

**TALLINNA  SADAM**

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**Consolidated annual report  
for the financial year ended  
on 31 December 2015**

**AS TALLINNA SADAM**

**AS TALLINNA SADAM****CONSOLIDATED ANNUAL REPORT 2015**

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## MANAGEMENT REPORT

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

### 1. ABOUT THE COMPANY

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

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

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

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

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

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

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

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

As at year-end 2015, the consolidation group of AS Tallinna Sadam comprised of the parent and the following companies:

Name of the company	Ownership interest	Core business line
OÜ TS Energia	100%	Rendering of electricity, water and heat distribution and transmission services in the group's ports and harbours
OÜ TS Shipping	100%	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	100%	Organising passenger ferry traffic

## 2. ECONOMIC ENVIRONMENT

Global economic growth in 2015 is predicted to be 3.1%, which is again slightly less than expected a year before (3.5%); and also less than growth of 3.4% in 2014. In 2016 growth is projected at 3.4%, i.e. like in previous years, gradual improvement of growth rates is expected this year, this time supported primarily by economies currently in economic distress such as Brazil and Russia, but also by developed countries. The main risks jeopardising global growth arise from ongoing changes, primarily slowdown of economic activity in China and reformation from manufacture-based to more balanced economic structure, the gradual exit from extraordinarily accommodative monetary conditions in the United States in the context of a resilient recovery, and general slowdown in emerging market economies. A slowdown in economic growth is expected, for instance, in China, Saudi Arabia and European emerging market and developing economies (except the EU) while Russia and Brazil remain in recession, albeit with some slowing. A sudden rise in global risk aversion and increasing market volatility has emerged. Additional tension is caused by several geopolitical conflicts jeopardising trade and financial stability. In order to meet growth expectations, structural reforms including in the labour market, on reducing barriers to entry and in other areas, and ongoing accommodative financial measures should be continued. In 2015 manufacturing activity and trade remained weak globally, especially in emerging and developing market economies, as a result of the unstable environment. Although oil prices declined to the lowest level within at least last ten years, this was not reflected in growth in consumption. As a result of manufacturing exceeding the demand, generally low crude oil prices may pose a threat to the sustainability of manufacturers and the energy sector; on the other hand, they may give a boost to demand in the perception that prices will remain low.<sup>1</sup>

Global oil demand increased 1.8% in 2015 which was above the expectations a year before (1.0%) as a result of demand rising to the last five-year high in the middle of the year. Growth in demand in 2016 is projected to slow down to 1.3%, i.e. return to the long-term trend as a result of a slowdown in demand in developed economies. Growth in demand in 2016 is more related to demand for petrol through private consumption and service areas while the contribution from manufacturing will remain smaller.<sup>2</sup>

According to preliminary flash estimates, Estonian economic growth in 2015 was near 1.5% which is again less than the forecast (2%) made a year earlier. Economic growth was slower than expected mainly due to the weak external environment which was also considered as the key growth risk in 2015. Exports fell as regards main markets, such as Russia (about 40%) and Finland, and remained weak as regards Sweden. There was also a decline in investments. The above impacts were somewhat balanced by growth in consumption which was supported by a decline by 0.5% (forecast growth of up to 2%) in consumer prices, rise in income from employment, and a high employment rate. Economic growth in 2016 is projected at about 2.5%. According to forecasts, rise in external demand may be expected since the economic figures, mostly those of European target countries, are improving; however, the risks of a negative scenario are still high. Growth in private consumption should slightly slow down as a result of decreasing growth in remuneration as well as a reducing employment rate. In 2016 consumer prices are projected to rise 0.3–1.5% as a result of a combined effect of persistently low energy prices and rising excise duties. Increased use of EU structural funds resulting in growing demand for construction services is forecast.<sup>3</sup>

The economic environment in 2015 also had a direct impact on the income of the group since due to declined imports of Russia the volume of goods transported to Russia through AS Tallinna Sadam also decreased. Due to fallen oil prices the volume of liquid cargo shipped to the port declined considerably since the low oil price reduced the profitability of added-

<sup>1</sup> IMF *World Economic Outlook Update*, January 2016

<sup>2</sup> IEA, *Oil Market Report*, 19 January 2016

<sup>3</sup> Statistics Estonia, Bank of Estonia, Ministry of Finance, Swedbank, SEB

value services provided in terminals. Also, the offshore services market shrank considerably due to low oil prices and sanctions imposed on Russia by the western world which, in turn, left ice-breaker Botnica without expected additional work in summer. On the other hand, fallen energy prices and a low inflation rate contributed to reducing expenses.

### 2.1. Developments in Russia

In 2015 the Russian economy turned into a fall of 3.7% which is close to the projections by the Russian Ministry of Economic Development a year earlier (3%), and less than estimated by international agencies (fall around 5–6%). This is the deepest decline as from 2009. The main reasons for the decline could be considered such factors as a sharp fall in the oil price, sanctions imposed by the western world, and reduced consumption as a result of the weakening rouble and galloping inflation. Inflation reached 15.5% compared to 7.8% a year before. The projected persistently low price of oil means that the revenue important for the Russian budget remains at lows, and other sources of income should be found together with cutting budgetary expenses. This also means that investment and development programmes of refineries have been suspended due to lack of finances which in turn will have an impact on the economy and energy sector for years coming. Although the weak rouble gave a price advantage to exporting industries outside the energy sector, in 2015 no growth of such exports occurred due to non-existent investments. According to the IMF forecast the Russian economy will contract by 1% in 2016.

Oil production in Russia increased by 1.3% up to a record of 534 million tons. Exports of crude oil and oil products also increased (7.5% and 4% respectively).

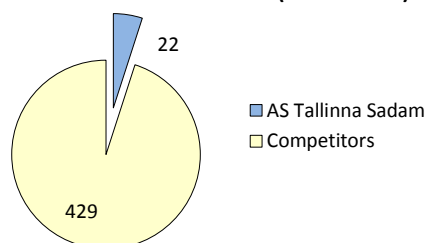
Sharp weakening of the rouble resulting in inflation and decline in real incomes reduced consumption in the Russian domestic market and imports of goods, as well as investments in business. Sale of new cars declined by 36% in 2015. The decline in imports and consumption was reflected in a declined volume of containers in Russian ports in 2015 amounting to 26% while the decline in the Russian ports at the Baltic Sea was as high as 30%. Since the estimated proportion of transit in the turnover of containers unloaded in the ports of AS Tallinna Sadam is 60–70%, the volume of containers in AS Tallinna Sadam also declined.

In the Baltic Sea region, main Russian competitors of AS Tallinna Sadam are the ports of St. Petersburg and Ust-Luga. The most rapid growth in cargo volumes in recent years has been in Ust-Luga. The competitiveness of Russian ports was also indirectly fostered by an approximately 10% decline in the exchange rate of the Russian rouble to the euro during the year, mostly within the second half of the year.

### 2.2. Competitive position

On assessing our competitive position, major ports located on the east coast of the Baltic Sea and ports of Finland are considered as our competitors, the vast majority of which are immediate competitors of AS Tallinna Sadam in handling transit cargo mostly transported from or to Russia. In 2015 the total cargo turnover of major ports on the east coast of the Baltic Sea amounted to 451 million tons which means remaining at the same record level as the year before (in 2014, the adjusted market volume was 451.6 million tons with growth of 3.9%).

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



Adding the cargo volumes of other Estonian ports (8.4 million tons), the market cargo volume of AS Tallinna Sadam and its competitors was 460 million tons in 2015, also remaining at the same level as in 2014.

The competitive position of ports in 2015 was characterised by increased cargo volumes in the ports of Ust-Luga and Primorsk (Russia), Gdansk (Poland) and Klaipeda-Butinge (Lithuania) while the volumes of other ports either decreased or remained at

the same level as the year before. The total market volume of ports did not change significantly rising by 0.7 million tons (+0.1%) to 461 million tons. In terms of cargo types, the volume of general cargo changed the most declining by 7.7 million tons, i.e. 7% as a result of a drop in the volume of containerised cargo (by 11%; in TEUs by 18%). The volume of containers dropped the most in the ports of St. Petersburg (-4.0 million tons), Klaipeda-Butinge (-1.2 million tons) and Gdynia (-1.0 million tons), and in terms of TEUs also in Gdansk. Growth of at least 3 to 4 previous years was dropped. The volume of containers increased slightly only in the ports of Helsinki and Ventspils. In terms of cargo types, there was a rise in volumes of liquid bulk (+5.9 million tons, i.e. +2.7%) and dry bulk (+1.8 million tons, i.e. +1.5%) the total impact of which exceeded slightly the decline in the volume of containerised cargo. The volume of liquid bulk increased the most in the ports of Ust-Luga and Primorsk, Klaipeda-Butinge and Gdansk; the largest decrease in cargo volumes was in the ports of Tallinn, St. Petersburg, Sillamäe, and Ventspils. The volume of dry bulk increased mostly on account of grain (the most in Gdynia) and fertilizers (the most in Ust-Luga and Klaipeda-Butinge).

As regards major ports, the biggest growth in cargo volumes was in the ports of Ust-Luga (+12.2 million tons, i.e. +16.1%), Primorsk (+6 million tons, i.e. +11.1%) followed by the ports of Gdansk (+3.6 million tons, i.e. +11.3%) and Klaipeda-Butinge (+3.4 million tons, i.e. +7.7%). The rise in cargo volumes was achieved mainly on account of the increased volume of liquid bulk. The volume of cargo declined the most in the ports of St. Petersburg (-9.7 million tons), Tallinn (-5.9 million tons), Ventspils (-3.7 million tons, mostly as regards dry bulk, fertilizers and coal), and Sillamäe (-2.1 million tons).

As a result of the changes, the market share of Russian and Lithuanian ports increased while the market share of Estonian and Latvian ports decreased. The market share of the ports of Russia was 60.4% (2014: 58.2%), Lithuania 12.3% (2014: 11.4%), Latvia 17.8% (2014: 18.9%), and Estonia 9.5% (2014: 11.5%).

The ports of Ust-Luga (market share 19%), Primorsk (13%) and St. Petersburg (11%) continued as the largest ports on the east coast of the Baltic Sea. AS Tallinna Sadam fell from the seventh position to the eighth with a market share of 5% (2014: 6.2%). We were overtaken by the port of Ventspils whose cargo volume exceeded ours by 0.1 million tons since our cargo volume declined more.

### 3. OPERATING PERFORMANCE

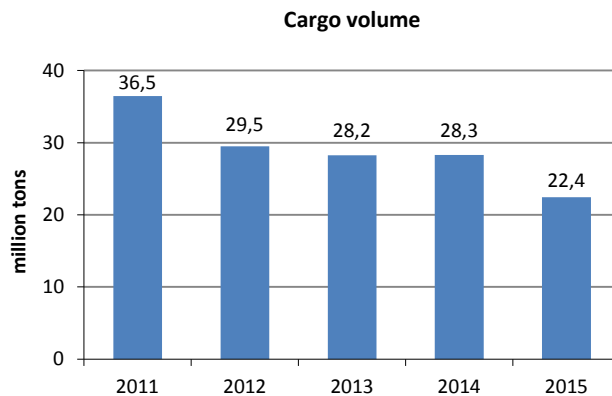
Year 2015 turned out difficult for AS Tallinna Sadam – there was a decline in cargo volumes, operating income as well as net profit. The volume of cargo decreased by 5.9 million tons, i.e. 21% to 22.4 million tons, mostly as a result of a decline in liquid cargo, which meant the lowest result within the last 15 years. In terms of cargo type, the volumes of liquid bulk and containerised cargo decreased the most, by 6.1 million tons and 0.2 million tons respectively. The volumes of Ro-Ro cargo and dry bulk somewhat increased, by 0.3 million tons and 0.15 million tons respectively. One of the reasons for revenue losses was also the fact that multi-functional ice-breaker Botnica did not find work off ice-breaking season as a result of the lows of the respective operations market arising from low oil prices and economic sanctions imposed on Russia by the western world. As a result of growth in the volume of line passengers the number of passengers reached a new record of 9.79 million. This contributed to the growth in revenue related to passenger transport. However, total revenue decreased by EUR 17 million, to EUR 94 million. As a whole, operating income decreased by 15%, operating expenses together with write-downs increased by 1% (however, without an expense incurred on a one-off write-down, decrease of 7%), profit before income tax decreased by 22%, and net profit decreased by 21%. The dividend distributed to the shareholder in 2015 amounted to EUR 31.2 million, plus income tax expense of EUR 7.8 million (2014: EUR 42 million and EUR 11.1 million respectively).

As one of the highlights of the year, construction of four new passenger ferries began in the shipyards in Turkey and Poland. From 1 October 2016 the ferries, operated by a subsidiary of AS Tallinna Sadam - OÜ TS Laevad, will service the Kuivastu-Virtsu and Rohuküla-Heltermaa routes for the next ten years. Construction of a new traffic solution meant for passengers and cars passing through the Old City Harbour and modernisation of the reception facilities necessary for servicing passenger ships remained major capital expenditures related to port operations.

A critical matter for the company in 2015 was the arrest of two members of the management board of AS Tallinna Sadam suspected of accepting bribes. By the date this report is prepared no charges have been brought against them. Despite this extraordinary situation the activities of AS Tallinna Sadam have continued in line with the approved strategy and objectives for core business with appropriate changes made in the management structure. All the members of the company's supervisory

board were also replaced, and as a result of a public competition at the beginning of 2016, Valdo Kalm was elected the new Chairman of the Management Board who took office on 1 March 2016. Until the date the new chairman of the management board took office, AS Tallinna Sadam was led by a temporary two-member management board.

### 3.1. Cargo volume



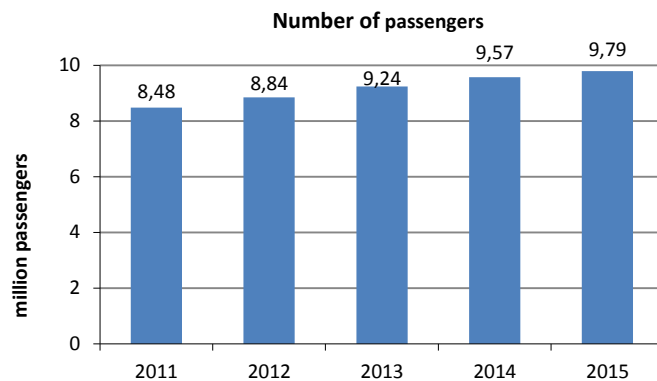
In 2015 the cargo volumes passing through the ports of AS Tallinn Sadam declined by 5.9 million tons (21%) to 22.4 million tons, i.e. to the lowest level within the last 15 years, as a result of a drop in the volume of liquid bulk, the cargo having the largest proportion in total cargo volumes, by 6.1 million tons, i.e. 32%, to the lowest level over 15 years. The volume of liquid cargo serviced under the vessel-terminal-vessel scheme decreased by 5.8 million tons (45%) to 7.0 million tons accounting for 31% of the total volume of cargo (2014: 45%). Volumes of containerised cargo and general cargo declined less, by 0.2 million tons (12%) and 0.04 million tons (7%) respectively. However, in terms of TEUs the volume of containerised cargo declined by about 52 thousand (20%) amounting to 209 thousand TEUs which means a drop of nearly three years' growth. Volumes of Ro-Ro cargo and dry bulk increased by 0.3 million tons (8%) and 0.15 million tons (13%) respectively. The slump in liquid cargo volume can be attributed to the fact that Russia preferred its own ports which was reflected in the increased volumes of liquid cargo mostly in the ports of Ust-Luga and Primorsk. Another reason for a decreased volume of liquid bulk shipped to the port is fallen profitability of added-value services provided in terminals due to low oil prices. The decline in containerised cargo volumes can be attributed to declined transit to and from Russia as a result of a sharp decline in domestic demand due to diminished purchasing power. Most of the Ro-Ro cargo moved on the north-south routes and was less connected with Russia. Growth in the volumes of containerised and Ro-Ro cargo primarily attributable to the consumption on the east coast of the Baltic Sea and the area beyond has been fostered by a growing trend in the trade sector to deliver goods in containers. In terms of freight directions, a more significant change was decrease in volumes of transit in both exports and imports. However, volumes of export and import goods increased.

In terms of types of cargo, liquid bulk with 57% (2014: 67%) accounted for the major part of cargo volumes; Ro-Ro accounted for 19% (2014: 14%), dry bulk for 13% (2014: 10%) and containers for 8% (2014: 7%) of the cargo volumes. In the near future, the structure of the types of bulk cargo (liquid bulk and dry bulk) will depend on further utilisation of the port capacities in Russia. As regards Ro-Ro and containerised cargo, the structure of cargo types will mostly depend on the development of the region's economic environment and geopolitical tensions influencing it. In terms of transport directions, transit accounted for 65% (2014: 74%), exports for 18% (2014: 13.3%) and imports for 17% (2014: 12.8%) of cargo volumes.

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



### 3.2. Number of passengers



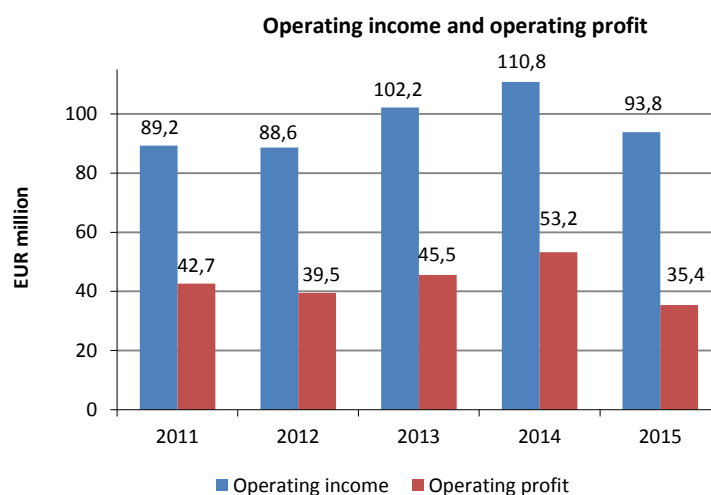
In 2015 the number of passengers passing through the ports of AS Tallinn Sadam increased by 224 thousand, i.e. 2.3%, reaching a record number of 9.79 million passengers (2014: 9.57 million passengers with growth of 3.6%). Once again such a large number of passengers exceeded the expectations in the context of economic lows in the region.

