OFFERING MEMORANDUM

Aktsiaselts Tallink Grupp

28,300,000 Ordinary Shares

Offer Price EEK 55.0 (EUR 3.5154) per Offer Share

This is the secondary offering of our shares. We are offering 28,300,000 newly issued shares (the "Offer Shares"), and the subscription rights (the "Subscription Rights" or "Rights") thereto, to our existing shareholders. This offering is only directed to our existing shareholders and is made only in Estonia.

The shares of AS Tallink Grupp are currently traded on the main list of the Tallinn Stock Exchange. We have applied to have our Offer Shares also listed on the main list of the Tallinn Stock Exchange. This offering memorandum has been prepared for purposes of the offering and the listing of our Offer Shares and subscription rights on the Tallinn Stock Exchange.

Investing in the Offer Shares involves risks. See "Risk Factors" beginning on page 14.

This offer is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. No action has been or will be taken in any jurisdiction by AS Tallink Grupp that would permit the public offering of Rights or the Offer Shares other than in Estonia, and the offering is not being made in any jurisdiction in which it would not be permissible to offer the Rights or the Offer Shares. The Offer Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, nor under the securities laws of any state of the United States, nor under any other jurisdiction except Estonia. The Offer Shares may not be offered, sold, resold, allotted or subscribed to, directly or indirectly, in the countries where it is unlawful to do so without meeting additional requirements, unless any applicable exemption of those requirements exists. Distribution of the copies of the prospectus or any related documents are not allowed in those countries where such distribution or participation in the offer requires any extra measures or is in conflict with the laws and regulations of these countries. Persons who receive the prospectus or any related document should inform themselves about any restrictions and limitations on distribution of the information contained in this prospectus and on acceptance of the offering of the securities. The issuer is not liable in cases where persons or entities take measures that are in contradiction with the restrictions mentioned in this paragraph.

It is expected that the Offer Shares will be ready for delivery through the facilities of the Estonian Central Securities Depository on or about August 30, 2006, against payment therefore in immediately available funds. Public trading in the Offer Shares is expected to commence earliest August 31, 2006.

Lead Manager

Hansabank

August 8, 2006

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CERTAIN INFORMATION WITH RESPECT TO THE OFFERING

We have furnished the information in this offering memorandum and accept responsibility for the completeness and accuracy of the information contained herein. To the best of the knowledge and belief of the members of the management board of Aktsiaselts Tallink Grupp, having taken all reasonable care to ensure that such is the case, the information contained in this offering memorandum is in accordance with the facts and contains no omission likely to affect its import

In Tallinn on 8. August, 2006

Management Board of Aktsiaselts Tallink Grupp

Enn Pant

Keijo Mehtonen

Kalev Järvelill

Andres Hunt

Antti Pankakoski

In this offering memorandum, “Tallink” refers to Aktsiaselts Tallink Grupp and “we,” “our,” “ours” and “us” or similar terms refer to either Tallink or Tallink together with its subsidiaries, as the context may require and term “Silja” refers to either Silja Oy Ab or Silja Oy Ab together with its subsidiaries, as the context may require.

You acknowledge and agree that you may not reproduce or distribute this offering memorandum, in whole or in part, and you may not disclose any of the contents of this offering memorandum or use any information contained herein for any purpose other than considering an investment in our shares. You agree to the foregoing by accepting delivery of this offering memorandum. We will update any information presented in this offering memorandum in accordance with the applicable provisions of the Estonian Securities Market Act.

No person is authorized to give information or to make any representation in connection with the Offering of our shares other than as contained in this offering memorandum. If any such information is given or made, it must not be relied upon as having been authorized by us or any of the advisers. Neither the delivery of this offering memorandum nor any issue made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

In making an investment decision, you must rely upon your own examination of us and the terms of this offering memorandum, including the risks involved.

The distribution of this offering memorandum and the offering of the Offer Shares in certain jurisdictions may be restricted by law. We require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. For a description of certain restrictions on the offering of the Offer Shares, see “Offering and Transfer Restrictions” and “Plan of Distribution.” This offering memorandum does not constitute an offer of, or an invitation to purchase or subscribe to, any of the Offer Shares in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to occur in any jurisdiction other than Estonia.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements since the financial year ended August 31, 2002, have been prepared in accordance with international financial reporting standards (“IFRS”). This offering memorandum contains the statutory audited consolidated financial statements of Tallink Grupp for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004, as well as the statutory audited unconsolidated financial statements of Tallink for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004.

