	705	415
Total	100,550	101,873

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

The Group's management has established a credit policy under which each new customer with credit request is analysed individually for creditworthiness before the Group's payment terms and conditions are offered. Some customers are obliged to present a bank guarantee to meet criteria for credit payments. Purchase limits are established for customers, which represents the maximum open amount without requiring approval from the Group's management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to trade receivable (individually significant exposures), and a collective loss component (established for groups of similar assets in respect of losses that have been incurred but not yet identified).

The ageing of trade receivables at the reporting date was:

Impairment losses	in thousands of EUR	
	2010	2010
	Gross	Impairment
Not past due	21,937	0
Past due 0-30	2,449	0
Past due 31-90	963	-4
Past due 91- one year	678	-626
Past due over one year	745	-668
Total	26,772	-1,298

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Impairment losses	in thousands of EUR	
	2009	2009
	Gross	Impairment
Not past due	15,976	0
Past due 0-30	6,689	0
Past due 31-90	3,144	-16
Past due 91- one year	2,120	-902
Past due over one year	415	-402
Total	28,344	-1,320

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	in thousands of EUR	
	2010	2009
Balance at 31 August	1,320	50
Impairment loss recognised	-22	1,270
Balance at 31 August	1,298	1,320

as of 31 August
in thousands of EUR

2010	< 1 year	1-2 years	2-5 years	>5 years	Total
Non derivative financial liabilities					
Finance lease liabilities	-85	-89	0	0	-174
Trade and other payables	-56,371	0	0	0	-56,371
Bank overdraft	0	0	0	0	0
Secured bank loans repayments	-65,488	-122,777	-466,395	-430,694	-1,085,354
Interest payments(1)	-38,488	-34,834	-76,325	-27,114	-176,761
Derivative financial liabilities					
Interest rate swaps (2)	-5,173	-4,611	-7,227	-450	-17,461
Total	-165,605	-162,311	-549,947	-458,258	-1,336,121
2009	< 1 year	1-2 years	2-5 years	>5 years	Total
Non derivative financial liabilities					
Finance lease liabilities	-388	-172	0	0	-560
Trade and other payables	-50,957	0	0	0	-50,957
Bank overdraft	0	-46,115	0	0	-46,115
Secured bank loans repayments	-60,348	-65,488	-487,740	-532,125	-1,145,701
Interest payments ¹	-48,806	-47,404	-121,164	-59,785	-277,159
Derivative financial liabilities					
Interest rate swaps ²	-5,481	-4,050	-1,697	3,619	-7,609
Total	-165,980	-163,229	-610,601	-588,291	-1,528,101

¹ expected based on the interest rates and interest rates forward curves

² net cashflow, expected, based on the interest rates and interest rates forward curves

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

Derivatives with a positive fair value for the Group was equivalent to 705,000 EUR as of 31 August 2010 and 415,000 EUR as of 31 August 2009.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans, bonds and other debentures. The Group has established Group account systems in Estonia, Finland, Sweden and Latvia to manage the cash flows in the Group as efficiently as possible. Excess liquidity is invested in short-term money market instruments. AS Tallink Grupp maintains three committed bank overdraft facilities to minimize the Group's liquidity risk.

The following tables illustrate liquidity risk by periods when cashflows will become due or may become due on the financial liabilities outstanding as of 31 August:

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Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

Currency risk

The Group is exposed to exchange rate risk rising from revenues and operating expenses in foreign currencies, mainly in the US dollar (USD), Swedish krona (SEK) and the Latvian lats (LVL). Exposure to USD results from the purchase of ship fuel and insurance and exposure to SEK and LVL arises from the fact as these are the operational currencies on some routes.

The Group seeks to minimize currency risk by using derivative instruments (currency forward contracts and currency swaps), and matching foreign currency inflows with outflows. As of the end of the financial year, there were SEK related currency derivative instruments outstanding.

The following tables present the Group's net position in the currency exposure as of 31 August 2010 and 2009:

as of 31 August
in thousands of EUR

2010	EEK	EUR	USD	SEK	LVL	Other	Total
Cash and cash equivalents	1,203	46,233	28	8,770	871	383	57,488
Trade receivables, net of allowance	4,588	18,013	0	2,406	120	347	25,474
Other financial assets	463	17,034	0	2	232	0	17,731
	6,254	81,280	28	11,178	1,223	730	100,693
Current portion of borrowings	-81	-63,542	0	0	-4	0	-63,627
Trade payables	-8,388	-33,979	-3,452	-2,234	-615	-172	-48,840
Other current payables	-17,008	-44,010	0	-761	-1,052	-17	-62,848
Non-current portion of borrowings	-80	-1,004,155	0	-74	-9	0	-1,004,318
	-25,557	-1,145,686	-3,452	-3,069	-1,680	-189	-1,179,633
Currency net position, EUR	-19,303	-1,064,406	-3,424	8,109	-457	541	-1,078,940

as of 31 August
in thousands of EUR

2009	EEK	EUR	USD	SEK	LVL	Other	Total
Cash and cash equivalents	659	43,841	28	4,425	351	678	49,982
Trade receivables, net of allowance	1,475	21,950	0	3,239	7	353	27,024
Other financial assets	492	27,224	0	0	1	0	27,717
	2,626	93,015	28	7,664	359	1,031	104,723
Current portion of borrowings	-26,589	-79,233	0	0	0	0	-105,822
Trade payables	-5,877	-30,700	-1,371	-4,521	-670	-95	-43,234
Other current payables	-11,968	-44,926	0	-976	-865	-9	-58,744
Non-current portion of borrowings	-246	-1,075,236	0	-85	0	0	-1,075,567
	-44,680	-1,230,095	-1,371	-5,582	-1,535	-104	-1,283,367
Currency net position, EUR	-42,054	-1,137,080	-1,343	2,082	-1,176	927	-1,178,644