Again, rise in the number of passengers resulted from increased number of line passengers on the Tallinn-Helsinki route, the greatest in proportion, with the number of passengers amounting to 8.2 million (growth by 254 thousand passengers, i.e. 3%). However, the number of passengers on the Stockholm and St. Petersburg routes decreased (by 24 thousand passengers, i.e. 3%, and 22 thousand passengers, i.e. 15%, respectively). The number of cruise ship passengers increased by 18 thousand passengers, i.e. 4%, amounting to a bit more than 0.5 million passengers. The growth exceeded expectations as a result of slumped oil prices that compensated the impact that a rise in prices forecast due to more stringent environmental requirements applied to the marine fuel in the Baltic Sea had on travelling. The Baltic Sea region maintains its reputation as a rapidly developing area and the fastest growing region of the global cruise tourism. For 2016 we forecast the number of cruise ship passengers nearly at the same level as in 2015.

In 2015 no major movements occurred as regards activities of line passenger ship operators. A major part of a season of cruise liner calls lasts from May to September.

The above seasonal nature in passenger transport is regular by nature; therefore, it has no unexpected impact on the financial performance of AS Tallinna Sadam.

### 3.3. Income and expenses



Consolidated revenue of AS Tallinna Sadam for 2015 amounted to EUR 93.8 million, down by EUR 17.0 million, i.e. 15.3% (2014: revenue of EUR 110.8 million and increase of 8.4%). AS Tallinna Sadam, the parent of the consolidation group, earned 88% of the group's income; TS Energia OÜ earned 7% and TS Shipping OÜ 5% of the income.

In terms of the source of income, the biggest change was a decline in income from the charter fees attributable to ice-breaker Botnica by EUR 8.5 million; total income amounted to EUR 4.6 million. Income declined since profitable off season work was not found. The long-term charter agreement made for off ice-breaking seasons was cancelled early due to the economic sanctions imposed on Russia. Income from the penalty arising from the cancellation (EUR 3.0 million) was recognised under other income, and related income tax expense (EUR 0.6 million) was recognised within income tax expense. Due to the oil price fallen to the lowest level of the last ten years, offshore operation projects carried out by similar special purpose vessels at oil rigs were suspended and delayed; therefore, the market of such vessels also occurred at lows and profitable work in the summer period could not be found. In terms of traditional sources of income, income from port charges and fees decreased the most (by EUR 7.3 million, i.e. 12.6%). In line with fallen cargo volumes income earned from tankers decreased the most and a somewhat smaller decline was also in income earned from container ships. Income from port charges and fees earned on passenger ships and cruise ferries increased as a result of their grown gross tonnage as well as a certain change in tariffs. Decrease in the liquid bulk volume resulted also in declined income from cargo charges (by EUR 0.8 million, i.e. 10%); however, the decline in income was smaller than the decrease in the cargo volume since the volume fell mostly due to the volume of liquid cargo serviced under the vessel-terminal-vessel scheme and the income from charges on such cargo is smaller. Income from passenger fees increased by EUR 0.56 million, i.e. 5% mostly as a result of the increased number of passengers and the changed passenger structure. Income from sale of electricity decreased due to a drop in electricity prices which was also reflected in a decrease in respective expenses. All in all, the proportion of income related to passenger ships and cruise ferries in total income increased while the proportion of income from cargo transport decreased as a result of the above changes in income and decline in the income of the shipping business segment.

Expenses related to operating activities (operating expenses; personnel expenses; and depreciation, amortisation and impairment losses) totalled EUR 58.4 million, up on 2014 by EUR 0.9 million, i.e. 1.5%. However, excluding one-off expenses, expenses decreased by EUR 4.3 million, i.e. 7.5%. Of all expenses, expenses incurred on depreciation, amortisation and impairment losses increased the most (EUR 4.0 million, i.e. 21%), mostly due to a one-off expense incurred on impairment of non-current assets in the amount of EUR 5.2 million. EUR 5 million of the impairment expense was attributable to ice-breaker Botnica based on an expert opinion about the vessel's market value due to the lows of the charter market. Operating expenses decreased by EUR 2.2 million, i.e. 9%, arising from a decrease in the majority of expense categories, but mostly from a decline in electricity prices, and decreased consultation expenses, expenses incurred on repairs of non-current assets and several other operating expenses. Personnel expenses decreased by EUR 0.9 million, i.e. 7%, mostly as a result of less personnel expenses incurred on ice-breaker Botnica due to lack of work off ice-breaking season in 2015.

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

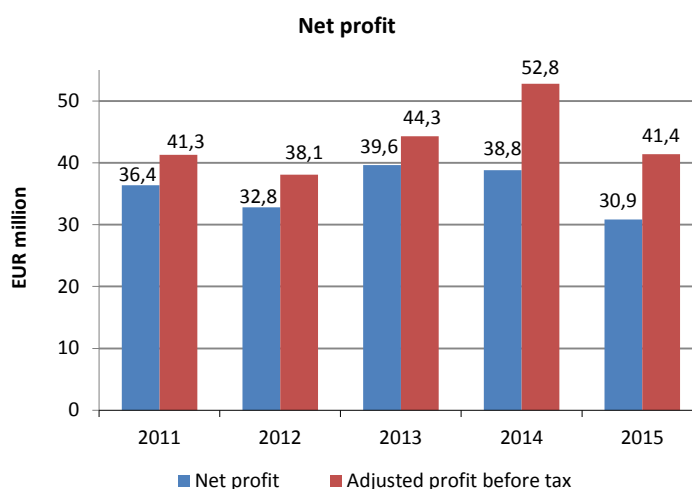
Operating profit for 2015 (earnings before other income and other expenses) amounted to EUR 35.4 million, down on 2014 by EUR 17.8 million, i.e. a third, as a result of a decrease in operating income. Excluding a one-off expense incurred on impairment of non-current assets of EUR 5.2 million, operating profit amounted to EUR 40.6 million, decline of EUR 12.6 million, i.e. 24%. As a result of the changes, operating margin (operating profit divided by revenue), which demonstrates the efficiency of the operations of AS Tallinna Sadam, fell from 48.0% to 37.7% (to 43.2% based on adjusted operating profit). The fall in operating profit resulted from decreased income earned from the operations of subsidiary OÜ TS Shipping related to ice-breaker Botnica as well as from a decline in income from traditional port operations. Since the results of OÜ TS Shipping largely depend on income earned on offshore work carried out off ice-breaking season which may vary considerably from year to year, this also had an impact on the company's performance indicators as expected.

Port extension projects that have passed from the investment stage to the operational stage, the planned operation volumes and income levels of which have not been achieved yet, also have a deteriorating effect on efficiency. Major such projects include a coal terminal opened in Muuga in 2005, Saaremaa Harbour opened in 2006, and the infrastructure of the extension of the container terminal in Muuga Harbour completed in 2010. We forecast a certain decline in operating margin in the upcoming years.

EBITDA (profit before interest income and expenses; income tax; and depreciation, amortisation and impairment) for 2015 was EUR 63.6 million compared to a record of EUR 71.4 million in 2014, down by EUR 7.9 million, i.e. 11%. A smaller decrease as

compared to the decline in operating profit resulted mostly from an increase in other income and decrease in other operating expenses.

### 3.5. Net profit



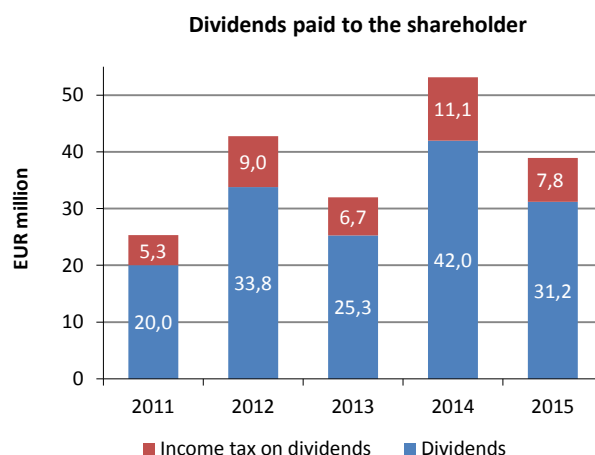
Net profit was also impacted by other income and expenses, finance income and costs, and income tax on dividends. Other income amounted to EUR 5.8 million, up on the period a year ago by EUR 3.1 million. Other income comprised mostly of income of EUR 5.4 million from penalties and interest on arrears, of which EUR 3.0 million resulted from early cancellation of the long-term charter agreement of Botnica (income tax expense of EUR 0.6 million incurred on it) and EUR 2.3 million earned from port operations from several cargo operators as a result of their failure to meet contractual cargo volumes. Other expenses totalled EUR 0.8 million, down by EUR 2.2 million. The decrease resulted from a one-off expense recognised in 2014 as a provision for covering a potential obligation of EUR 2.8 million arising from early termination of a contract. Other expenses also included expenses incurred on sponsoring activities, plus taxes, in the amount of about EUR 0.5 million which does not have a comparable amount recognised in 2014. Finance income did not change significantly, but finance costs decreased, mostly as a result of decreased expenses from interest rate risk hedging instruments and the market interest rates which kept falling. Interest expenses related to construction of ferries was capitalised in the amount of EUR 0.6 million. Although the volume of interest-bearing liabilities increased by EUR 51 million, i.e. 35%, net finance costs decreased by about EUR 1.7 million, i.e. 57%. Profit before income tax was EUR 39.2 million, down by EUR 10.9 million.

The group's net profit in 2015 amounted to EUR 30.9 million, down on 2014 by EUR 8.0 million, i.e. 21%. The decrease resulted mostly from a decrease in operating profit by EUR 17.8 million, increase in other income and the impact of decreased other expenses by EUR 5.3 million in total, a decrease in net finance costs by EUR 1.7 million and decrease in income tax expense by EUR 3.0 million mostly due to the amount of dividend distribution falling from a record of EUR 42.0 million to EUR 31.2 million. In order to compare net profits of AS Tallinna Sadam for different years, net profit is adjusted by more significant one-off income and expenses and income tax expense incurred on dividend distribution.

Adjusting the net profit in 2015 by the income tax expense on dividends in the amount of EUR 7.8 million, one-off expense incurred on impairment of non-current assets of EUR 5.2 million, and income from a penalty for early cancellation of the long-term charter agreement of Botnica after income tax of EUR 2.4 million, the result is EUR 41.4 million of adjusted profit before tax. On adjusting the net profit in 2014 by the income tax expense on dividends in the amount of EUR 11.1 million and expenses related to a one-off provision of EUR 2.8 million recognised for charges on early termination of a contract, the result is EUR 52.8 million of adjusted profit before tax. The decrease in adjusted profit (by EUR 11.4 million) mostly resulted from a decline in operating profit.

The exposure to financial risks of AS Tallinna Sadam and methods used to hedge the risks are described in notes 3, 5 and 16 to these financial statement.

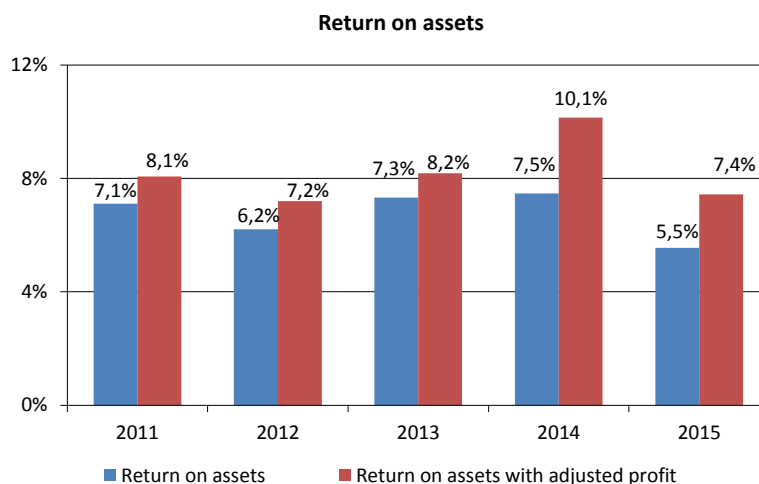
### 3.6. Dividends



In 2015, the shareholder was paid EUR 31.2 million as dividends plus income tax on dividends of EUR 7.8 million, a total of EUR 39.0 million. For further details see note 18 to the financial statements. The respective figures for 2014 were dividends of EUR 42.0 million plus income tax on dividends of EUR 11.1 million, a total of EUR 53.1 million.

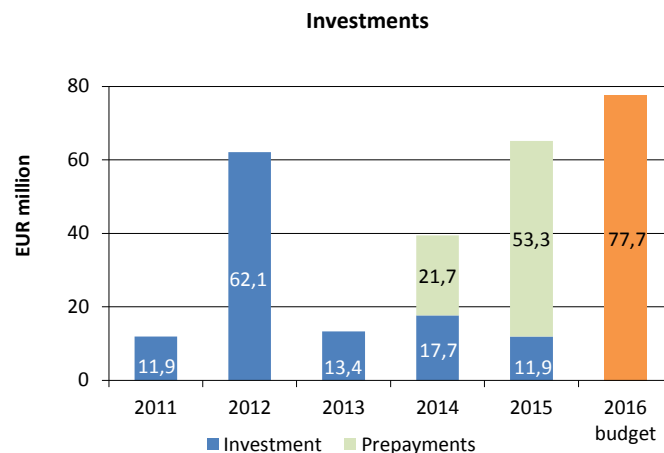
The decision on dividend distribution by AS Tallinna Sadam is made by the Government of the Republic of Estonia upon the proposition of the Minister of Finance, based on the financial performance of AS Tallinna Sadam and taking into account the financial forecast based on the group's development plan.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

### 3.7. Return on assets



AS Tallinna Sadam's return on assets (net profit divided by the average total assets of the year) was 5.5%, falling to the lowest level of the last five years. Return on assets based on adjusted profit before income tax also decreased amounting to 7.4%. The decline in 2015 resulted mostly from a decrease in adjusted profit before income tax as a result of a decline in operating profit (by 24%), and also from growth in total assets (by 9%). A decline in return on assets in past years was partly anticipated, as it resulted from increased total assets as a result of long-term and large-scale investments (including, for instance, the passenger ferries under construction) on which income had not been earned yet. The above impact also reflected in the results for 2015. AS Tallinna Sadam's adjusted return on equity (adjusted profit before income tax divided by the average total equity of the year) in 2015 was 12.1%. Return on equity also decreased compared to 15.3% in 2014 (also based on adjusted profit before income tax), resulting from a decrease in adjusted profit before income tax (by 22%).

#### 4. INVESTMENTS AND DEVELOPMENT OUTLOOK

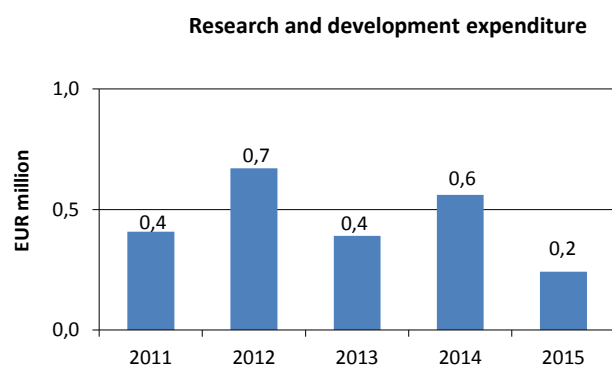


In 2015, the group's total investment in new infrastructure assets, acquisition of non-current assets and improvement of existing infrastructure assets amounted to EUR 11.9 million, i.e. somewhat down on the total investment in 2014. Construction of ferries was financed in the amount of EUR 53.3 million which has been recorded as a prepayment for non-current assets and has not been included in the amount of investments figure in 2015.

Major investments in 2015 were made in the Old City Harbour in the total amount of about EUR 7.7 million to develop vessel accommodation and passenger service facilities, communications and to build a new traffic solution together with electronic entrance facilities which will provide innovative traffic areas for cars to get on and off board. Investments in other ports and harbours were smaller and directed mostly into reconstruction of quays and berths.

Investments in IT hardware, equipment and software amounted to EUR 0.3 million. Investments related to financing ferries, construction supervision, and information systems necessary for operations totalled EUR 1.7 million.

Investments planned for 2016 include part of the cost of construction of passenger ferries needed for the ferry connection between the mainland and major islands and other investments related to ferry traffic in the total amount of EUR 40 million. Construction of passenger ferries will be completed by autumn 2016, with the related total investments assessed to amount to EUR 120 million. Nearly EUR 34 million will be invested in the Old City Harbour, mostly in building traffic solutions and accommodation facilities for ships that will provide an innovative and client friendly service environment for about 10 million passengers passing through the Old City Harbour per year.



In addition to investments, each year AS Tallinna Sadam bears substantial research and development expenses which in 2015 amounted to EUR 0.2 million. Research and development expenditures were related to elaborating various projects considering environmental, constructional and economic feasibility aspects. Also, regular inspections of technical condition of quays and berths are carried out. Most research projects are aimed at planning new and unexploited areas in harbours; preparing necessary preliminary and detailed plans; also at environmental studies and monitoring of exploitation of mineral resources; and at assessing and monitoring other impacts arising from port operations.

In the Old City Harbour, under-exploited areas are planned to be leased out (property development) primarily to complement the busy passenger traffic and further integrate the harbour area with the urban space. Therefore, possibilities for optimal reorganisation of passenger and cargo traffic flows in the harbour area are researched.

## 5. QUALITY AND ENVIRONMENTAL MANAGEMENT AND SOCIAL RESPONSIBILITY

Since 2003, the management system of AS Tallinna Sadam (the parent) has been certified as being in compliance with the requirements of international standards ISO 9001 and ISO 14001. In March 2015 a verification audit in accordance with ISO 9001: 2008 and ISO 14001: 2004 requirements was performed by *Bureau Veritas Eesti OÜ* who has performed certification and verification audits of the management system of AS Tallinna Sadam since 2009. Major objectives of the development of the quality and environmental management systems of AS Tallinna Sadam were as follows: continuing implementation of asset management software; continuing improvement of digital document management and paper free accounting; implementation of the project management system; and improvement of the system of air quality monitoring in the western part of Muuga Harbour and the system of informing about environment and safety issues arising from the development of Muuga Harbour.