In this offering memorandum, references to “Estonian kroon” and “EEK” are to the currency of the Republic of Estonia (EEK 15.6466 = EUR 1), references to “euro” and “EUR” are to the currency of the member states of the European Union (“EU”) participating in the European Economic and Monetary Union, references to the “U.S. dollar” and “USD” are to the currency of the United States of America, and references to the “Swedish krona,” “Swedish kronor” and “SEK” are to the currency of the Kingdom of Sweden.

Any estimates with respect to market statistics relating to us are based upon the reasonable estimates of Tallink’s management. Where certain information contained in this offering memorandum has been derived from third party sources, such sources have been identified herein. Tallink does not assume any responsibility for the accuracy or completeness of this third party information, except for its accurate reproduction and correct restatement herein such that no facts have been omitted which would render the information inaccurate or misleading.

The financial information and certain other information set forth in a number of tables in this offering memorandum may have been rounded to the nearest whole number or the nearest decimal. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages, including period-to-period percentage changes, reflect calculations based upon the underlying information prior to rounding, and accordingly may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

AVAILABLE INFORMATION

We have published our annual reports commencing from the financial year ended August 31, 2005, including our consolidated financial statements, and interim reports, including our interim consolidated financial statements, commencing from the quarter ending November 30, 2005, and will continue to publish this information. In accordance with Estonian law, including the Estonian Securities Market Act, and the Tallinn Stock Exchange Rules, our annual reports for the financial years ended August 31, 2003, 2004 and 2005, and our memorandum and articles of association are available at our head office located at Tartu mnt. 13, Tallinn, Estonia, and on our website (www.tallink.com). Our interim consolidated financial statements for the financial year ending August 31, 2006 are available at the Tallinn Stock Exchange and on our website (www.tallink.com). Any interested party may obtain a copy of these items from us without charge. References to our website in this offering memorandum should not be deemed to incorporate the information on our website by reference.

We would like to emphasize the fact that this prospectus does not include financial statements that reflect the situation of financial accounts after the completion of Silja acquisition. First financial statements that include the acquired operations of Silja will become available on or about October, 2006, when we will publish our results for the financial year ending August 31, 2006.

We are not required to file periodic reports under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have, however, agreed to furnish to investors upon request such information as may be required by Rule 144A(d)(4) of the Securities Act to facilitate resales of the shares pursuant to Rule144A.

FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum, including but not limited to certain statements set forth under the captions "Summary," "Risk Factors," "Dividends and Dividend Policy," "Operating and Financial Review and Prospects," "Industry Overview", "Business", "Pro Forma Financial Information" and "Silja Overview" are based on the beliefs of management as well as assumptions made by and information currently available to management, and such statements may constitute forward-looking statements. The words "believe," "expect," "anticipate," "intend" or "plan" and similar expressions identify certain of such forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to those discussed in the section entitled "Risk Factors" including the following: general economic and business conditions; competition in the cruise and cargo transportation industries; reduced demand for cruises and/or cargo transportation; regulatory, legislative and judicial developments; market acceptance of our planned introduction of new vessels and routes; delay in delivery of new vessels; our ability to obtain financing on terms that are favorable or consistent with our expectations; the impact of changes in operating and financing costs, including changes in interest rates, fuel, payroll, port fees and insurance; onboard trade and price development; changes in Estonian corporate taxation rates; emergency ship repairs; incidents and accidents at sea including those involving the health and safety of passengers; and weather. The above examples are not exhaustive and new risks emerge from time to time. Should one or more of these or other risks or uncertainties materialize, or should any underlying assumptions prove to be incorrect, our actual results of operations or our financial condition could differ materially from those described herein as anticipated, believed, estimated or expected.

We do not intend and do not assume any obligation to update any forward-looking statements contained herein. For additional information that could affect our results, performance or achievements, see “Risk Factors.”