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A 10 percent strengthening of the euro against the following currencies at 31 August would have increased (decreased) profit or loss by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2009:

as of 31 August

2010	Profit or loss
	in thousands of EUR
USD	342
SEK	-811
LVL	46
Other	-54

as of 31 August

2009	Profit or loss
	in thousands of EUR
USD	134
SEK	-208
LVL	118
Other	-93

Adoption of the euro

On 1 January 2011 Estonia will adopt the euro as its official currency. The conversion rate has been confirmed by EU Council on 13 July 2010 and will be equal to the current official exchange rate 1 EUR = 15.6466 EEK. Therefore no currency risk any longer exists with regard to the exchange rate between EEK and EUR.

As a result of adoption of the euro, from January 2011 the functional currency of the parent company will be euro; and the consolidated financial statements of the Group will also be presented in euros.

Interest rate risk

The Group is exposed to interest rate risk through funding and cash management activities. The interest rate risk – the possibility that the

future cash flows from a financial instrument (cash flow risk) will change due to movement in market interest rates – applies mainly to liabilities with maturities of more than one year.

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

as of 31 August

	in thousands of EUR	
	2010	2009
Fixed rate financial liabilities	81,312	85,184
Variable rate financial liabilities	986,559	1,096,120
Total	1,067,871	1,181,304

A change of 100 basis points in interest rates at the reporting date would have increased (- decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2009.

as of 31 August

	in thousands of EUR	
	2010	2009
100 basis point increase	-9,866	-10,961
100 basis point decrease	9,866	10,961

The objective for the Group interest rate risk management is to minimize interest expense and at the same time optimize the volatility of future interest payments.

The Group uses interest rate derivatives to manage the interest rate risk of the debt portfolio. This typically involves swapping the variable interest rate for the fixed interest rate. Derivatives used include mainly interest rate swaps and interest rate options or their combinations.

The tables below show the expected cash flow from interest rate derivatives and their sensitivity to the change of 100 basis points in interest rates as of increase or (- decrease) profit or loss.

as of 31 August

in thousands of EUR

2010	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-5,173	-4,611	-7,227	-450	-17,461
100 basis point increase	2,700	2,700	6,400	4,000	15,800
100 basis point decrease	-2,700	-2,700	-6,400	-4,000	-15,800

2009	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-5,481	-4,050	-1,697	3,619	-7,609
100 basis point increase	2,700	2,700	6,000	5,000	16,400
100 basis point decrease	-2,700	-2,700	-6,000	-5,000	-16,400

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Fair values of financial instruments

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

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 recorded in exchange gains and losses and those on interest-rate swaps and interest-rate options in interest income and expense.

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 through other comprehensive income and released to match actual payments on the hedged item.

The fair values of derivatives at the end of year were as follows:

as of 31 August
in thousands of EUR

	Hierarchy ¹	Maturity	2010		2009	
			Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 2	2014	100,000	-901	100,000	-500
Interest rate swap	Level 2	2012	100,000	-16,290	100,000	-9,558
Interest rate swaption	Level 2	2020	0	0	77,439	-298
Interest rate swap	Level 2	2018	70,000	-407	70,000	-573
Fuel swap	Level 1	2009	0	0	2,504	-249
Fuel swap	Level 1	2009	0	0	4,704	-193
Fuel swap	Level 1	2009	0	0	4,096	415
Fuel swap	Level 1	2010	2,276	705	0	0
Foreign exchange rate swap	Level 2	2010	1,619	-36	18,811	-123
Total derivatives with positive value				705		415
Total derivatives with negative value				-17,634		-11,494

¹ Fair value hierarchy and methodology

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

Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group has made significant investments in the recent past where the strong shareholders' equity has been major supporting factor for these investments and the related borrowings. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. From time to time the Group purchases its own shares on the market; the timing of these purchases may depend on the market prices, Group's liquidity position and business outlook. Additionally, legal factors may limit the timing of such decisions. Primarily the shares repurchased are intended to be cancelled or they may be used for

issuing shares under the Group's share option programme. Currently the Group has not executed the share option programme and does not have a defined share buy-back plan. There were no changes in the Group's approach to capital management during the year.

Note 26 EVENTS AFTER THE BALANCE SHEET DATE

The management board has decided to propose to the supervisory council and shareholders' general meeting to change the financial year of AS Tallink Grupp. It is proposed that the financial year will run from 1 January to 31 December. Due to transition the financial year 2010/2011 would commence from 1 September 2010 to 31 December 2011.