### 5.1. Corporate social responsibility

One of the priorities of AS Tallinna Sadam is to implement the principles of corporate social responsibility (CSR) in the company's day-to-day activities.

In February 2015 the company joined the Responsible Business Forum in Estonia in order to address CSR issues on a more systematic basis and contribute to promoting the attitude in Estonia. For sustainable operations of AS Tallinna Sadam the welfare and interests of our key stakeholders (employees, local community, customers) are important; therefore, in addition to main business activities the company seeks to provide added value to the stakeholders.

In 2015 the most significant activities aimed at key stakeholders included the following:

#### Employees

- Combining work and family life: flexible working hours, supporting camps for children, a Christmas party for children.
- Development of the staff: training in management, environment issues, foreign languages, PC and safety at work, and staff days.
- Team-building: sporting Shrove Tuesday, team training in summer, a year-end party, concerts by the port's choir *Laulude Lemmik*.
- Promoting a healthy lifestyle: the health week, participation in sport events, supporting attendance at sport clubs.
- Enhancing social responsibility: organising and participation in the clean-up day "Let's Do It!", the Donor Day in the port.
- Employee feedback: a survey into the initiatives and benefits supporting employee performance and motivation.

#### Local community

- Round tables with local authorities: preparing and presenting a cumulative risk analysis on Muuga Harbour; a discussion with Saaremaa ja Hiiumaa county governors, representatives of local authorities and entrepreneurs' organisations as regards expectations related to the commencement and organisation of ferry connection, and introducing the issues to the public.
- Events for the local communities: excursions in Muuga Harbour within the framework of Viimsi Safety Day and Maardu Fair; public events on the territory of the Old City Harbour (Maritime Days, celebration of the 50th anniversary of the Tallinn–Helsinki route, celebration of the 25th anniversary of the Tallinn–Stockholm route).
- Educational programmes: introduction of Muuga Harbour to young people from various schools and age groups, and excursions in the Harbour; introduction of cruise tourism and the cruise area at the Old City Harbour.
- Sponsorships: in 2015 support to sport and culture projects and projects of local authorities adjacent to the ports totalled EUR 0.43 million.

#### Customers

- Informing and involving customers: the information day (introducing the group's strategy and investment plans, a workshop to map expectations as regards the responsibilities of AS Tallinna Sadam in respect of granting corporate

responsibility and sustainability of the Estonian logistics and transport sector); meetings of the cruise cooperation network (feedback on the season and expectations as regards enhancing the attractiveness of the port area and addressing social challenges).

- Management meetings at major customers.
- Joint activities with customers: conferences (Tallinn-Helsinki 50, Maritime Conference, Annual Logistics Conference); shared displays at international fairs (TransRussia, Cruise Shipping Miami, Boot Düsseldorf); events for local communities (excursions in Muuga Harbour, public events in the Old City Harbour, the Donor Day).

At the end of 2015 the key personnel of the company mapped AS Tallinna Sadam's main stakeholders (all in all, 22 stakeholders) and identified the main tactics for involving stakeholders in four categories (engage, inform, care, monitor). In 2016 stakeholders' expectations and impact will be identified.

AS Tallinna Sadam has assessed its responsibility and sustainability activities by responding to Estonian Corporate Sustainability and Responsibility Index questionnaire 2013 and 2014 organised by Responsible Business Forum. According to the Index results in 2014 AS Tallinna Sadam was awarded 74.4 points out of a maximum of 100 points and received a CSR quality label at the bronze level. We have planned to participate in the Index again in 2016.

## 5.2. Indicators

To facilitate a balanced analysis of the group's results and their periodic monitoring, AS Tallinna Sadam (the parent) has set down indicators for measuring financial, customer, process, personnel and development aspects. Based on the observable indicators the following significant observations and trends in 2015 may be outlined:

- Financial performance indicators (EVA<sup>4</sup>, profit, cash flows, etc.) of income and profitability declined while the indicators of cash flows and new investments with required profitability improved;
- Such process performance indicators as cargo volume and handling efficiency indicators declined. Number of discrepancies increased a bit compared to 2014;
- Personnel and development performance indicators showed an increase in the proportion of personnel voluntarily leaving employment and a decrease in the proportion of the hours of personnel in-service training and the level of expenses incurred on research and development;
- Customer feedback was constantly monitored with the help of business line managers. To assess client satisfaction and get input for setting the group's objectives an information day was held in 2015 where material topics for granting sustainability of the Estonian logistics and transport sector were mapped. In relationships with the society and community, informing the local community about the port's activities, involving local people in discussions, and development of the port area and the surrounding urban space were considered as the most important factors. Suggestions in terms of the environment discussed enhancing security in the ports and harbours, a more sensible direction of transport flows and environmentally friendly approaches. As regards the business environment, a better direction of passengers' movement, development of transport connections with the city and a more flexible pricing policy were rated as more significant factors.

## 5.3. Environmental protection activities

In 2015 environmental protection expenses and investments of AS Tallinna Sadam amounted to EUR 0.92 million of which the maintenance costs of the ports' pollution recovery vessels and pollution recovery appliances accounted for EUR 0.67 million remaining within the same range as in previous years. Automatic devices for monitoring oil pollution in the aquatory of Muuga Harbour were acquired at the total cost of EUR 20 thousand. Environmental research and consulting expenses totalled EUR 0.07 million, EUR 0.02 million up on 2014; waste-water treatment charges amounted to EUR 0.06 million like in 2014.

Key environmental projects related to port development in 2015 were as follows:

- Outdoor air monitoring in the western part of Muuga Harbour, and in cooperation with oil operators, improvement of the environment management system (to reduce of air pollution in oil terminals);

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<sup>4</sup> EVA: Economic Value Added

- Implementation of software application Mairis for prompt information and notification system in order to prevent exceeding the permitted limits of outdoor air pollutants in Muuga Harbour;
- Strategic assessment of the impact building of LNG terminal and bunkers in Muuga Harbour may have on the environment;
- Post-dredging monitoring of the aquatory and fairway in Paldiski South Harbour;
- Additional environmental surveys to ensure potential cargo handling in Saaremaa Harbour.

Working together with competent experts, environmental monitoring, surveys and assessment of environmental impact were performed in respect of construction and development activities in Muuga Harbour, Paldiski South Harbour and Saaremaa Harbour.

## **6. SUBSIDIARIES AND JOINT VENTURES**

As at year-end 2015, AS Tallinna Sadam held three subsidiaries (OÜ TS Energia, OÜ TS Shipping and OÜ TS Laevad) and one joint venture (AS Green Marine). As at the date this report is prepared, no changes have been planned to be made in the structure of the consolidation group in 2016.

### **6.1. OÜ TS Energia**

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

In 2015, the company continued investing in renovation of electricity distribution networks and utilities networks to maintain and enhance the reliability of supply. Backup supply is guaranteed for the customers of the electricity network in accordance with the policy of increased supply reliability within port premises. Revenue from rendering of services in 2015 remained below the forecast level, mostly due to a lower than expected electricity price. As a result, electricity purchasing costs also remained below the expected, which together with declined expenses incurred on repairs gave net profit above expectations.

The remuneration of the subsidiary's management board and members of the supervisory board for 2015 amounted to EUR 49.0 thousand and EUR 2.3 thousand respectively. The remuneration of the members of the management board for 2014 amounted to EUR 47.9 thousand; no bonus was paid for financial performance in 2014. The remuneration of the members of the supervisory board for 2014 amounted to EUR 9.0 thousand. A bonus for financial performance in 2015 may be added to the remuneration of the management board for 2015, which the supervisory board decides after the approval of the subsidiary's annual report.

### **6.2. OÜ TS Shipping**

The subsidiary (formerly OÜ Tallinna Sadama Veevõrk) was established in the second half of 2005 with an aim to separate in the future the provision of water, sewage and heat network services in port premises from port services and to ensure as efficient as possible functioning of these services. However, from February 2011 the above services were transferred from the parent to another subsidiary, OÜ TS Energia. For some time OÜ Tallinna Sadama Veevõrk had no actual economic activity. At the end of 2012 the company was renamed as OÜ TS Shipping, and ice-breaker Botnica, acquired by the parent, together with the obligation to carry out the ice-breaking service contract signed with the state of Estonia for 10 years was transferred to OÜ TS Shipping. The subsidiary's new line of business was activities related to owning and operating vessels.

From the beginning of 2013 the company commenced actual business operations by rendering ice-breaking services under a 10-year service contract. Also, preparations of both the crew and the ship were commenced for off ice-breaking season when the vessel is used as a special purpose vessel in offshore operations. In 2015 performance of the 10-year service contract continued. However, no work was found off ice-breaking season as a result of early cancellation of the long-term charter agreement made in 2013 due to the economic sanctions imposed on Russia by the western world as well as impossibility to



find appropriate work at the special purpose vessels market due to the lows of the market owing to drastically plunged oil prices.

The remuneration of the subsidiary's management board and members of the supervisory board for 2015 amounted to EUR 114.0 thousand and EUR 4.0 thousand respectively. The remuneration of the management board and members of the supervisory board for 2014 amounted to EUR 93.7 thousand and EUR 4.3 thousand respectively.

### 6.3. OÜ TS Laevad

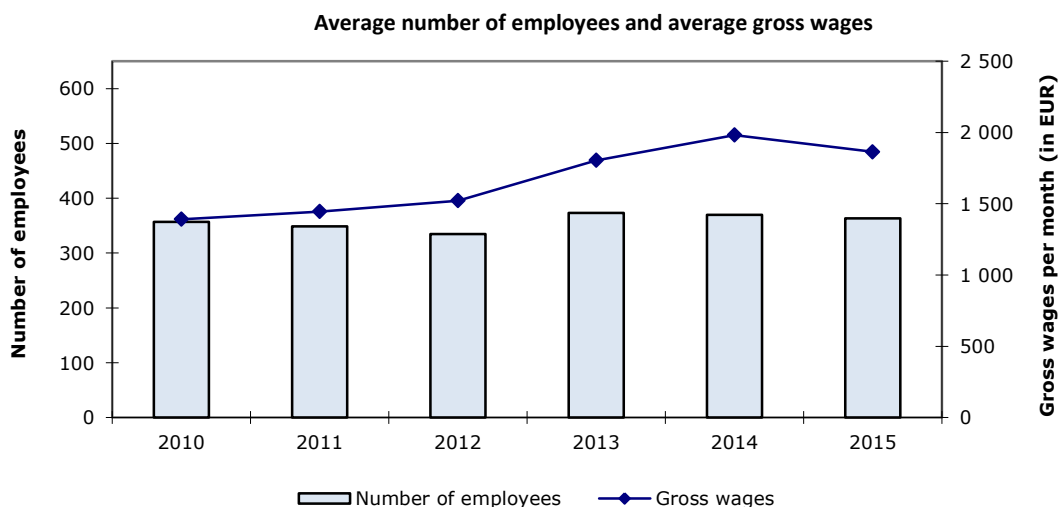
OÜ TS Laevad was established in 2014 in order to participate in a public tender for operating the ferry connection between the mainland and major islands. The tender made together with OÜ TS Shipping was successful and in December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications for providing a passenger ferry connection service in the period from 1 October 2016 to 30 September 2026. In 2014 OÜ TS Laevad also signed contracts for construction of four passenger ferries needed to provide the above service. In 2015 construction of ferries continued, being partly ahead of the schedule. Also, preparations were made to crew the ferries, and prepare both the staff and necessary technical systems for providing customer services. At the end of the year, as a result of a public competition two new management board members were elected whose term of office commenced in December. The remuneration of the subsidiary's management board and members of the supervisory board for 2015 amounted to EUR 9.9 thousand and EUR 0.4 thousand respectively. Members of the management and supervisory boards were not remunerated for 2014.

### 6.4. AS Green Marine

AS Green Marine is a joint venture engaged in waste management. The company was founded by AS Tallinna Sadam and AS NT Marine at the end of 2003 and it is under joint control of the shareholders. The activities of AS Green Marine include management of waste generated in ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of the ports' aquatory and premises. In 2015 the company continued receiving and handling ship-generated waste under a cooperation agreement signed with AS Tallinna Sadam. In order to utilise more of the processing capability of the mobile liquid waste handling terminal, also waste received from customers outside port premises is handled. In 2015 no dividends were distributed. In the comparative year 2014 AS Green Marine distributed dividends in the amount of EUR 150 thousand of which EUR 76.5 thousand was attributable to AS Tallinna Sadam.

## 7. ORGANISATION AND PERSONNEL

### 7.1. Employees

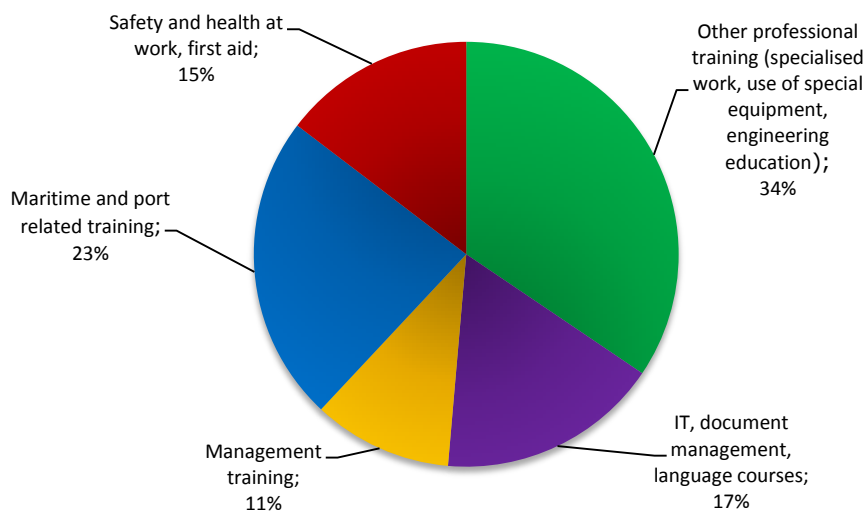


In 2015 the group's average number of employees was 363 (2014: 370). Total remuneration of the employees amounted to EUR 8.13 million (2014: EUR 8.79 million). Average gross wages of the group's employees in 2015 amounted to EUR 1,864 per month, i.e. 7.5% down on 2014 (EUR 1,982 per month). The decline in the group's average wages was mostly caused by the group's deteriorating financial performance which resulted in cutting some of the staff's basic wages and bonuses.

Employee turnover in 2015 was 4.1% (2014: 3.5%). The average number of sick leave days in 2015 was 3.7 calendar days per employee (2014: 4.5 calendar days). Work environment issues are important for us. Therefore, we invest in raising our employees' awareness of work environment and job safety on a regular basis. We also foster the staff's regular and consistent sport activities. In 2015 we organised another health week which has become a tradition by now. During the week we paid more than usual attention to the issues of employees' health, including healthy eating, muscle tension and restoring energy resources. Like last year, we organised a blood donor day for the staff and cooperation partners within the health week.

To enhance internal communication and make essential information available for each employee irrespective of their location of work, publishing of an intra-group newsletter was continued in 2015. Also, information days were held during the year where such issues as the group's performance and objectives, development and environment related activities and corporate social responsibility issues were discussed. In addition, in 2015 AS Tallinna Sadam's rules and regulations for avoiding conflicts of interests were updated to provide clear guidance for appropriate behaviour serving the group's business interests. The most significant change is an obligation of the employees listed in an appendix to the regulations to declare their business interests each year.

On average, in 2015 each group employee participated in 11.1 hours of training (2014: 13.6 hours). Training expenses per employee in 2015 amounted to EUR 364 (2014: EUR 317). Professional training (including specialised work, use of special equipment and engineering education) and maritime and port related training accounted for the largest portions of the entire training volume (34% and 23% respectively). Training in safety and health at work and first aid accounted for 15% of the total training volume. Employees improved their knowledge of safety and health at work by attending training sessions dedicated to such topics as ergonomics, providing first aid, work environment, fire safety and using fire-extinguishing appliances.



**Training activities in 2015, based on training hours**

## 7.2. Management board

In August 2015 an extraordinary event for the group took place when two long-term members of the management board of AS Tallinna Sadam (parent) were arrested suspected of accepting bribes. To ensure that the company could perform as a going concern and to restore its integrity the supervisory board approved two new temporary members of the management board: Marko Raid, the former CFO, and Carri Ginter, an external attorney-at-law. The authority of the new members of the management board was appointed for a fixed term with the final date of 26 February 2016 or until a new management board took office. As a result of a public competition held by the supervisory board, in January 2016 Valdo Kalm, a person with

extensive management experience and an impeccable reputation, was elected as the new Chairman of the Management Board taking office on 1 March 2016. Marko Raid's authority as a management board member was extended until 31 May 2016; by then a new management structure and the membership of a new management board are expected to be confirmed.

The remuneration of the members of the management board for 2015 amounted to EUR 183.4 thousand. The remuneration of the members of the management board for 2014 amounted to EUR 196.4 thousand, including a bonus for financial performance in 2014 of EUR 47.3 thousand.

### 7.3. Supervisory board

The supervisory board of AS Tallinna Sadam held 10 meetings in 2015. In 2015 several changes were made in the membership of the supervisory board. With the sole shareholder's resolution of 5 January 2015 Neinar Seli was removed from the supervisory board. With the sole shareholder's resolution of 19 January 2015 Jaanus Tamkivi was appointed as a new member of the supervisory board. Due to suspicions filed against former members of the management board all members of the parent's supervisory board resigned and a new supervisory board was formed with no active politicians as its members. For this, with the sole shareholder's resolution of 3 October 2015 all members of the supervisory board, i.e. Vallot Mangus, Pille Parind, Jaanus Tamkivi, Hillar Teder and, taking into account a proposal from the Minister of Finance, Priit Paiste, Kalev Lillo, Randel Länts and Remo Holsmer, were removed. With the same resolution, Aare Tark, Mart Luik, Merike Saks and, taking into account a proposal from the Minister of Finance, Urmas Kaarlep, Üllar Jaaksoo and Agris Peedu were appointed as new members of the supervisory board.