BACKGROUND FOR THE OFFERING AND THE USE OF PROCEEDS

The purpose of the Offering is to obtain additional equity financing to indirectly support our recent acquisition of the shares in Silja. The size of the company has increased significantly thanks to the acquisition and we need to ensure stronger financial position by decreasing the leverage and increasing the liquidity. Furthermore, the proceeds from the Offering help to implement the on-going restructuring process of Silja, integration of Tallink and Silja operations and our continuous strategy. Additional information concerning Silja acquisition and Silja operations can be found in sections “Pro Forma Financial Information”, “Material Contracts” and “Silja Overview”.

The net proceeds to be received by us from the Offering are expected to be used to repay indebtedness and to strengthen our financial resources as part of our growth strategy involving our investment and fleet renewal program.

SUMMARY

This summary should be read as an introduction to this offering memorandum. The summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this offering memorandum, including our audited consolidated financial statements. Any consideration to invest in our shares should be based on consideration of this offering memorandum taken as a whole. Where a claim relating to the information contained in this offering memorandum is brought before a court, the plaintiff might, under applicable law, have to bear the costs of translating this offering memorandum before legal proceedings are initiated. We assume civil liability in respect of this summary only if it is misleading or inconsistent when read together with the other parts of this document.

Overview

We are a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. We own and operate passenger ferries, including cruise ferries, high-speed ro-pax ferries, high-speed ferries, ro-pax ferries and ro-ro cargo vessels on routes between Finland and Estonia, between Sweden and Estonia, between Finland and Sweden, between Finland and Germany and between Sweden and Latvia. Our current routes are between Helsinki, the capital of Finland, and Tallinn, the capital of Estonia; between Stockholm, the capital of Sweden, and Tallinn; and between Kapellskär, a port city close to Stockholm, and Paldiski, a port city close to Tallinn, between Stockholm and Riga, the capital of Latvia, between Hanko, a port city close to Helsinki, and Rostock, a port city in Germany, between Turku, a port city in Finland and Stockholm/Kapellskär and between Helsinki and Stockholm. We are the current market leader on the Helsinki—Tallinn route and the only provider of daily passenger and ro-ro cargo traffic services on the routes between Sweden and Estonia and the only provider of regular passenger and ro-ro cargo traffic services on the route between Stockholm and Riga. In addition we have a strong market position on the Hanko—Rostock route. Altogether, we transported more than 3.2 million passengers and approximately 130,000 ro-ro cargo units in the financial year ended August 31, 2005, an increase of 16 per cent and 27 per cent, respectively, compared to the previous financial year. In May 2004, we broadened our product offering through the introduction of a 350-room Hotell Tallink that we operate in the principal tourist area of Tallinn. In addition, we have made a decision to start operating a new conference and spa hotel close to the center of Tallinn. This hotel is intended to commence operations in late 2006.

Our principal sources of revenue are restaurant and shop sales onboard our vessels, ticket sales and sales of cargo transport. Our revenue for the financial year ended August 31, 2005 amounted to EEK 4,063 million, the majority of which was derived from revenue in passenger and cargo operations between Finland and Estonia. The table below sets forth the development and geographical breakdown of our revenue for the financial years ended August 31, 2003, 2004 and 2005:

	Financial year ended August 31,		
	2003	**2004**	**2005**
(EEK in millions)			
Finland—Estonia	2,053	2,083	2,442
Sweden—Estonia	943	1,232	1,392
Mainland operations	—	40	88
Other	—	51	141
Total	2,996	3,406	4,063

We currently own a fleet consisting of eleven cruise ferries (of which four are “Silja” ferries) carrying both passengers and ro-ro cargo, three high-speed ro-pax ferries operating between Hanko and Rostock, three high-speed ferries operating between Helsinki and Tallinn, two ro-ro cargo vessels and two ro-pax vessels (two ro-pax vessels are also “Silja” vessels). In 1997, we changed our operating model from chartering into ship ownership and acquired our first three vessels. In 2000, we started to invest in new vessels, including the cruise ferries Romantika (introduced in 2002), Victoria I (in 2004), and Galaxy (in 2006) and the new cruise ferry (sister vessel of Galaxy), expected to be introduced in 2008. Our new cruise ferries provide improved accommodation facilities, larger onboard shopping areas and a broader offering of other services compared to our traditional ferries. We also plan to introduce new high-speed ro-pax ferries on the Helsinki—Tallinn route. We have placed orders for two new high-speed ro-pax ferries intended to improve our high-speed service between Helsinki and Tallinn. The ferries will be delivered in 2007 and 2008. The new high-speed ro-pax ferries are designed to combine the best features of a traditional cruise ferry and a high-speed ferry such that they can be operated year-round and can travel at almost the same speed as existing high-speed ferries but with increased passenger capacity, expanded shopping and dining facilities and other services. In addition to building new vessels, Tallink has expanded its fleet through acquisition of vessels from other companies. In April 2006 Tallink acquired three Superfast ferries and in July 2006 Tallink acquired part of Silja’s operations from Sea Containers.