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Note 27 PRIMARY FINANCIAL STATEMENTS OF THE PARENT

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Revenue	347,800	339,247
Cost of sales	-323,885	-316,687
Gross profit	23,915	22,560
Marketing expenses	-20,261	-14,606
Administrative expenses	-11,062	-12,805
Other operating income	276	18,948
Other operating expenses	-325	-49
Results from operating activities	-7,457	14,048
Finance income	2,487	103
Finance costs	-62,836	-74,558
Gain from investments in subsidiaries	10,100	716
Share of loss of associates	-373	-391
Net profit/-loss for the financial year	-58,079	-60,082
Other comprehensive income/-expense		
Changes in fair value of cash flow hedges	732	-26
Other comprehensive income/-expense for the period	732	-26
Total comprehensive income/-expense for the period	-57,347	-60,108

STATEMENT OF FINANCIAL POSITION

as of 31 August

	in thousands of EUR	
	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	17,164	20,831
Receivables and prepayments	104,995	131,014
Derivatives	705	415
Tax assets	21	2
Inventories	8,174	8,024
	131,059	160,286
Non-current assets		
Investments in subsidiaries	148,613	122,883
Receivables from subsidiaries	173,770	227,565
Investments in associates	214	0
Other financial assets and prepayments	19	19
Property, plant and equipment	595,847	666,621
Intangible assets	8,807	10,090
	927,270	1,027,178
TOTAL ASSETS	1,058,329	1,187,464
LIABILITIES AND EQUITY		
Current liabilities		
Interest-bearing loans and borrowings	59,143	104,028
Payables and deferred income	114,765	88,009
Derivatives	17,634	11,494
Tax liabilities	2,299	2,955
	193,841	206,486
Non-current liabilities		
Interest-bearing loans and borrowings	588,858	648,001
	588,858	648,001
Total liabilities	782,699	854,487
Equity		
Share capital	430,648	430,648
Share premium	639	639
Reserves	7,412	6,680
Retained earnings	-163,069	-104,990
	275,630	332,977
TOTAL LIABILITIES AND EQUITY	1,058,329	1,187,464

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STATEMENT OF CASH FLOWS

for the year ended 31 August

	in thousands of EUR	
	2010	2009
Cash flows from / used in operating activities		
Net profit/-loss for the financial year	-58,079	-60,082
Adjustments	123,572	130,855
Depreciation	72,157	76,731
Net interest expense	61,142	73,284
Income from subsidiaries	-10,100	-716
Net gain/loss on disposals of tangible and intangible assets	0	-18,835
Other adjustments	373	391
Changes in assets related to operating activities	10,476	65,056
Change in inventories	-150	1,922
Changes in liabilities related to operating activities	25,832	-67,984
	101,651	69,767
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-100	-1,177
Proceeds from disposals of property, plant and equipment	0	0
Repayments of granted loans	69,314	52,189
Loans granted	0	-5,435
Issue of shares by subsidiaries	-25,730	-27,162
Issue of shares by associates	-587	-391
Proceeds from subsidiaries	10,100	1,008
Proceeds / payments from settlement of derivatives	-4,460	-3,995
Interest received	5	58
	48,542	15,095
Cash flows from / used in financing activities		
Redemption of loans	-860	-3,440
Change in overdraft	-47,995	13,406
Repayment of finance lease liabilities	-55,180	-57,666
Interest paid	-49,825	-54,077
	-153,860	-101,777
TOTAL NET CASH FLOW	-3,667	-16,915
Cash and cash equivalents:		
- at the beginning of period	20,831	37,746
- increase / decrease	-3,667	-16,915
- at the end of period	17,164	20,831

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August, in thousands of EUR

	Share capital	Share premium	Cash flow hedge reserve	Mandatory legal reserve	Reserve for treasury shares	Retained earnings	Total equity
As of 31 August 2008	430,648	639	0	9,853	-4,163	-43,892	393,085
Net loss from cash flow hedges	0	0	-26	0	0	0	-26
Distribution of profit 2007/2008	0	0	0	1,016	0	-1,016	0
Net loss for financial year 2008/2009	0	0	0	0	0	-60,082	-60,082
As of 31 August 2009	430,648	639	-26	10,869	-4,163	-104,990	332,977
Net loss from cash flow hedges	0	0	732	0	0	0	732
Net loss for financial year 2009/2010	0	0	0	0	0	-58,079	-58,079
As of 31 August 2010	430,648	639	706	10,869	-4,163	-163,069	275,630

	2010	2009
Unconsolidated equity at 31. August	275,630	332,977
Interest under control and significant influence:		
-carrying amount	-148,827	-122,883
-carrying amount under the equity method	540,914	432,602
Restated unconsolidated equity at 31 August	667,717	642,696

AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Tallink Grupp

We have audited the accompanying consolidated financial statements of AS Tallink Grupp, which comprise the consolidated statement of financial position as at 31 August 2010, and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 35 to 69.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallink Grupp as of 31 August 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 16 December 2010

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