The remuneration of the members of the supervisory board for 2015 amounted to EUR 32.9 thousand (2014: EUR 34.8 thousand).

## 8. CORPORATE GOVERNANCE REPORT

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

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

### 8.1. General meeting

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

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

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

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

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

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

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

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

## **8.2. Management board**

Pursuant to section 2.2.7 of the CGR, the following information about the amount of the remuneration of the members of the management board of AS Tallinna Sadam in 2015 and the scheme for determining severance package and additional bonuses and benefits are presented.

The remunerations of the members of the management board for 2015 were as follows: Ain Kaljurand, the Chairman of the Management Board (up to 26 August 2015), EUR 70.1 thousand; Allan Kiil, a Member of the Management Board (up to 26 August 2015), EUR 61.4 thousand; Marko Raid, the Chairman of the Management Board (from 27 August 2015), EUR 18.7 thousand; and Carri Ginter, a Member of the Management Board (from 27 August 2015), EUR 33.2 thousand. The limits to the amounts of incentive payments and severance pay payable to a member of the management board are prescribed in section 86 subsections 2 and 3 of the SAA, pursuant to which the amount of incentives payable to a member of the management board cannot exceed the amount equal to the management board member's four months' remuneration.

As at 31 December 2015 AS Tallinna Sadam had no obligation to pay compensation or make any other payments to the members of the management board upon their removal.

Section 2.3 of the CGR – Conflict of interests. On 26 August 2015, long-term members of the management board of AS Tallinna Sadam Ain Kaljurand and Allan Kiil were detained by the Estonian Internal Security Service, and suspicions of large-scale bribery during several years were filed against them. By the date this report is prepared the trial has not commenced yet, nor have any charges been brought against the above persons, and preliminary investigation procedures are still in progress. Subsequent to the above event new management and supervisory boards were appointed for the company, and the shareholder of the company commenced various audits and investigations to review the company's internal processes in order to rule out such conflicts in the future. By the date this report is prepared the above audits and investigations have not been finished yet. On 14 December 2015 the group approved its procedures for avoiding any conflict of interests.

## **8.3. Supervisory board**

Pursuant to section 3.2.5 of the CGR, the amount of the remuneration paid to the members of the supervisory board of AS Tallinna Sadam in 2015 and the procedure for remuneration are presented below.

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

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

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

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

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

As at the date of the approval of the annual report for 2015, the members of the supervisory board of AS Tallinna Sadam have not notified the group of any conflicts of interest arising during the financial year.

#### **8.4. Financial reporting and auditing**

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

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

The auditor of AS Tallinna Sadam is AS Deloitte Audit Eesti and the independent auditors' report is signed by Veiko Hintsov. The contract for audit services has been made for three years (for auditing annual reports 2015-2017). In addition to the audit the auditing company has not rendered the company any such services that might compromise the auditor's independence.

## MANAGEMENT'S CONFIRMATION AND SIGNATURES

By authorising the consolidated annual financial statements as at 31 December 2015 the management board confirms the correctness and completeness of the data of AS Tallinna Sadam and companies related to it as set out on pages 23 to 72 and that

1. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
2. The consolidated annual financial statements give a true and fair view of the financial position of the group and its cash flows and financial performance;
3. All significant events that occurred until the date on which the financial statements were authorised for issue (15.03.2016 ) have been properly recognised and disclosed in the consolidated financial statements; and
4. AS Tallinna Sadam and its subsidiaries are going concerns.



Valdo Kalm  
Chairman of the Management Board



Marko Raid  
Member of the Management Board

15.03.2016

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

In thousands of euros	Note	At 31 Dec. 2015	Restated* At 31 Dec. 2014	Restated* At 1 Jan. 2014
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	25,902	11,871	10,856
Available-for-sale financial assets		0	0	182
Trade and other receivables	7	9,312	15,650	11,799
<b>Total current assets</b>		<b>35,214</b>	<b>27,521</b>	<b>22,837</b>
<b>Non-current assets</b>				
Investments in joint ventures	8	710	548	418
Other long-term receivables	7	476	1,772	3,098
Property, plant and equipment	9	544,189	501,368	481,272
Intangible assets	10	495	548	709
<b>Total non-current assets</b>		<b>545,870</b>	<b>504,236</b>	<b>485,497</b>
<b>Total assets</b>		<b>581,084</b>	<b>531,757</b>	<b>508,334</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and borrowings	15	25,710	23,933	11,720
Derivatives	16	831	747	949
Provisions	12	965	4,379	943
Government grants	17	917	1,363	690
Taxes payable	14	8 318	619	1 239
Trade and other payables	13	5 700	10 722	5 377
<b>Total current liabilities</b>		<b>42,441</b>	<b>41,763</b>	<b>20,918</b>
<b>Non-current liabilities</b>				
Loans and borrowings	15	171,043	121,754	115,686
Government grants	17	23,695	23,781	24,716
Other payables	13	1,238	1,384	977
<b>Total non-current liabilities</b>		<b>195,976</b>	<b>146,919</b>	<b>141,379</b>
<b>Total liabilities</b>		<b>238,417</b>	<b>188,682</b>	<b>162,297</b>
<b>EQUITY</b>				
Share capital at par value		185,203	185,203	185,203
Statutory capital reserve		18,520	18,520	18,388
Hedging reserve		-831	-747	-949
Retained earnings		108,907	101,263	143,395
Profit for the year		30,868	38,836	0
<b>Total equity</b>	18	<b>342,667</b>	<b>343,075</b>	<b>346,037</b>
<b>Total liabilities and equity</b>		<b>581,084</b>	<b>531,757</b>	<b>508,334</b>

\* Information about adjustment is presented in Note 9.

**CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****Consolidated income statement**

In thousands of euros	Note	2015	Restated* 2014
Revenue	19	93,794	110,773
Other income	21	5,824	2,759
Operating expenses	20	-23,514	-25,752
Personnel expenses	20	-12,416	-13,292
Depreciation, amortisation and impairment losses	9, 10	-22,513	-18,532
Other expenses	21	-810	-3,039
<b>Operating profit</b>		<b>40,365</b>	<b>52,917</b>
<b>Finance income and finance costs</b>			
Finance income		40	54
Finance costs	22	-1,328	-3,017
<b>Net finance costs</b>		<b>-1,288</b>	<b>-2,963</b>
Share of profit/loss of equity-accounted investees	8	162	206
<b>Profit before income tax</b>		<b>39,239</b>	<b>50,160</b>
Income tax expense	18	-8,371	-11,324
<b>Profit for the year</b>		<b>30,868</b>	<b>38,836</b>
Basic earnings and diluted earnings per share (in euros)	18	0.17	0.21
Basic earnings and diluted earnings per share – continuing operations (in euros)		0.17	0.21

**Consolidated statement of comprehensive income**

In thousands of euros	Note	2015	Restated* 2014
<b>Profit for the year</b>		<b>30,868</b>	<b>38,836</b>
<b>Other comprehensive income</b>			
Revaluation of hedging instruments	16	-84	202
<b>Total other comprehensive income</b>		<b>-84</b>	<b>202</b>
<b>Total comprehensive income for the year</b>		<b>30,784</b>	<b>39,038</b>

\* Information about adjustment is presented in Note 9.



**CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD)**

In thousands of euros	Note	2015	2014
Cash receipts for sale of goods or services		102,570	116,380
Cash receipts related to other income		1,603	1,641
Cash paid to suppliers		-32,957	-32,490
Cash paid to and on behalf of employees		-11,267	-11,608
Cash payments related to other expenses		-629	-280
Income tax paid on dividends	18	0	-11,144
<b>Net cash from operating activities</b>		<b>59,320</b>	<b>62,499</b>
Acquisition of property, plant and equipment	25	-65,185	-36,669
Acquisition of intangible assets	25	-185	-108
Proceeds from sale of property, plant and equipment		1,914	1,025
Connection fees received		170	26
Proceeds from government grants related to non-current assets		12	906
Dividends received		0	76
Interest received		18	31
<b>Net cash used in investing activities</b>		<b>-63,256</b>	<b>-34,713</b>
Proceeds from issue of debt securities	15	60,000	0
Redemption of debt securities	15	-2,500	-2,500
Proceeds from loans received	15	15,000	32,000
Repayment of loans received	15	-21,433	-11,220
Dividends paid	18	-31,192	-42,000
Interest paid	15	-1,866	-3,006
Other payments related to financing activities		-42	-45
<b>Net cash from/used in financing activities</b>		<b>17,967</b>	<b>-26,771</b>
<b>NET CASH FLOW</b>		<b>14,031</b>	<b>1,015</b>
Cash and cash equivalents at beginning of year	6	11,871	10,856
Increase in cash and cash equivalents		14,031	1,015
Cash and cash equivalents at end of year	6	25,902	11,871

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

In thousands of euros	Note	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
<b>Equity at 31 December 2013</b>		<b>185,203</b>	<b>18,388</b>	<b>-949</b>	<b>172,415</b>	<b>375,057</b>
<i>Restatement of opening balances</i>		0	0	0	-29,020	-29,020
<b>Equity at 1 January 2014 restated</b>		<b>185,203</b>	<b>18,388</b>	<b>-949</b>	<b>143,395</b>	<b>346,037</b>
Profit for the year		0	0	0	38,836	<b>38,836</b>
Other comprehensive income	<b>16,18</b>	0	0	202	0	<b>202</b>
<i>Total comprehensive income for the year</i>		0	0	202	38,836	<b>39,038</b>
Dividends declared	<b>18</b>	0	0	0	-42,000	<b>-42,000</b>
<i>Total transactions with the owner of the company</i>		0	0	0	-42,000	<b>-42,000</b>
Transfer to capital reserve	<b>18</b>	0	132	0	-132	<b>0</b>
<b>Equity at 31 December 2014</b>		<b>185,203</b>	<b>18,520</b>	<b>-747</b>	<b>140,099</b>	<b>343,075</b>
Profit for the year		0	0	0	30,868	<b>30,868</b>
Other comprehensive income	<b>16,18</b>	0	0	-84	0	<b>-84</b>
<i>Total comprehensive income for the year</i>		0	0	-84	30,868	<b>30,784</b>
Dividends declared	<b>18</b>	0	0	0	-31,192	<b>-31,192</b>
<i>Total transactions with the owner of the company</i>		0	0	0	-31,192	<b>-31,192</b>
<b>Equity at 31 December 2015</b>		<b>185,203</b>	<b>18,520</b>	<b>-831</b>	<b>139,775</b>	<b>342,667</b>

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

AS Tallinna Sadam (also referred to as the parent) is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statements of AS Tallinna Sadam as at and for the year ended 31 December 2015 comprise the parent and its subsidiaries (together referred to as the group). The parent's core business line is rendering of port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure and organising vessel traffic in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour); and the newest harbour in Saaremaa, built for receiving cruise liners (opened in 2006). The group's subsidiaries render services that support port services in the above harbours, an ice-breaking service and other maritime support services, and are involved in organising passenger ferry traffic.

<b>Company</b>	<b>Domicile</b>	<b>Ownership interest (%)</b>	<b>Core business line</b>
OÜ TS Energia	The Republic of Estonia	100	Rendering and sale of electricity network services, rendering water and heat supply and wastewater drainage services
OÜ TS Shipping	The Republic of Estonia	100	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	The Republic of Estonia	100	Organising passenger ferry traffic

The address of the parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

The management board authorised these consolidated financial statements for issue on 15.03.2016. Under the Commercial Code effective in the Republic of Estonia the annual report has also to be approved by the supervisory board and the shareholder. The shareholder may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand preparation of a new annual report.

**2. ACCOUNTING POLICIES**

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

**Bases of measurement**

The group's consolidated financial statements for 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The consolidated financial statements have been prepared on the historical cost basis except for the financial assets and financial liabilities carried at fair value (incl. derivatives); the accounting policies applied to these financial instruments are set out below.

**Note 2 continued**

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

*New and amended International Financial Reporting Standards (IFRS)*

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations effective for annual periods beginning in or after 2015. Early application is permitted by the IASB. In cases where the amendments are not in compliance with the provisions of previous standards, the group applies the standards provided they are also adopted by the EU.

*New amendments and interpretations applied in the reporting period**Annual Improvements to IFRSs 2011-2013 cycle*

Annual Improvements to IFRS 3, IFRS 13 and IAS 40 made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 18 December 2014, effective for annual periods beginning on or after 1 January 2015. The improvements do not have a material impact on the group's financial statements.

*IFRIC 21 "Levies"*

Issued by the IASB on 20 May 2013. IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Adopted by the EU on 13 June 2014, effective for annual periods beginning on or after 17 June 2014. The interpretation, does not have a material impact on the group's financial statements since it does not result in a change in the group's accounting policy regarding levies imposed by governments.

*Amendments published by the IASB and adopted by the EU, not yet effective**Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations*

Adopted by the EU on 24 November 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have a material impact on the group's financial statements.

*Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative*

Issued by IASB on 18 December 2014. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016. In the group's opinion the amendments may have impact on disclosure of information in the financial statements.

*Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation*

**Note 2 continued**

Issued by the IASB on 12 May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Adopted by the EU on 2 December 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have a material impact on the group's financial statements.

*Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants*

Adopted by the EU on 23 November 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have an impact on the group's financial statements.

*Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions*

Issued by the IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The group does not expect the amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

*Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements*

Adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have a material impact on the group's financial statements.

*Recoverable Amount Disclosures for Non-Financial Assets*

Amendments to IAS 36 (adopted by the EU on 29 May 2013). These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired non-financial assets if that amount is based on fair value less costs of disposal. When developing IFRS 13, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired non-financial assets. Current amendments clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired non-financial assets that is based on fair value less costs of disposal. The group does not expect the amendments will have a material impact on the group's financial statements.

*Annual Improvements to IFRSs 2010-2012 cycle*

Annual Improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The group does not expect the improvements will have a material impact on the group's financial statements.

*Annual Improvements to IFRSs 2012-2014 cycle*

Annual Improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 15 December 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the improvements will have a material impact on the group's financial statements.

*New standards and amendments to existing standards issued by the IASB, not yet adopted by the EU*

**Note 2 continued***IFRS 9 "Financial Instruments"*

IFRS 9 which replaces IAS 39 "Financial Instruments: Recognition and Measurement", issued on 24 July 2014. The standard includes requirements for recognition, classification and measurement, impairment, derecognition and general hedge accounting. The classification and measurement requirements for financial assets reduce the number of valuation categories and place dependence on an entity's business model for managing financial assets as well as whether the contractual cash flows represent solely payments of principal and interest.

IFRS 9 introduces an expected credit losses model for the measurement of impairment, removing the requirement to identify an incurred loss event.

The new impairment model establishes a three stage approach based on whether there have been significant changes in credit risk.

The requirements for financial liabilities remain largely unchanged from IAS 39. The primary change requires the presentation of movements in the fair value of financial liabilities due to changes in own credit risk in other comprehensive income, rather than in profit or loss. The amended general hedge accounting rules allow entities to better reflect their risk management activities in the financial statements. IFRS 9 will impact the group's financial reporting. Effective for annual periods beginning on or after 1 January 2018. In the group's opinion application of the standard may have impact to the group's financial statements.

*IFRS 14 "Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016).

The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final *standard*. The group does not expect the amendments will have a material impact on the group's financial statements.

*IFRS 15 "Revenue from Contracts with Customers"*

IFRS 15 was issued in May 2014 and establishes the principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard introduces a five-step model to determine how and when to recognise revenue. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to almost all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The standard also establishes new disclosures to provide more relevant information. Effective for annual periods beginning on or after 1 January 2018. In the group's opinion application of the standard may have impact to the group's financial statements.

*IFRS 16 "Leases"*

Issued by the IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. Effective for annual periods beginning on or after 1 January 2019. In the group's opinion application of the standard has impact on recognition of costs, assets and liabilities arising from financial leases in the group's financial statements.

*Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception* (effective for annual

**Note 2 continued**

periods beginning on or after 1 January 2016). The group does not expect the amendments will have a material impact on the group's financial statements.

*Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date was deferred indefinitely until the research project on the equity method has been concluded). The group does not expect the amendments will have a material impact on the group's financial statements.

**Basis of consolidation***a) Subsidiaries*

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

- has power over the entity;
- is exposed, or has rights, to variable returns from its involvement with the entity; and
- has the ability to affect those returns through its power over the entity.

In the group's consolidated financial statements, the financial information of the parent and its subsidiaries is combined on a line by line basis. Receivables, liabilities, income, expenses, and unrealised gains and losses on transactions between the parent and its subsidiaries have been eliminated.

*b) Joint ventures*

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control. The income statement of the group includes the group's share in the profit or loss of the entity under common control.

**Currency translations***a) Functional and presentation currency*

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

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

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

Foreign currency transactions are translated into the functional currency using the official exchange rates of the European Central Bank prevailing at the dates of the transactions or valuation where items are re-measured. When the European Central Bank does not quote a particular currency, the official exchange rate against the euro of the central bank issuing the currency is used as the basis. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the European Central Bank prevailing at the reporting date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the European Central Bank does not quote the particular currency. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and costs; other foreign exchange gains and losses are presented as other operating income or other operating expenses. Non-monetary items carried at cost are not revalued.

**Note 2 continued****Financial assets****Classification**

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

**a) Financial assets at fair value through profit or loss**

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

Derivatives with positive value are classified as financial assets at fair value through profit or loss, except for those designated as hedging instruments. The group does not have any financial assets at fair value through profit or loss.

**b) Held-to-maturity investments**

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

**c) Loans and receivables**

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

**d) Available-for-sale financial assets**

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

**Recognition and measurement**

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

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

Changes in the fair value of available-for-sale financial assets are recognised through other comprehensive income. When available-for-sale securities are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are recognised in the income statement under finance income and finance costs.