Group Structure

Aktsiaselts Tallink Grupp is the operating parent company of our group of companies. The operational structure of our business is similar to the legal structure of our group of companies, and is divided into ship operations, marketing companies and service companies. Most of our ships are managed as a separate entity comprised of technical crew and service staff.

Key Strengths

We believe that our position as a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region, as well as a leading provider of ro-ro cargo services on selected routes, is based on the following key strengths:

- Strong market position;
- High-quality, flexible fleet;
- Broad product offering;
- Strong brand;
- Competitive cost base; and
- Experienced management team with a proven track record.

Strategy

We aim to be the leading provider of high-quality mini-cruise and passenger transport services, as well as the leading provider of ro-ro cargo services on selected routes, in the Baltic Sea region. Even though our business has grown rapidly for nearly ten years, we believe that there are additional growth opportunities in the region over the coming years. The cornerstones of our operating strategy are set out below:

- Continue to invest in our fleet;
- Build upon strong positions on existing routes;
- Pursue new growth opportunities in the Baltic Sea region; and
- Maintain profitability through efficient and flexible management, while seeking revenue growth.

Risk Factors

Before making an investment decision with respect to our shares, prospective investors should, in addition to the other information contained herein, carefully review the risk factors described in this offering memorandum. Our business, financial condition and results from operations could be adversely affected by each of such risks, which may relate to us, our business environment and changes therein, our geographical market area, investing in our shares and other matters, and investors may lose the value of their investment in whole or in part. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, could also adversely affect our business. For a more detailed description of the risks relating to our business, see "Risk Factors."

Management

Our corporate governance, management and administration are divided among our shareholders represented at the general meetings of shareholders, our supervisory council and our management board. The general meeting of shareholders approves, among other things, the annual report, the auditors' report and the distribution of profits. Resolutions may be adopted at either annual or extraordinary general meetings of shareholders. The supervisory council is responsible for planning our business activities, organizing our management by electing members to the management board, approving our budget and supervising the activities of our management board. The management board manages our daily business affairs. The current members of our supervisory council are Toivo Ninnas, Eve Pant, Ain Hanschmidt, Sunil Kumar Nair and Lauri Kustaa Äimä. Our current management board members are Enn Pant, Kalev Järvelill, Andres Hunt, Keijo Mehtonen and Antti Pankakoski.

Shares and Shareholders

As of the date of this offering memorandum, our registered share capital amounted to EEK 1,415,000,000 consisting of 141,500,000 fully paid shares with a nominal value of EEK 10 each (each, a "Share" and, together, the "Shares"). Each Share entitles its holder to one vote at our general meetings of shareholders. We have one class of shares and all Shares rank *pari passu* in all respects, except that the 5,000,000 shares issued to Silja Holdings Limited, a subsidiary of Sea Containers Limited, as part of the Silja acquisition entitle the shareholder to dividends for the financial year starting from 1st of September, 2006.

We had 14,283 shareholders as of August 7, 2006. The ten largest shareholders held in the aggregate more than 75.4 per cent of all of our Shares and votes, while our largest shareholder, Aktsiaselts Infortar ("Infortar"), alone held more than 41.86 per cent of the Shares and votes. Infortar is an Estonian investment company with interests in the shipping, real estate and printing industries. The principal shareholder of Infortar is an Estonian holding company, Linandell OÜ, which is controlled by Enn Pant, Chairman of our management board and our CEO; Kalev Järvelill, a member of our management board; and Ain Hanschmidt, a member of our supervisory council.