**Note 2 continued**

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

At each reporting date the group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. For available-for-sale equity instrument a significant or prolonged decline in the fair value of the securities below their cost is objective evidence of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative revaluation loss – measured as the difference between the acquisition cost and the current fair value, adjusted by any previous impairment loss on that financial asset – is removed from equity from revaluation surplus and recognised in the income statement for the period. Impairment losses recognised on equity instruments through profit or loss are not reversed in the income statement. Impairment allowances for receivables are disclosed in note 7 to these financial statements.

**Offsetting financial instruments**

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

**Derivative instruments and hedging**

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

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

The fair values of derivatives used for hedging purposes and movements in the hedging reserve in equity are disclosed in the statement of comprehensive income and notes 16 and 18 to these financial statements.

**Cash flow hedge**

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

**Note 2 continued****Cash and cash equivalents**

Cash and cash equivalents recognised in the statements of financial position and cash flows comprise cash on hand, current account balances, funds that have not been transferred to the current account through collecting agencies yet, and term deposits with original maturities of up to three months from the date of acquisition.

**Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. An impairment allowance is recognised if there is objective evidence that the group may not be able to collect all amounts due in accordance with the terms and conditions of the receivables. Such evidence may include debtors' significant financial difficulties, bankruptcy, financial reorganisation or default (payments more than 90 days past due).

The amount of the impairment allowance is measured as the difference between the asset's carrying amount and recoverable amount, i.e. the amount of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the "Allowance for doubtful receivables" account and the amount of the loss is recognised in the income statement within operating expenses or other expenses. When a trade receivable has been deemed irrecoverable, it is written off reducing also the write-down previously recognised in "Allowance for doubtful receivables". Subsequent recoveries of amounts previously written off are recognised in the income statement as reduction of operating expenses or other expenses.

**Inventories**

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

**Property, plant and equipment**

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

*a) Cost*

An item of property, plant and equipment is initially recognised at cost, which comprises the purchase price and any costs directly attributable to the acquisition which are necessary for bringing the asset to its operating condition and location. The borrowing costs incurred in order to finance self-constructed non-current assets (including amortisation of contract fees and interest charges), which are calculated from commencing construction activities until the acceptance of the completed asset, are recognised as part of the cost of commenced new construction projects. Subsequent improvement-related costs are added to the asset's cost if they meet the definition of property, plant and equipment and recognition criteria. If a part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item and the replaced part is written off the statement of financial position. Ongoing repairs and maintenance are expensed as incurred.

*b) Depreciation*

Depreciation of property, plant and equipment is calculated on the difference between the cost and residual value using the straight-line method over the estimated useful life of the asset. The value of ships at the end of their service life (residual value) is equal to the value of scrap metal.

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

**Note 2 continued**

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

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

Quays and berths	10–50 years
Dredging areas of aquatories	20 years
Buildings and other structures	5–50 years
Plant and equipment	3.3–10 years
Ships	20 years
Other items of property, plant and equipment	2–10 years
Land is not depreciated.	

Based on the common practice in the shipping sector, depreciation for a ship's two significant parts with different useful lives is calculated separately: a ship itself and dry dock expenses as a separate part. The depreciation charge for either part of a ship is calculated under the straight-line method based on the expected useful life of the part as follows:

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

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

**Intangible assets**

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

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

Development expenditures are capitalised if a plan exists to implement the project and future economic benefits generated by the intangible asset can be measured reliably. Other research and development expenditures that do not meet the criteria to be classified as intangible non-current assets are recognised as an expense as incurred.

Intangible assets are amortised under the straight-line method over their estimated useful life which does not exceed 20 years.

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

**Note 2 continued****Impairment***Financial assets*

At each reporting date the group assesses whether there is any indication that a financial asset may be impaired. A financial asset is impaired if there is objective evidence of one or more events that have had an adverse impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated through its fair value.

Impairment of significant financial assets is tested on an individual basis. Assets that are not individually significant are assessed for impairment collectively, in groups of assets with similar credit risk characteristics.

Any impairment loss is recognised in the income statement. Impairment losses on available-for-sale financial assets are recognised by reclassifying accumulated losses previously recognised in other comprehensive income to the income statement.

If the amount of an impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed. The decrease in the impairment loss on financial assets measured at amortised cost is recognised in the income statement.

*Non-financial assets*

The group assesses whether there is any indication that an asset may be impaired. Impairment losses can be estimated for an individual asset or for a group of assets (cash-generating unit). If such indications occur, the recoverable amount of the asset is estimated and compared with its carrying amount recognised in the statement of financial position. The impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For the purpose of testing impairment, the recoverable amount is assessed either for each individual asset or for the smallest possible group of assets for which there are separately identifiable cash inflows. The amount of the impairment loss of a cash generating unit is allocated to more significant non-current items of the unit on a pro rata basis so that their value does not fall below their fair value less cost of disposal. Impairment losses are recognised as an expense in the period in which they are incurred.

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

**Financial liabilities**

All financial liabilities of the group are classified as other financial liabilities at amortised cost.

All financial liabilities (trade payables, loans payable, and other short- and long-term loans and borrowings) are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method. Amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are recognised in the statement of financial position in the amount to be settled. In order to measure the amortised cost of non-current financial liabilities, the liabilities are initially recognised at fair value of the consideration received (less transaction costs), and in subsequent periods interest expense is calculated on the liabilities under the effective interest method.

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

**Note 2 continued**

Borrowing costs that are directly attributable to construction of non-current assets up to preparing the asset for its intended use are capitalised. In other cases borrowing related costs are recognised as an expense in the period in which they are incurred.

**Dividend distribution and corporate income tax**

Under the Income Tax Act effective in the Republic of Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profits, dividends distributed from retained earnings are subject to income tax that is calculated as 20/80 (as from 1 January 2015) of the net dividend distribution (up to 31 December 2014: calculated as 21/79). Dividend distribution to shareholders is recognised as a liability in the period in which the dividends are declared by the shareholder. The income tax payable on dividends is recognised as income tax expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are actually distributed.

**Employee benefits***a) Short-term employee benefits*

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

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

*b) Termination benefits*

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

**Provisions and contingent liabilities**

A provision is recognised only if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognised for future operating losses. A provision is recognised based on management's estimates of the timing and amount of the expenditure required to settle the obligation. A provision is recognised in the amount which management estimates as required to settle the obligation at the reporting date or to transfer it to a third party at that time. If an obligation has to be settled later than 12 months after the reporting date, the provision is recognised at the present value of the expected future cash flows.

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

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

**Note 2 continued****Share capital**

Ordinary shares are recognised within equity.

**Statutory capital reserve**

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

**Earnings per share**

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable taking into account all discounts and concessions made. Revenue is shown net of value-added tax, returns, rebates or discounts and intra-group sales transactions. Revenue from the sale of goods is recognised when the significant risks of ownership of the goods have been transferred to the buyer; the revenue and expenses attributable to the transaction can be measured reliably; and it is probable that the consideration associated with the transaction will flow to the group. Revenue from the rendering of services is recognised after the service has been rendered. Revenue is not reliably measurable until all terms and conditions related to the sale have been met. The group bases its estimates on historical experience taking into account the type of customer, the type of transaction and the specific features of each arrangement.

*Calculation of port charges and fees*

Port charges and fees are levied as follows:

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

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

*Calculation of cargo charges*

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

**Note 2 continued***Charter fees*

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

*Accounting for sale of electricity and network services*

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

*Accounting for connection fees*

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

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

*Interest income and dividend income*

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

**Leases**

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

*a) The group as the lessee*

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

*b) The group as the lessor*

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

**Government grants**

Government grants are not recognised as income at fair value until there is reasonable assurance that the group will comply with the conditions associated with the grant and the grant will be received. Potential liabilities related to government grants are recognised as provisions or contingent liabilities.

Government grants are recognised under the gross method. According to that method assets acquired through government grants are initially recognised at cost. The amount received as a government grant is recognised as deferred income related to the government grant. Acquired assets are depreciated and the liability arising from the government grant is recognised as income over the estimated useful life of the acquired asset.

**Note 2 continued**

Liabilities arising from the government grants related to non-depreciable assets are not depreciated since the economic value of land is non-depreciable. Liabilities arising from the government grants related to non-depreciable assets are derecognised when the asset is ultimately retired or reclassified into non-current assets held for sale.

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

**Statement of cash flows**

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

**Related party transactions**

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

**3. FINANCIAL RISK MANAGEMENT**

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

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

**Market risk***a) Currency risk*

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

In 2015 nearly all receipts were denominated in euros with the proportion of receipts denominated in some other currency remaining below 3.7%. In the comparative year 2014, 7.2% of all receipts were denominated in any other currency than the euro. 97.0% of expenditures (operating expenses, investments, finance costs, etc.) were denominated in the euro; 2.5% in the US dollar; 0.4% in the Norwegian krone; and 0.1% in other currencies. In the comparative year 2014, about 97.7% of expenditures were denominated in the euro; 0.8% in the US dollar; 1.3% in the Norwegian krone, and about 0.2% in other currencies.

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

*b) Price risk*

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



**Note 3 continued***c) Interest rate risk*

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

Floating interest rate loans and borrowings expose the group to interest rate risk. The group's policy is to maintain approximately 50% of its debt portfolio in fixed rate by using *floating-to-fixed* interest rate swaps when appropriate. As at 31 December 2015, the proportion of loans and borrowings with rates fixed through derivative transactions was 30% (31 December 2014: 43%) of the portfolio. Thus, 70% of the loans and borrowings that are not hedged are exposed to interest rate risk. The proportion of fixed rate instruments in the debt portfolio which is considerably smaller than the proportion aimed for has resulted from the fact that the group is currently undergoing a period of financing large scale investments, and short-term bridge financing will be re-financed into long-term financing only at the end of the investment period, presumably in autumn 2016, when interest rate swap transactions of the involved long-term investment as interest rate swaps related to underlying assets will also be entered into, and the aimed proportion will be restored.

To assess the group's exposure to interest rate risk, sensitivity analysis is used which describes the impact of interest rate risk exposure on the group's profit through estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2015 had been higher/lower by 100 basis points, i.e. 1 percentage point, the group's profit for the financial year would have been EUR 1,378 thousand greater/smaller assuming all other variables remained constant. As at 31 December 2014, the value of the market interest rate fluctuation estimate used in the sensitivity analysis was also 100 basis points and the total impact on profit would then have been EUR 827 thousand.

**Credit risk**

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. As at 31 December 2015, the group's balances of receivables exposed to credit risk totalled EUR 34,950 thousand; as at comparative 31 December 2014: EUR 28,217 thousand.

In thousands of euros		
At 31 December	<b>2015</b>	<b>2014</b>
Current accounts and bank deposits with maturities of less than 3 months (note 6)	25,895	11,852
Receivables from customers* (note 7)	7,299	14,469
Other receivables (note 7)	1,756	1,896
<b>Total</b>	<b>34,950</b>	<b>28,217</b>

\*Impairment losses are deducted from receivables from customers

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

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

Receivables not past due as at the reporting date amounted to 93.1% (2014: 64.2%) of the receivables from customers. Trade receivables written down amounted to 6.1% (2014: 9.3%) of the receivables from customers. Further details on receivables from customers are disclosed in note 7 to these financial statements.

**Note 3 continued****Liquidity risk**

For the purposes of liquidity risk management, the group applies two-level liquidity monitoring. The first level liquidity reserve is used to meet the group's obligations arising from prompt settlement of liabilities incurred in the ordinary course of business. The reserve comprises receivables from overnight deposits at banks and receivables from shares in money market and interest funds. In accordance with the requirements established for financial transactions, the minimum first level liquidity reserve is EUR 959 thousand.

The second level liquidity reserve enables effective settlement of claims which arise from the group's operations but are not urgent by nature and immediately scheduled to a certain date. The second level liquidity reserve includes claims arising from commercial papers and debt securities of issuers with a credit rating of Baa1 (Moody's) and BBB+ (S&P's) or higher, and claims arising from term deposits at banks. The minimum second level liquidity reserve is EUR 320 thousand.

If necessary, short-term external financing in the form of various debt instruments is used.

Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the group's liquidity reserve (which comprises cash and cash equivalents, term deposits at banks with maturities of more than 3 months, available-for-sale financial assets and available credit lines). As at 31 December 2015, the group's liquidity reserve amounted to EUR 25.9 million; in the comparative year as at 31 December 2014: EUR 11.9 million.

Movements in the liquidity reserve forecast for 2016 are as follows:

In thousands of euros	<b>2016</b>
<b>Opening balance</b>	<b>25,902</b>
Unused credit lines at 31 December 2015	10,000
Cash flows from operating activities	48,505
Cash flows used in investing activities	-79,592
Interest payments	-1,300
Expiration of committed credit lines	-10,000
New loan/debt security emission	70,000
Dividend payments	-35,000
Debt security redemption and loan repayments	-25,710
<b>Closing balance</b>	<b>2,805</b>

In the following liquidity analysis the group's financial liabilities are grouped by contractual maturity. The balances shown in the table are contractual undiscounted cash flows, which comprise of the principal and accrued interest for interest bearing loans and borrowings. On calculating interest accrued on interest bearing loans and borrowings (bank loans and issued debt securities), the yield curves of interest rate swap transactions at Nordea Bank Finland Plc have been used as the basis for Euribor forecast as follows: for year-end 2015 liquidity risk estimate as at 4 February 2016; for year-end 2014 liquidity risk estimate as at 10 February 2015.

**Liquidity analysis**

In thousands of euros	<b>Loans drawn</b>	<b>Debt securities issued</b>	<b>Trade and other payables</b>	<b>Derivatives</b>	<b>Total</b>
<i>At 31 December 2015</i>					
< 6 months	18,491	1,575	13,073	50	<b>33,189</b>
6–12 months	5,087	1,667	0	239	<b>6,992</b>
1–5 years	38,544	112,002	0	886	<b>151,432</b>
> 5 years	25,614	0	0	0	<b>25,614</b>
<b>Total</b>	<b>87,736</b>	<b>115,244</b>	<b>13,073</b>	<b>1,175</b>	<b>217,228</b>
<i>At 31 December 2014</i>					
< 6 months	17,508	1,542	10,050	39	<b>29,139</b>
6–12 months	4,439	1,614	0	162	<b>6,215</b>
1–5 years	31,185	55,165	0	838	<b>87,188</b>
> 5 years	41,952	0	0	-9	<b>41,943</b>
<b>Total</b>	<b>95,084</b>	<b>58,321</b>	<b>10,050</b>	<b>1,030</b>	<b>164,485</b>

**Note 3 continued**

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

*Equity risk management*

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

**Gearing ratio**

In thousands of euros		<b>Restated</b>
At 31 December	<b>2015</b>	<b>2014</b>
Loans and borrowings (note 15)	196,753	145,687
Cash and cash equivalents (note 6)	25,902	11,871
<b>Net debt</b>	<b>170,851</b>	<b>133,816</b>
Total equity	342,667	343,075
<b>Total capital</b>	<b>513,518</b>	<b>476,891</b>
<b>Gearing ratio</b>	<b>33%</b>	<b>28%</b>

As at 31 December 2015, the gearing ratio of AS Tallinna Sadam, i.e. the ratio of external funds to total capital was 33%. Compared to 2014, the gearing ratio has increased by 5 percentage points with the net debt increased by 28% and total capital increased by 8%.

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

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**Classification of leased out assets**

One of the critical judgements is that assets that by their nature could also be classified as investment property (since lease income is earned on the asset) are classified as property, plant and equipment. The group owns land and buildings in the port territory and has made no investments outside the port's service area. The group has classified all such assets as property, plant and equipment since the assets are held for earning operating income through increasing cargo or passenger flows or in activities supporting core operations. Therefore, according to the group's estimates the main objective of holding such assets is not to earn rentals; they are primarily held to help increase income earned from operating activities. Accordingly, the main income attributable to those assets is not received from rentals.

Since the assets cannot be sold or leased out under a finance lease in parts, an asset is considered investment property only if an insignificant part of the asset is used for providing services or for administrative purposes.

**Useful life and residual value of property, plant and equipment**

Useful lives of property, plant and equipment are based on management's estimates on the period of actual use of the asset. As at 31 December 2015, the net value of the group's property, plant and equipment amounted to EUR 544,189 thousand; depreciation for the year was EUR 17,016 thousand; as at 31 December 2014, the respective figures were

**Note 4 continued**

EUR 501,368 thousand and EUR 16,783 thousand (note 9). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 1,702 thousand; in the comparative year 2014: by EUR 1,678 thousand.

Residual values of assets are reviewed at each reporting date. If new estimates differ materially from the previous ones, changes are accounted for as changes in accounting estimates.

**Impairment tests of property, plant and equipment**

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

Assets are tested for impairment on an ad hoc basis when circumstances indicate that assets might be impaired. Information about impairment losses incurred is disclosed in note 9.

**Assessment of doubtful receivables**

Based on its historical experience, the group has set a rule according to which receivables which are more than 90 days past due are generally classified as doubtful receivables. Evidence of impairment may include such indications as the debtor's bankruptcy, significant financial difficulty or delinquency in payments. However, the probability of collecting receivables is estimated on an individual basis; therefore, if sufficient certainty and probability about the recoverability exists, some receivables that are more than 90 days past due may not be written down whereas some receivables that are less than 90 days past due may be written down. As at 31 December 2015, the group's doubtful receivables amounted to EUR 555 thousand. As at 31 December 2014, the group's doubtful receivables amounted to EUR 1,484 thousand (note 7).

**5. FINANCIAL INSTRUMENTS****5.1. FINANCIAL INSTRUMENTS BY CATEGORY****Financial assets**

In thousands of euros

At 31 December	2015	2014
<i>Receivables and loans</i>	35,523	29,712
Cash and cash equivalents (note 6)	25,902	11,871
Trade and other receivables	9,621	17,841
<b>Total financial assets</b>	<b>35,523</b>	<b>29,712</b>

**Note 5 continued****Financial liabilities**

In thousands of euros

At 31 December	2015	2014
<i>Financial liabilities carried at amortised cost</i>	201,764	155,719
Trade and other payables	5,011	10,032
Loans and borrowings and debt securities (note 15)	196,753	145,687
<i>Hedging instruments through statement of comprehensive income</i>	831	747
Derivatives (note 16)	831	747
<b>Total financial liabilities</b>	<b>202,595</b>	<b>156,466</b>

**Fair value**

According to the group's estimates, the fair value of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts stated in the group's consolidated statement of financial position as at 31 December 2015 and 31 December 2014. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting future contractual cash flows by current market interest rates that would be available for the group for similar financial instruments. Since no separate statistics is published about the loans granted by the Nordic Investment Bank (NIB) and European Investment Bank (EIB) but the group considers them as a separate loan market, indications given to the group by the NIB and EIB about the interest rates of the instruments of the similar nature have been used to calculate the fair value of the loans granted by those banks (with the carrying amount of EUR 68,104 thousand). A more detailed comparison of the carrying amount and fair value of loans and borrowings stated in the statement of loans and borrowings is disclosed in note 15 to these financial statements. The carrying amount of trade receivables and trade payables, less any write-downs, is estimated to be equal to their fair value. Derivatives are recognised at fair value. A more detailed description is provided in note 2 under "Derivative instruments and hedging".

Only derivatives that are publicly traded in financial markets at the current market price are recognised at fair value in the statement of financial position. The fair value of derivatives is evaluated on a monthly basis using bank pricing based on the price of similar products in financial markets. In terms of fair value hierarchy this qualifies as the 3rd level measurement.

**5.2. CREDIT QUALITY OF FINANCIAL ASSETS**

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

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

In thousands of euros

At 31 December	2015	2014
Aa2	20,000	0
Aa3	5,890	856
A1	0	10,996
A2	5	0
<b>Total in current accounts and deposits</b>	<b>25,895</b>	<b>11,852</b>

\*The remaining balance in the statement of financial position entry "Cash and cash equivalents" consists of cash on hand and funds that have not been transferred to the current account through collecting agencies yet.

**Note 5 continued****Trade receivables by customer group\***

In thousands of euros

At 31 December	2015	2014
New customers (up to 6 months)	191	117
Current customers (more than 6 months) with no or little contractual delinquency	8,159	10,030
Current customers (more than 6 months) with frequent contractual delinquency	82	99
<b>Total trade receivables by customer group (note 7)</b>	<b>8,432</b>	<b>10,246</b>

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

**6. CASH AND CASH EQUIVALENTS AND DEPOSITS**

In thousands of euros

At 31 December	2015	2014
Cash on hand	2	19
Current accounts with banks	5,895	8,852
Short-term deposits	20,000	3,000
Cash in transit	5	0
<b>Total cash and cash equivalents (notes 3 and 5)</b>	<b>25,902</b>	<b>11,871</b>

**Cash and cash equivalents by currency**

In thousands of euros

At 31 December	2015	2014
Euro	25,902	11,827
US dollar	0	44
<b>Total cash and cash equivalents</b>	<b>25,902</b>	<b>11,871</b>

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

**7. TRADE AND OTHER RECEIVABLES**

In thousands of euros

At 31 December	2015	2014
Receivables from customers	9,054	15,953
<i>Incl. for non-current assets</i>	1,512	3,558
Allowance for doubtful receivables	-555	-1,484
Prepaid taxes (note 14)	364	525
Outstanding government grants	0	5
Other prepayments	217	309
Receivables from joint venture (note 23)	23	24
Other receivables	556	1,896
Inventories	129	194
<b>Total trade and other receivables</b>	<b>9,788</b>	<b>17,422</b>
Incl. short-term receivables	9,312	15,650
long-term receivables	476	1,772

All long-term receivables will fall due within 11 years as from the reporting date.

**Receivables from customers by maturity**

In thousands of euros

At 31 December	2015	2014
Receivables not due nor impaired* (note 5.2)	8,432	10,246
Receivables past due but not impaired*, incl.	67	4,223
<i>1–30 days</i>	61	474
<i>31–60 days</i>	0	3
<i>61–90 days</i>	2	24
<i>91–180 days</i>	0	3,590
<i>181–360 days</i>	0	128
<i>more than 360 days</i>	4	4
Receivables past due and impaired**	555	1,484
<i>1–30 days</i>	2	0
<i>61–90 days</i>	17	0
<i>91–180 days</i>	0	24
<i>181–360 days</i>	54	341
<i>more than 360 days</i>	482	1,119
<b>Total receivables from customers by maturity</b>	<b>9,054</b>	<b>15,953</b>

\* Trade receivables that are not due or that are less than 90 days past due and in respect of which no other indications of uncertainty about the collectability occur are usually classified as receivables that are not impaired. The group also has receivables that are more than 360 days past due which have not been written down. Those receivables have not been written down as the majority of the receivables past due are collateralised and therefore, according to management's estimate, collectible in full.

\*\* As at 31 December 2015, receivables written down amounted to EUR 555 thousand; as at 31 December 2014: EUR 1,484 thousand. Impairment allowances for the reporting period have been disclosed in the table below. Based on the historical experience, the group has set a rule according to which receivables more than 90 days past due are generally written down after being analysed on an individual basis (a detailed description of impairment policies is disclosed in note 4 to these financial statements).

**Note 7 continued****Changes in impairment allowances for doubtful receivables**

In thousands of euros	2015	2014
<b>Impairment allowance at beginning of year</b>	-1,484	-2,625
Items deemed doubtful during the year	-136	-554
Previously written-down items collected during the year	84	71
Doubtful receivables deemed irrecoverable	981	1,624
<b>Impairment allowance at end of year (note 4)</b>	<b>-555</b>	<b>-1,484</b>

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

Written-down items are recognised as irrecoverable if collecting the receivable is impossible or if it is probable that costs incurred on recovery will exceed potential income.

**Receivables from customers by currency**

In thousands of euros	2015	2014
At 31 December		
Euro	9,054	12,044
US dollar	0	3,909
<b>Total receivables from customers by currency</b>	<b>9,054</b>	<b>15,953</b>

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

Other receivables and prepayments have not been impaired.

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

The joint venture is a waste management entity established by AS Tallinna Sadam and AS NT Marine at the end of 2003. Although AS Tallinna Sadam holds 51% of ownership interest in the joint venture, this does not constitute control over the joint venture since pursuant to the shareholders' agreement, the company is under the joint control of its shareholders. The lines of business of AS Green Marine include management of waste generated in ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of ports' aquatories and harbour premises.

The financial statements of AS Green Marine have been prepared in accordance with accounting principles generally accepted in Estonia (the Estonian GAAP). According to management estimates the financial results of AS Green Marine would not be significantly different if the financial statements had been prepared in accordance with IFRS EU.



**Note 8 continued****Changes in investments in joint venture**

In thousands of euros

At 31 December	2015	2014
Carrying value at beginning of year	548	418
Share in profit under the equity method	162	206
Dividends paid	0	-76
<b>Carrying value at end of year</b>	<b>710</b>	<b>548</b>

**Joint venture**

In thousands of euros

At 31 December	2015	2014
Current assets	1,077	783
Non-current assets	1,838	2,119
Current liabilities	597	950
Non-current liabilities	925	879
Operating income	3,459	3,849
Operating expenses	3,078	3,372
Profit	319	402

**9. PROPERTY, PLANT AND EQUIPMENT**

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Prepayments	Total
<b>At 31 December 2013</b>						
Cost	567,508	99,047	6,903	7,879	257	<b>681,594</b>
Accumulated depreciation and impairment losses	-140,021	-26,301	-4,980	0	0	<b>-171,302</b>
<b>Carrying amount at 31 December 2013</b>	<b>427,487</b>	<b>72,746</b>	<b>1,923</b>	<b>7,879</b>	<b>257</b>	<b>510,292</b>
<i>Restatement of opening balances</i>						
Impairment loss	-28,569	-451	0	0	0	<b>-29,020</b>
<b>At 1 January 2014 restated</b>						
Cost	557,015	99,047	6,903	7,879	257	<b>671,101</b>
Accumulated depreciation and impairment losses	-158,097	-26,752	-4,980	0	0	<b>-189,829</b>
<b>Carrying amount at 1 January 2014 restated</b>	<b>398,918</b>	<b>72,295</b>	<b>1,923</b>	<b>7,879</b>	<b>257</b>	<b>481,272</b>
<i>Movement in 2014</i>						
Acquisition and reconstruction (note 25)	341	2,113	197	14,916	21,463	<b>39,030</b>
Disposed at carrying amount	-726	0	0	0	0	<b>-726</b>
Depreciation charge	-11,182	-5,151	-450	0	0	<b>-16,783</b>
Impairment loss	-1,246	-176	-1	-37	0	<b>-1,460</b>
Other adjustments	35	0	0	0	0	<b>35</b>
Reclassified at carrying amount	15,213	633	0	-15,846	0	<b>0</b>
<b>At 31 December 2014</b>						
Cost	569,721	100,841	7,030	6,912	21,720	<b>706,224</b>
Accumulated depreciation and impairment losses	-168,368	-31,127	-5,361	0	0	<b>-204,856</b>
<b>Carrying amount at 31 December 2014</b>	<b>401,353</b>	<b>69,714</b>	<b>1,669</b>	<b>6,912</b>	<b>21,720</b>	<b>501,368</b>
<i>Movement in 2015</i>						
Acquisition and reconstruction (note 25)	392	263	191	10,981	53,280	<b>65,107</b>
Depreciation charge	-11,461	-5,119	-436	0	0	<b>-17,016</b>
Impairment loss	-258	-5,010	-2	0	0	<b>-5,270</b>
Reclassified at carrying amount	7,063	4,710	49	-11,822	0	<b>0</b>
<b>At 31 December 2015</b>						
Cost	576,673	105,757	7,172	6,071	75,000	<b>770,673</b>
Accumulated depreciation and impairment losses	-179,584	-41,199	-5,701	0	0	<b>-226,484</b>
<b>Carrying amount at 31 December 2015</b>	<b>397,089</b>	<b>64,558</b>	<b>1,471</b>	<b>6,071</b>	<b>75,000</b>	<b>544,189</b>

The group's assets have not been pledged.

As at 31 December 2015 the cost of fully depreciated items still in use amounted to EUR 22,241 thousand; as at 31 December 2014: EUR 21,412 thousand.

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

**Note 9 continued**

As at 31 December 2015 non-current asset group "Assets under construction" comprised capitalised borrowing costs of EUR 657 thousand (2014: EUR 37 thousand), and consultation and owner supervision service expenses of EUR 1,496 thousand (2014: EUR 435 thousand). The amount of borrowing costs eligible for capitalisation has been calculated based on the amount of additional capital borrowed by the group for making an investment, which in this case equals the amount of the investment.

In 2015 write-downs in the amount of EUR 5,262 thousand and write-offs in the amount of EUR 8.0 thousand were recognised under "Impairment loss", incl.

- In 2015 there were indications of impairment due to early cancellation of the long-term charter agreement of Botnica owing to economic sanctions imposed on Russia by the western world and impossibility to find appropriate work at the special purpose vessels market due to the lows of the market as a result of drastically plunged oil prices. Since Botnica's fair value less cost of disposal is higher than its value in use, the vessel's recoverable amount equals its fair value less cost of disposal. To measure the fair value, management ordered a valuation report from recognised independent valuating company Clarksons Valuation Ltd as a result of which write-down of Botnica in the amount of EUR 5,000 thousand was recognised in the income statement for the year. In 2014 assets were not tested for impairment since no indications of impairment occurred. As a result of write-down of Botnica depreciation per year decreases by EUR 297 thousand. As a result of measuring Botnica's residual value, depreciation per year decreases by EUR 90 thousand.

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

- Write-down of warehouses in the amount of EUR 210 thousand due to planned demolishing of the buildings in 2016;
  - Write-down of main water pipes in the amount of EUR 52 thousand due to constituting a right of superficies on the plot.
- In the comparative year 2014 write-downs in the amount of EUR 806 thousand and write-offs in the amount of EUR 654 thousand were recognised under "Impairment loss".

Management tested for impairment the cash generating units for which indications occurred that assets may be impaired. As a result the carrying amounts of the assets of two cash generating units – the coal terminal in Muuga Harbour and Saaremaa Harbour – were adjusted retrospectively since a negative difference between the value in use and carrying amounts of the assets occurred. Since cash flow projections made earlier were not in line with the actual results in prior periods nor with the events that could have given reason to believe that the optimistic assumptions reflected in the cash flow projections would realise, management decided to align assumptions used in the projections with known actual cash flows. The above reasons had formed a basis for independent certified public accountant's qualified opinion in previous periods.

The model for calculating assets' value in use is based on extremely long-term (up to 50 years) cash flow projections as the useful life of quays and berths is up to 50 years and the premises and territories have infinite useful lives; therefore, the cash flow projections are determined by management's estimates about forecast future events to a significant extent. In earlier projections, in order to achieve the planned service volumes of the projects, future project-based income was expected to multiply compared to actual results; these growth expectations have been eliminated from new adjusted projections which, on the other hand, means prudent expectations as regards under-utilisation of assets continuing over the whole future life of the assets. On discounting future cash flows the discount rate of 7.2% in line with the market rate as at 31 December 2015 (taking also into account the prudent cash flow projections) was applied (2014: 8.1%).

Since the future cash flow projections of the above cash generating units were not adjusted as a result of the events that occurred or circumstances that became apparent in the reporting period but as a result of the events that were known and circumstances that became apparent in earlier periods, restatement of the value of the assets has been recognised retrospectively as an adjustment to the opening balances of the reporting period preceding the financial year.

As at 1 January 2014 the opening balances of the assets of cash generating units were adjusted (reduced) in respect of the coal terminal in Muuga Harbour in the amount of EUR 22,940 thousand and in respect of Saaremaa Harbour in the amount of EUR 6,080 thousand. In the statement of financial position as at 31 December 2015, property, plant and equipment includes assets related to the coal terminal at the carrying amount of EUR 20,806 thousand and assets related to Saaremaa Harbour at

**Note 9 continued**

the carrying amount of EUR 641 thousand. As at 31 December 2014 the respective amounts were EUR 21,396 thousand and EUR 683 thousand.

**Restatement of the statement of financial position**

In thousands of euros	At 31 Dec. 2014	At 1 Jan. 2014
Property, plant and equipment	-28,512	-29,020
<b>Total assets</b>	<b>-28,512</b>	<b>-29,020</b>
Retained earnings	-29,020	-29,020
Profit for the year	508	0
<b>Total equity</b>	<b>-28,512</b>	<b>-29,020</b>

**Restatement of the income statement**

In thousands of euros	2014
Profit for the year, before adjustment	38 328
Adjustment of profit (Depreciation, amortisation and impairment losses)	508
<b>Profit for the year, after adjustment</b>	<b>38 836</b>

The above adjustment did not have significant impact on basic earnings and diluted earnings per share.

As a result of the retrospective adjustment to the value of assets, the comparative information in the following notes has also been restated:

Note 3 Financial risk management

Note 11 Operating leases

Note 18 Equity

**10. INTANGIBLE ASSETS**

In thousands of euros	Computer software	Assets under construction	Total
<b>At 31 December 2013</b>			
Cost	1,303	0	<b>1,303</b>
Accumulated amortisation and impairment losses	-594	0	<b>-594</b>
<b>Carrying amount at 31 December 2013</b>	<b>709</b>	<b>0</b>	<b>709</b>
<i>Movement in 2014</i>			
Acquisition and reconstruction (note 25)	128	0	<b>128</b>
Amortisation charge	-289	0	<b>-289</b>
<b>At 31 December 2014</b>			
Cost	1,431	0	<b>1,431</b>
Accumulated amortisation and impairment losses	-883	0	<b>-883</b>
<b>Carrying amount at 31 December 2014</b>	<b>548</b>	<b>0</b>	<b>548</b>
<i>Movement in 2015</i>			
Acquisition and reconstruction (note 25)	50	124	<b>174</b>
Amortisation charge	-227	0	<b>-227</b>
Reclassified at carrying amount	20	-20	<b>0</b>
<b>At 31 December 2015</b>			
Cost	1,501	104	<b>1,605</b>
Accumulated amortisation and impairment losses	-1,110	0	<b>-1,110</b>
<b>Carrying amount at 31 December 2015</b>	<b>391</b>	<b>104</b>	<b>495</b>

**11. OPERATING LEASES****Carrying amount of non-current assets leased out under operating lease**

At 31 December In thousands of euros	2015	Restated 2014
Land	45,700	46,887
<i>Incl. with right of superficies</i>	35,783	36,466
Buildings	7,918	18,656
Plant and equipment	95	213
Other items of property, plant and equipment	743	2,074
<b>Total carrying amount of non-current assets leased out under operating lease</b>	<b>54,456</b>	<b>67,830</b>

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

In thousands of euros	2015	Restated 2014
Buildings	515	616
Plant and equipment	5	5
Other items of property, plant and equipment	103	102
<b>Total depreciation charge on non-current assets leased out under operating lease</b>	<b>623</b>	<b>723</b>

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

In thousands of euros	2015	2014
Land	8,455	8,322
Buildings	3,705	4,041
Plant and equipment	96	97
Other items of property, plant and equipment	181	180
<b>Total rental income from non-current assets leased out under operating lease (note 19)</b>	<b>12,437</b>	<b>12,640</b>

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

In thousands of euros At 31 December	2015	2014
< 1 year	11,016	11,435
1–5 years	43,332	46,266
> 5 years	328,023	353,621
<b>Total rental income in subsequent periods under non-cancellable operating lease contracts</b>	<b>382,371</b>	<b>411,322</b>

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

**Note 11 continued**

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

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

*The Group as the lessee*

In thousands of euros

At 31 December	2015	2014
< 1 year	483	428
1–5 years	848	809
> 5 years	24	1
<b>Total rentals payable in subsequent periods under non-cancellable operating lease contracts</b>	<b>1,355</b>	<b>1,238</b>

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

**12. SHORT-TERM PROVISIONS****Provision for bonuses**

In thousands of euros

	2015	2014
<b>At beginning of year</b>	<b>1,144</b>	<b>943</b>
Recognised and revalued	865	1,170
Used	-1,144	-969
<b>At end of year</b>	<b>865</b>	<b>1,144</b>

**Other provision**

In thousands of euros

	2015	2014
<b>At beginning of year</b>	<b>3,235</b>	<b>0</b>
Recognised and revalued	100	3,235
Used	-3,235	0
<b>At end of year</b>	<b>100</b>	<b>3,235</b>
<b>Total provisions</b>	<b>965</b>	<b>4,379</b>

The provision for bonuses includes estimated bonuses of the group companies' management board members and employees for the operating results of the reporting period. The provision also includes social security charges and unemployment insurance contributions.

**Note 12 continued**

Payment of bonuses to the members of group companies' management boards is decided by the respective supervisory board after the annual reports of the respective companies for the year ended 31 December 2015 have been approved.

Other provision has been recognised for a potential obligation arising from compensating damages in the amount of EUR 100 thousand.

An obligation of EUR 2,800 thousand arising from early termination of contracts recognised as other provision in 2014 was settled in 2015.

The consultation and owner supervision service related to signing the contracts for construction of ferries and building of the ferries in the total amount of EUR 435 thousand accounted for as other provision in 2014 was capitalised under non-current assets in 2015.

**13. TRADE AND OTHER PAYABLES**

In thousands of euros		
At 31 December	2015	2014
Trade payables	3,635	4,549
<i>Incl. for property, plant and equipment (note 25)</i>	2,057	3,128
<i>for intangible assets (note 25)</i>	13	24
Payables to employees	641	757
Interest payable	486	493
Accrued tax payable on remuneration	349	365
Advances for goods and services	459	798
Payables to joint venture (note 23)	114	120
Other payables	1,254	5,024
<b>Total trade and other payables</b>	<b>6,938</b>	<b>12,106</b>
Incl. current liabilities	5,700	10,722
non-current liabilities	1,238	1,384

**14. TAXES PAYABLE**

In thousands of euros		
At 31 December	2015	2014
Value added tax	47	66
Personal income tax	139	155
Corporate income tax*	7,785	27
Pollution charge	3	3
Social security tax	287	299
Unemployment insurance contributions	15	22
Funded pension contributions	11	11
Excise duty	31	36
<b>Total taxes payable</b>	<b>8,318</b>	<b>619</b>
*Incl. income tax on dividends (note 18)	7,763	0

As at 31 December 2015, prepaid taxes amounted to EUR 364 thousand; in the comparative period as at 31 December 2014: EUR 525 thousand. Prepaid taxes are disclosed in note 7 to these financial statements.



**15. LOANS AND DEBT SECURITIES**

In thousands of euros

At 31 December	2015	2014
<b>Current portion</b>		
Loans and borrowing	23,210	21,433
Debt securities	2,500	2,500
<b>Total current portion</b>	<b>25,710</b>	<b>23,933</b>
<b>Non-current portion</b>		
Loans and borrowing	59,893	68,104
Debt securities	111,150	53,650
<b>Total non-current portion</b>	<b>171,043</b>	<b>121,754</b>
<b>Total loans and borrowings (notes 3, 5)</b>	<b>196,753</b>	<b>145,687</b>

**Interest paid**

In thousands of euros	2015	2014
On debt securities issued	714	879
On loans and borrowing	851	788
On derivatives	301	1,339
<b>Total interest paid</b>	<b>1,866</b>	<b>3,006</b>

Interest expense is recognised in the income statement under “*Finance costs*” and disclosed in note 22 to these financial statements.

**Issue and redemption of debt securities**

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

In 2015 AS Tallinna Sadam carried out a private placement of debt securities at a nominal value of EUR 60 million, which was fully subscribed by Pohjola Bank Plc Estonian branch. The debt security issue will be redeemed at the nominal value in 2017. The debt securities were issued with the floating interest rate with the base interest rate of 3 month Euribor, plus the appropriate margin. The issue has not been listed.

In 2015, AS Tallinna Sadam redeemed debt securities in line with the schedule in the amount of EUR 2,500 thousand. In the comparative year 2014 redemption payments also amounted to EUR 2,500 thousand.

Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 December 2015 was 0.779% (as at 31 December 2014: 1.328%).

**Loans**

All loan agreements are denominated in euros and are based on a floating interest rate (the base interest is 1 month or 6 month Euribor). As at 31 December 2015, the weighted average interest rate on drawn loans was 0.865% (in the comparative year 2014: 1.007%). Considering the effect of derivative transactions used to hedge interest rate risk, the average interest rate on loans as at 31 December 2015 was 1.310% (as at 31 December 2014: 1.255%).

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

**Note 15 continued**

In 2015 a short-term loan agreement was signed with Danske Bank A/S Estonian branch for up to EUR 15 million with a maturity of 12 months which was drawn down in full. At the beginning of the year an overdraft agreement was signed with Swedbank AS for up to EUR 5 million with a maturity of 6 months. Upon expiry of the agreement a new competition was held and as a result an overdraft agreement was signed with Swedbank AS for EUR 10 million with a maturity of 12 months. As at the reporting date the overdraft facility had not been used, the agreement expires in 2016. In 2014 a short-term loan agreement was signed with SEB for up to EUR 20 million with a maturity of 4 months, and an overdraft agreement was signed with Danske Bank A/S Estonian branch for EUR 5 million with a maturity of 4 months. As at the reporting date, both agreements signed in 2014 had expired.

In 2015, loan principal repayments amounted to EUR 21,433 thousand including direct refinancing of EUR 15 million; in the comparative year 2014: EUR 11,200 thousand. The final maturities of drawn loans fall into the years from 2016 to 2028.

**Contractual maturities of loans and borrowings**

In thousands of euros

At 31 December	2015	2014
< 6 months	19,633	18,633
6–12 months	6,077	5,300
1–5 years	138,214	82,159
> 5 years	32,829	39,595
<b>Total loans and borrowings (notes 3, 5)</b>	<b>196,753</b>	<b>145,687</b>

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

In thousands of euros

At 31 December	2015	2014
<b>Carrying amount</b>		
Debt securities	113,650	56,150
Loans and borrowing	83,103	89,537
<b>Total carrying amount</b>	<b>196,753</b>	<b>145,687</b>
<b>Fair value</b>		
Debt securities	114,252	55,607
Loans and borrowing	84,169	89,513
<b>Total fair value</b>	<b>198,421</b>	<b>145,120</b>

In terms of fair value hierarchy this qualifies as the 2nd and 3rd level measurement.

**16. DERIVATIVE INSTRUMENTS**

In thousands of euros	2015	2014
Notional amount at 31 December	59,000	63,000
<b>Fair value at beginning of year (negative)</b>	<b>-840</b>	<b>-1,315</b>
<i>Incl. market value of derivative</i>	<i>-747</i>	<i>-949</i>
<i>interest payable</i>	<i>-93</i>	<i>-366</i>
Change in derivative's market value (note 18)	-84	202
Change in interest payable	-46	273
<b>Fair value at end of year (negative)</b>	<b>-970</b>	<b>-840</b>
<i>Incl. market value of derivative (note 5)</i>	<i>-831</i>	<i>-747</i>
<i>interest payable</i>	<i>-139</i>	<i>-93</i>

As at 31 December 2015, AS Tallinna Sadam had effective interest rate swap transactions to fix the interest rates of long-term loans in the nominal value of EUR 59,000 thousand. As at 31 December 2014, the respective amount was EUR 63,000 thousand. All terms and conditions and maturities of interest rate swap transactions follow the repayment schedule of the loan to be hedged and the swap transactions are classified as cash flow hedging instruments.

As at 31 December 2015, AS Tallinna Sadam had entered into 3 derivative transactions to hedge interest rate risk with maturities from 5 to 7 years and with outstanding maturities ranging from 2.5 to 5.7 years as at 31 December 2015. The floating interest rate to be swapped by all derivative transactions is 6 month Euribor.

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

To assess the effectiveness of derivative instruments, the qualitative Critical Terms Match Method is used both retrospectively and prospectively at each reporting date. If the result of the qualitative analysis indicates that a derivative instrument may be ineffective, the quantitative Dollar-offset method is used to assess hedge effectiveness. Since at 31 December 2015 the base amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and were in line with the amortisation schedules; the hedged interest payments are calculated on the same bases (6 month Euribor); the payments are denominated in the same currency (the euro) and are made at the same dates, it could be assumed that risk hedging has been and will be effective.

As at 31 December 2015, the weighted average fixed interest rate was 0.670% (31 December 2014: 0.668%); the floating interest rate is based on Euribor. Gains and losses on interest rate swap transactions included within the hedging reserve in equity are recognised in the income statement on expiry of derivative contracts or when hedging is deemed ineffective.

**17. GOVERNMENT GRANTS**

In thousands of euros	2015 Grants related to non- current assets	2015 Grants related to income	2015 <b>Total</b>	2014 Grants related to non- current assets	2014 Grants related to income	2014 <b>Total</b>
<b>Non-current government grant liabilities at beginning of year</b>						
Cohesion Fund	23,386	0	<b>23,386</b>	24,462	0	<b>24,462</b>
TEN-T Fund	232	0	<b>232</b>	75	0	<b>75</b>
State budget of the Republic of Estonia	163	0	<b>163</b>	179	0	<b>179</b>
<b>Total long-term government grant advances at beginning of year</b>	<b>23,781</b>	<b>0</b>	<b>23,781</b>	<b>24,716</b>	<b>0</b>	<b>24,716</b>
<b>Grants received</b>						
TEN-T Fund	439	0	<b>439</b>	238	0	<b>238</b>
European Regional Development Fund	0	1	<b>1</b>	0	5	<b>5</b>
Other foreign assistance	0	12	<b>12</b>	0	23	<b>23</b>
<b>Total grants received</b>	<b>439</b>	<b>13</b>	<b>452</b>	<b>238</b>	<b>28</b>	<b>266</b>
<b>Grants repaid</b>						
TEN-T Fund	0	108	<b>108</b>	0	0	<b>0</b>
<b>Total grants repaid</b>	<b>0</b>	<b>108</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Recognised as income</b>						
Cohesion Fund	466	0	<b>466</b>	465	0	<b>465</b>
TEN-T Fund	44	-93	<b>-49</b>	81	0	<b>81</b>
European Regional Development Fund	0	1	<b>1</b>	0	5	<b>5</b>
Other foreign assistance	0	12	<b>12</b>	0	23	<b>23</b>
State budget of the Republic of Estonia	15	0	<b>15</b>	16	0	<b>16</b>
<b>Total recognised as income (note 21)</b>	<b>525</b>	<b>-80</b>	<b>445</b>	<b>562</b>	<b>28</b>	<b>590</b>
<b>Transferred grants (on disposal of assets)</b>						
Cohesion Fund	0	0	<b>0</b>	611	0	<b>611</b>
<b>Total transferred grants</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>611</b>	<b>0</b>	<b>611</b>
<b>Non-current government grant liabilities at end of year</b>						
Cohesion Fund	22,920	0	<b>22,920</b>	23,386	0	<b>23,386</b>
TEN-T Fund	627	0	<b>627</b>	232	0	<b>232</b>
State budget of the Republic of Estonia	148	0	<b>148</b>	163	0	<b>163</b>
<b>Total non-current government grant liabilities at end of year</b>	<b>23,695</b>	<b>0</b>	<b>23,695</b>	<b>23,781</b>	<b>0</b>	<b>23,781</b>
<b>Short-term government grant advances</b>						
TEN-T Fund	717	166	<b>883</b>	1,157	166	<b>1,323</b>
Other foreign assistance	34	0	<b>34</b>	34	6	<b>40</b>
<b>Total short-term government grant advances</b>	<b>751</b>	<b>166</b>	<b>917</b>	<b>1,191</b>	<b>172</b>	<b>1,363</b>

**Note 17 continued**

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

The outstanding balance of the project related government grant of EUR 23,695 thousand (31 December 2014: EUR 23,781 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2014: also EUR 13,902 thousand).

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

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

The outstanding balance of the project related government grant of EUR 17,533 thousand (31 December 2014: EUR 17,762 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2014: EUR 13,902 thousand).

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

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

The outstanding balance of the project related grant was EUR 5,387 thousand (31 December 2014: EUR 5,623 thousand). There are no non-depreciable assets attributable to the project.

*European Regional Development Fund*Programme "Development of clusters" (2010-2015)

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

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

In 2015 expenses incurred within the framework of the project amounted to EUR 3 thousand (2014: EUR 10 thousand) and the grant received amounted to EUR 1 thousand (2014: EUR 5 thousand).

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

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

The outstanding balance of the project related grant was EUR 33 thousand (31 December 2014: EUR 54 thousand). There are no non-depreciable assets attributable to the project.

In 2015 grants related to income were partially repaid in the amount of EUR 108 thousand.

TWIN-PORT (2012-2015)

Within the framework of TWIN-PORT project the Tallinn–Helsinki maritime link, i.e. the infrastructure in the Old City Harbour of Tallinn and the West Harbour of Helsinki is developed as part of north-south transport corridor (TEN-T North Sea – Baltic) of the European Union. Investments in the Old City Harbour are related to improving the traffic solutions in the Harbour area and developing the roads connecting the harbour and the city.

**Note 17 continued**

In 2015 investments within the framework of the project amounted to EUR 4,418 thousand and expenses incurred amounted to EUR 167 thousand (2014: investments of EUR 2,980 thousand and expenses of EUR 151 thousand). In 2015 no assistance was received (in 2014 an advance under the grant scheme was received in the amount of EUR 906 thousand). There are no non-depreciable assets attributable to the project.

**TWIN-PORT 2 (2014-2018)**

TWIN-PORT 2 is a follow-up project to TWIN-PORT and it is co-financed by the European Union CEF programme "Motorways of the Sea". Within the framework of the project Port of Helsinki will build a new Western Terminal, AS Tallink Grupp will bring a new LNG fuelled vessel to the Tallinn–Helsinki route, and AS Tallinna Sadam will invest in the development of various infrastructure facilities in the Old City Harbour.

In 2015 no investments were made and no expenses were incurred within the framework of the project.

***State budget of the Republic of Estonia*****Programme "Grant for small ports" (2010)**

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

The outstanding balance of the project related grant was EUR 92 thousand (31 December 2014: EUR 101 thousand). There are no non-depreciable assets attributable to the project.

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

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

The outstanding balance of the project related grant was EUR 56 thousand (31 December 2014: EUR 63 thousand). There are no non-depreciable assets attributable to the project.

***Preparation Programme for EU Strategy for the Baltic Sea Region (EUSBSR Seed Money Facility)*****Pilot project "Green Cruise Port – Sustainable Development of Cruise Port Locations" (2014)**

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

In 2015 no expenses were incurred within the framework of the project (2014: EUR 12 thousand); the grant was received in the amount of EUR 7 thousand (2014: EUR 5 thousand). There are no non-depreciable assets attributable to the project.

**18. EQUITY****Share capital**

As at 31 December 2015 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period as at 31 December 2014: 185,203,032 shares. The par value of a share is EUR 1. All shares of the limited company are held by the Republic of Estonia. The shares are held and the shareholder's right is exercised by the Ministry of Economic Affairs and Communications. At the general meetings of shareholders the Ministry is represented by the Minister of Economic Affairs and Infrastructure.

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association is 664,000,000 (in the comparative year 2014: also 664,000,000). As at 31 December 2015 and in the comparative period as at 31 December 2014, all shares issued had been fully paid for.

**Note 18 continued**

In 2015 and in the comparative year 2014 share capital was not increased.

**Earnings per share**

	<b>2015</b>	<b>Restated 2014</b>
Weighted average number of shares (pcs)	185,203,032	185,203,032
Consolidated profit for the reporting period (in thousands of euros)	30,868	38,836
Basic earnings and diluted earnings per share (in euros)	0.17	0.21

**Unrestricted equity**

As at 31 December 2015, the unrestricted equity of the parent (taking into account the statutory requirement to transfer 1/20 of net profit for each financial year to the statutory capital reserve) amounted to EUR 139,775 thousand; in 2014, the respective figure was EUR 140,099 thousand. As at the reporting date, EUR 111,820 thousand could be distributed as dividends to the shareholder and the income tax on dividends would amount to EUR 27,955 thousand. The respective figures in 2014 were EUR 112,079 thousand and EUR 28,020 thousand.

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

In thousands of euros	<b>2015</b>	<b>Restated 2014</b>
At 31 December		
Retained earnings	139,775	140,099
<b>Unrestricted equity</b>	<b>139,775</b>	<b>140,099</b>
Income tax on distributing all of the unrestricted equity (until 31 Dec. 2014: 21%; as from 1 Jan. 2015: 20%)	27,955	28,020
<b>Potential net dividend</b>	<b>111,820</b>	<b>112,079</b>

**Statutory capital reserve**

In 2015 the statutory capital reserve was not increased (in 2014 increased by EUR 132 thousand).

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (note 16).

In thousands of euros	<b>2015</b>	<b>2014</b>
<b>Hedging reserve at beginning of year</b>	<b>-747</b>	<b>-949</b>
Change in derivative's market value	-84	202
<b>Hedging reserve at end of year</b>	<b>-831</b>	<b>-747</b>

**Dividends**

In thousands of euros	<b>2015</b>	<b>2014</b>
Dividends declared and paid in the reporting period	31,192	42,000
Dividends per share	0.17	0.23

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

In thousands of euros	<b>2015</b>	<b>2014</b>
Income tax charged on dividends in the Republic of Estonia	7,763	11,144
Income tax paid on dividends in the Republic of Estonia	0	11,144
Outstanding income tax on dividends (note 14)	7,763	0
Income tax withheld on services delivered abroad	608	180

**19. REVENUE**

In thousands of euros	2015	2014
Port charges and fees	50,654	57,945
Cargo charges	7,219	8,003
Passenger fees	11,764	11,205
Rental income (note 11)	12,437	12,640
Sale of electricity	5,427	5,970
Charter fees	4,575	13,068
Sale of other services	1,718	1,942
<b>Total revenue</b>	<b>93,794</b>	<b>110,773</b>

**Revenue by geographical area**

In thousands of euros	2015	2014
The Republic of Estonia	93,794	102,051
The Russian Federation	0	8,722
<b>Total revenue by geographical area</b>	<b>93,794</b>	<b>110,773</b>

**20. OPERATING EXPENSES**

In thousands of euros	2015	2014
Fuel, oil and energy costs	4,626	5,361
Technical maintenance and repairs of non-current assets	7,488	7,765
Services purchased for infrastructure	2,160	1,930
Tax expenses	3,020	3,196
<i>Incl. land tax</i>	2,660	2,796
Consultation and development expenses	416	762
<i>Incl. research and development expenses</i>	242	560
Services purchased	2,854	2,929
<i>Incl. mooring service</i>	1,145	1,048
<i>reception of ship-generated waste</i>	1,675	1,696
Acquisition and maintenance of insignificant items	557	547
Advertising expenses	217	275
Rental expenses	405	438
Insurance expenses	411	407
Other operating expenses	1,360	2,142
<i>Incl. expenses on doubtful receivables</i>	49	462
<b>Total operating expenses</b>	<b>23,514</b>	<b>25,752</b>

**Personnel expenses**

In thousands of euros	2015	2014
Wages and salaries	9,329	9,971
Social security charges	3,087	3,321
<b>Total personnel expenses</b>	<b>12,416</b>	<b>13,292</b>

*Incl. short term benefits of members of management and supervisory boards of group companies*

<i>social security charges on members of management and supervisory boards of group companies</i>	404	406
<i>social security charges on members of management and supervisory boards of group companies</i>	133	134

**Total expenses on members of management and supervisory boards of group companies**

**537**                      **540**



**Note 20 continued**

As at 31 December 2015 AS Tallinna Sadam had no obligation to pay compensation or make any other payments to the members of the management board upon their removal.

Under the valid agreements as at 31 December 2015 the subsidiaries of AS Tallinna Sadam had an obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration.

**21. OTHER INCOME AND EXPENSES****Other income**

In thousands of euros	2015	2014
Fines, interest on arrears*	5,359	1,717
Income from government grants (note 17)	445	590
Other income	20	452
<b>Total other income</b>	<b>5,824</b>	<b>2,759</b>

\*Including contractual penalties of EUR 2,179 thousand for contract partners' failure to achieve the minimum cargo volume set for 2015 (in the comparative year 2014: EUR 1,647 thousand) and a penalty of EUR 3,042 thousand for early cancellation of a long-term charter agreement.

**Other expenses**

In thousands of euros	2015	2014
Loss on sale of non-current assets	0	19
Fines, interest on arrears	35	2,802
Expenses on doubtful receivables	4	0
Compensation to former employees	79	65
Other expenses	692	153
<b>Total other expenses</b>	<b>810</b>	<b>3,039</b>

**22. FINANCE COSTS**

In thousands of euros	2015	2014
Interest expense on loans and borrowings:		
Interest expense on loans	789	868
Capitalised borrowing costs	-620	-37
Interest expense on debt securities	724	868
Interest expense on derivatives	347	1,066
<b>Total interest expense on loans and borrowings</b>	<b>1,240</b>	<b>2,765</b>
Foreign exchange loss	32	46
Write-down of investments	0	182
Other finance costs	56	24
<b>Total finance costs</b>	<b>1,328</b>	<b>3,017</b>

**23. RELATED PARTY TRANSACTIONS**

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

In thousands of euros	2015	2014
<b>Transactions with joint venture</b>		
Revenue	232	153
Operating expenses	1,745	1,758
<b>Transactions with companies in which members of supervisory and management boards of group companies have significant influence</b>		
Revenue	4	22
Other income	0	18
Operating expenses	131	86
Other expenses	0	16
<b>Transactions with government agencies and companies in which the state has control</b>		
Revenue	5,025	5,117
Other income	21	750
Operating expenses	4,358	2,281
Other expenses	54	3
Acquisition of property, plant and equipment	4	121

In thousands of euros	2015	2014
<b>At 31 December</b>		
<b>Trade receivables from and payables to joint venture</b>		
Receivables (note 7)	23	24
Payables (note 13)	114	120
<b>Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence</b>		
Receivables	0	7
Payables	25	7
<b>Trade receivables from and payables to government agencies and companies in which the state has control</b>		
Receivables	539	771
Payables	605	408

All provided and purchased services were transactions resulting from the normal course of business based on an arm's length basis.

The amount of benefits payable to the members of the management and supervisory boards is disclosed in note 20 to these financial statements.

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

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

**24. COMMITMENTS**

As at 31 December 2015, contractual liabilities related to acquisition of property, plant and equipment; repairs; research and development expenditures totalled EUR 41,135 thousand (incl. liabilities of EUR 39,100 thousand arising from contracts for construction of passenger ferries); as at 31 December 2014, the above liabilities amounted to EUR 98,189 thousand and EUR 92,806 thousand respectively.

**25. EXPLANATIONS TO THE CASH FLOW STATEMENT****Acquisition of property, plant and equipment**

In thousands of euros	2015	2014
<b>Cash flows</b>	<b>-65,185</b>	<b>-36,669</b>
Offsets	-195	-115
Capitalised interest	-620	-37
Paid for previous year	3,128	919
Outstanding balance at end of year (note 13)	-2,057	-3,128
Other adjustment	-178	0
<i>Total adjustments</i>	<i>78</i>	<i>-2,361</i>
<b>Acquisition and reconstruction (note 9)</b>	<b>65,107</b>	<b>39,030</b>

**Acquisition of intangible assets**

In thousands of euros	2015	2014
<b>Cash flows</b>	<b>-185</b>	<b>-108</b>
Paid for previous year	24	4
Outstanding balance at end of year (note 13)	-13	-24
<i>Total adjustments</i>	<i>11</i>	<i>-20</i>
<b>Acquisition and reconstruction (note 10)</b>	<b>174</b>	<b>128</b>

**26. CONTINGENT LIABILITIES**

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

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

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

Various sanctions such as penalties ranging from EUR 25 thousand to EUR 5,000 thousand may result from breach of the public service contract on passenger transport related to rendering a ferry connection service between the mainland and major islands. According to the group the above penalties are not likely to realise.

## 27. INVESTIGATIONS RELATED TO THE GROUP

On 26 August 2015, long-term members of the management board of the parent AS Tallinna Sadam Ain Kaljurand and Allan Kiil were detained by the Estonian Internal Security Service, and suspicions of large-scale bribery during several previous years were filed against them. By the date this report is prepared the trial has not commenced yet, nor have any charges been brought against the above persons, and preliminary investigation procedures are still in progress. Subsequent to the above event new management and supervisory boards were appointed for the parent, and the shareholder of the company commenced various audits and investigations to review the company's internal processes in order to rule out such conflicts in the future. By the date this report is prepared most of the above audits and investigations have not been finished yet. On 14 December 2015 the group approved its procedures for avoiding any conflict of interests.

On 3 March 2016 the Office of the Prosecutor General decided to add an investigation of the circumstances related to the purchase of ice-breaker Botnica in 2012 to the criminal proceeding against former members of the management board of the parent AS Tallinna Sadam. The relevant application to the Office of the Prosecutor General was submitted by the committee of *Riigikogu* (the Parliament of Estonia) established for identifying corruption risks in AS Tallinna Sadam and inspecting measures required to avoid similar cases in the future. By the date this report is prepared no suspicion has been filed against any legal entity or individual in respect of the purchase of ice-breaker Botnica.

Despite the above extraordinary events the activities of the group have continued in line with the approved strategy and objectives for core business. According to management's estimates based on the information available at the date this report is prepared the above events will not have any material impact on the group's financial performance or financial position; however, they can cause serious damage to the group's reputation.

**28. ADDITIONAL INFORMATION ON THE PARENT**

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

**Statement of financial position**

In thousands of euros	At 31 Dec. 2015	Restated At 31 Dec. 2014	Restated At 1 Jan. 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	23,320	5,826	10,855
Available-for-sale financial assets	0	0	182
Current portion of finance lease receivable	368	351	335
Trade and other receivables	14,073	20,540	16,514
<b>Total current assets</b>	<b>37,761</b>	<b>26,717</b>	<b>27,886</b>
<b>Non-current assets</b>			
Investments in subsidiaries	13,395	11,398	11,395
Investments in joint ventures	132	132	132
Non-current portion of finance lease receivable	4,553	4,921	5,272
Other long-term receivables	122,178	70,789	53,098
Property, plant and equipment	403,103	407,177	408,132
Intangible assets	399	519	671
<b>Total non-current assets</b>	<b>543,760</b>	<b>494,936</b>	<b>478,700</b>
<b>Total assets</b>	<b>581,521</b>	<b>521,653</b>	<b>506,586</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	25,710	23,933	11,720
Derivatives	831	747	949
Provisions	756	3,766	838
Government grants	882	1,328	655
Taxes payable	8,085	338	1,009
Trade and other payables	3,239	5,108	4,313
<b>Total current liabilities</b>	<b>39,503</b>	<b>35,220</b>	<b>19,484</b>
<b>Non-current liabilities</b>			
Loans and borrowings	171,043	121,754	115,686
Government grants	22,390	22,445	23,408
Other payables	124	30	61
<b>Total non-current liabilities</b>	<b>193,557</b>	<b>144,229</b>	<b>139,155</b>
<b>Total liabilities</b>	<b>233,060</b>	<b>179,449</b>	<b>158,639</b>
<b>EQUITY</b>			
Share capital at par value	185,203	185,203	185,203
Statutory capital reserve	18,520	18,520	18,388
Hedging reserve	-831	-747	-949
Retained earnings	108,036	103,173	145,305
Profit for the year	37,533	36,055	0
<b>Total equity</b>	<b>348,461</b>	<b>342,204</b>	<b>347,947</b>
<b>Total liabilities and equity</b>	<b>581,521</b>	<b>521,653</b>	<b>506,586</b>

**Note 28 continued****Income statement and statement of comprehensive income****Income statement**

In thousands of euros	<b>2015</b>	<b>Restated 2014</b>
Revenue	83,070	90,818
Other income	2,962	2,489
Operating expenses	-19,100	-19,750
Personnel expenses	-8,096	-8,217
Depreciation, amortisation and impairment losses	-13,096	-14,109
Other expenses	-801	-3,030
<b>Operating profit</b>	<b>44,939</b>	<b>48,201</b>
<b>Finance income and finance costs</b>		
Finance income	2,261	2,007
Finance costs	-1,904	-3,009
<b>Net finance costs</b>	<b>357</b>	<b>-1,002</b>
<b>Profit before income tax</b>	<b>45,296</b>	<b>47,199</b>
Income tax expense	-7,763	-11,144
<b>Profit for the year</b>	<b>37,533</b>	<b>36,055</b>

**Statement of comprehensive income**

In thousands of euros	<b>2015</b>	<b>2014</b>
<b>Profit for the year</b>	<b>37,533</b>	<b>36,055</b>
<b>Other comprehensive income</b>		
Revaluation of hedging instruments	-84	202
<b>Total other comprehensive income</b>	<b>-84</b>	<b>202</b>
<b>Total comprehensive income for the year</b>	<b>37,449</b>	<b>36,257</b>

**Note 28 continued****Statement of cash flows**

In thousands of euros	2015	2014
Cash receipts for sale of goods or services	87,486	94,628
Cash receipts related to other income	1,590	1,627
Cash paid to suppliers	-25,972	-23,670
Cash paid to and on behalf of employees	-7,003	-6,931
Cash payments related to other expenses	-591	-211
Receipt of finance lease principal	0	28
Receipt of interest on finance lease	0	22
Income tax paid on dividends	0	-11,144
<b>Net cash from operating activities</b>	<b>55,510</b>	<b>54,349</b>
Acquisition of property, plant and equipment	-9,706	-13,205
Acquisition of intangible assets	-122	-108
Proceeds from sale of property, plant and equipment	1,914	951
Proceeds from government grants related to non-current assets	12	906
Increase of share capital in subsidiaries	-1,998	-3
Loans granted	-54,731	-21,720
Repayment of loans granted	2,703	0
Change in overdraft	1,677	316
Dividends received	0	77
Interest received	4,261	172
<b>Net cash used in investing activities</b>	<b>-55,990</b>	<b>-32,614</b>
Proceeds from issue of debt securities	60,000	0
Redemption of debt securities	-2,500	-2,500
Proceeds from loans received	15,000	32,000
Repayment of loans received	-21,433	-11,220
Dividends paid	-31,192	-42,000
Interest paid	-1,866	-3,006
Other payments related to financing activities	-35	-38
<b>Net cash from/used in financing activities</b>	<b>17,974</b>	<b>-26,764</b>
<b>NET CASH INFLOW/OUTFLOW</b>	<b>17,494</b>	<b>-5,029</b>
Cash and cash equivalents at beginning of year	5,826	10,855
Increase/decrease in cash and cash equivalents	17,494	-5,029
Cash and cash equivalents at end of year	23,320	5,826

**Note 28 continued****Statement of changes in equity**

In thousands of euros	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
<b>Equity at 31 December 2013</b>	<b>185,203</b>	<b>18,388</b>	<b>-949</b>	<b>174,325</b>	<b>376,967</b>
<i>Restatement of opening balances</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-29,020</i>	<i>-29,020</i>
<b>Equity at 1 January 2014 restated</b>	<b>185,203</b>	<b>18,388</b>	<b>-949</b>	<b>145,305</b>	<b>347,947</b>
Profit for the year	0	0	0	36,055	<b>36,055</b>
Other comprehensive income	0	0	202	0	<b>202</b>
<i>Total comprehensive income for the year</i>	<i>0</i>	<i>0</i>	<i>202</i>	<i>36,055</i>	<b>36,257</b>
Dividends declared	0	0	0	-42,000	<b>-42,000</b>
<i>Total transactions with the owner of the company</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-42,000</i>	<b>-42,000</b>
Transfer to capital reserve	0	132	0	-132	<b>0</b>
<b>Equity at 31 December 2014</b>	<b>185,203</b>	<b>18,520</b>	<b>-747</b>	<b>139,228</b>	<b>342,204</b>
Carrying amount of interests under control and significant influence	0	0	0	-11,398	<b>-11,398</b>
Value of interests under control and significant influence under the equity method	0	0	0	12,269	<b>12,269</b>
<b>Adjusted unconsolidated equity at 31 December 2014</b>	<b>185,203</b>	<b>18,520</b>	<b>-747</b>	<b>140,099</b>	<b>343,075</b>
In thousands of euros	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
<b>Equity at 31 December 2014</b>	<b>185,203</b>	<b>18,520</b>	<b>-747</b>	<b>139,228</b>	<b>342,204</b>
Profit for the year	0	0	0	37,533	<b>37,533</b>
Other comprehensive income	0	0	-84	0	<b>-84</b>
<i>Total comprehensive income for the year</i>	<i>0</i>	<i>0</i>	<i>-84</i>	<i>37,533</i>	<b>37,449</b>
Dividends declared	0	0	0	-31,192	<b>-31,192</b>
<i>Total transactions with the owner of the company</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-31,192</i>	<b>-31,192</b>
<b>Equity at 31 December 2015</b>	<b>185,203</b>	<b>18,520</b>	<b>-831</b>	<b>145,569</b>	<b>348,461</b>
Carrying amount of interests under control and significant influence	0	0	0	-13,395	<b>-13,395</b>
Value of interests under control and significant influence under the equity method	0	0	0	7,601	<b>7,601</b>
<b>Adjusted unconsolidated equity at 31 December 2015</b>	<b>185,203</b>	<b>18,520</b>	<b>-831</b>	<b>139,775</b>	<b>342,667</b>

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



[Translation from Estonian original]

## INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholder of AS Tallinna Sadam:

We have audited the accompanying consolidated financial statements of AS Tallinna Sadam (pages 23-72), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management Board's Responsibility for the Consolidated Financial Statements*

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

### *Certified Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Sadam as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Commission.

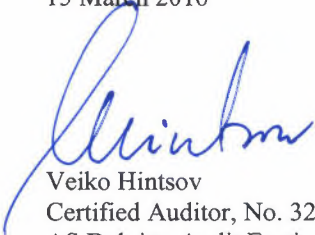
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*Other Matters*

The consolidated financial statements for the financial year ended 31 December 2014 were audited by a predecessor auditor. According to the independent auditor's report the predecessor auditor was not able to obtain sufficient appropriate audit evidence on which to base the opinion on whether and to what extent the value of the cargo transport related items of EUR 44.3 million and quays, berths and premises related to passenger transport in amount of EUR 6.6 million recognised under property, plant and equipment should be impaired and therefore, expressed qualified auditor's opinion on 11 March 2015.

In the 2015 consolidated financial statements, the Management Board has amended retrospectively the 2014 corresponding consolidated figures regarding the value of the aforementioned cargo transport related items and quays, berths and premises related to passenger transport recognized under property, plant and equipment.

15 March 2016



Veiko Hintsov  
Certified Auditor, No. 328  
AS Deloitte Audit Eesti  
Licence No. 27



Mariel Akkermann  
Certified Auditor, No. 574

## STATEMENT OF THE SUPERVISORY BOARD

The supervisory board of AS Tallinna Sadam has approved the consolidated annual report of AS Tallinna Sadam as at and for the year ended 31.12.2015, which consists of the management report and the financial statements and which has been appended the independent auditors' report.

21.03.2016

Aare Tark

Mart Luik

Merike Saks

Urmas Kaarlep

Üllar Jaaksoo

Agris Peedu

## PROFIT ALLOCATION PROPOSAL

As at 31 December 2015, the retained earnings of the group amounted to EUR 139,774,528 including profit for the year of EUR 30,867,552. Pursuant to section 77 subsection 1 of the State Assets Act the dividends payable by a company in which the state has at least the discretion is approved by the Government of Estonia at the proposal of the Minister of Finance. As at the date of approval of this profit allocation proposal the Government of Estonia has not made its decision on the dividend distribution by AS Tallinna Sadam. Based on the above, the management board proposes the allocation of the profit of EUR 35,000,000 based on the latest information available at the date of the proposal about the planned order by the Government of Estonia. The expected dividend per share is EUR 0.19.

Under section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 139,774,528 as at and for the year ended 31 December 2015 be allocated as follows:

Dividends	EUR 35,000,000
Retained earnings	EUR 104,774,528



Valdo Kalm  
Chairman of the Management Board



Marko Raid  
Member of the Management Board