The Offering

Offering	The offering (in this offering memorandum also referred to as the "Offering" or the "Offer") shall consist of up to 28,300,000 Offer Shares to be issued by Tallink after 30th of August as approved by the extraordinary general meeting of shareholders held on the 2nd of August 2006, and of about 28,300,000 Subscription Rights to the Offer Shares to be issued by Tallink on the 14th of August 2006 as approved by the extraordinary general meeting of shareholders held on the 2nd of August 2006. Offer Shares are offered through a public offer in Estonia to all our shareholders and any other investors, which have registered the

	Subscription Rights on their securities account latest by 8 a.m. on the 29th of August 2006.
Shares	Our share capital consists of 141,500,000 Shares. The Offer Shares rank *pari passu* with all the remaining Shares of Tallink, except that the Offer Shares entitle the shareholder to dividends for the financial year starting from the 1st of September, 2006.
Offer Period	The offer period commences on August 14, 2006 at 10.00 a.m. and ends on August 28, 2006 at 16.00 p.m.
Offer Price	The offer price shall equal to EEK 55.00 per share (EUR 3.5154 at the central bank peg rate EUR 1 = EEK 15.6466).
Shares Issued and Outstanding after the Offering	Immediately prior to the Offering, there were 141,500,000 Shares issued and outstanding. Upon completion of the Offering, and assuming that all Offer Shares are subscribed for, there will be 169,800,000 Shares issued and outstanding.
Percentage of the Total Issued Share Capital Being Offered in the Offering	The Offer Shares represent approximately 16.7 per cent of our share capital following the Offering.
Subscription Rights and number of Rights issued	In this offering memorandum Subscription Rights shall be construed as shareholders' pre-emptive rights to subscribe to the Offer Shares within the meaning of section 345(1) of the Estonian Commercial Code. In general, the shareholder may transfer such pre-emptive rights to subscribe to the shares under the same terms and conditions as a transfer of shares. Subscription rights grant the holder a right to subscribe to the shares underlying that right. Under Estonian laws such rights are treated as securities, which are capable of being listed. We have on the 7th of August, 2006, applied to have the Subscription Rights listed and admitted to trading on the Tallinn Stock Exchange. The Subscription Rights are only issued to the existing shareholders of Tallink. Shareholders of Tallink will receive 0.2 Subscription Rights for each existing share as of 8 a.m. local time on the 14th of August, 2006, when the eligible shareholders list is fixed by the Estonian Central Registry for Securities (the "ECRS"). One Subscription Right will entitle the investors to a right to subscribe for one Offer Share at the Offer Price during the Offer Period.
Trading of Rights	All Rights issued are freely tradable during the subscription period. Tallink has submitted an application to the Tallinn Stock Exchange (the "TSE") for the listing of the Subscription Rights as from 10 a.m. on the 14th of August, which is expected to be the first trading day for the Rights if such application is approved. Rights will be traded under the same terms and conditions as any other shares traded on the TSE. Trading of Rights on the TSE is expected to last until 2.30 p.m. local time on the 23rd of August 2006. All Subscription Rights that are not

	used for the subscription to the Offer Shares or disposed of during the subscription period will be canceled on the 30th of August 2006 without any monetary compensation.
Settlement and Trading	Offer Shares allocated to investors will be transferred to respective securities accounts with custodians of ECRS on August 30, 2006 as described under the captions "Instructions to investors". The official results of the offering will be announced no later than on August 31, 2006 through the TSE trading system and website before trading is expected to commence on the TSE. Investors can receive information on the precise amount of Offer Shares allocated by request from their Custodian that operates their ECRS securities account or their Custodian that has a securities account with a custodian of ECRS. Trading in the Offer Shares is expected to commence on the TSE on August 31, 2006.
Voting Rights	Each Offer Share will carry one vote.
Dividend Rights	The Offer Shares will entitle holders to any future dividends commencing with any dividend declared for the financial year commenced September 1, 2006 and ending August 31, 2007. See "Dividends and Dividend Policy" and "Description of Share Capital."
Use of Proceeds	The net proceeds to be received by Tallink from the Offering are expected to be used to repay indebtedness and to strengthen our financial position as part of our growth strategy involving our investment and fleet renewal program. See "Use of Proceeds."
ISIN for Offer Shares	EE3808004461
Expected Trading Code	TAL3T
ISIN for the Subscription Rights	EE3701004469
Expected Trading Code	TAL1T-R1

Important dates	August 14, 2006	Start of the Offer Period and beginning of trading with Rights
	August 23, 2006	Rights trading for the last day
	August 28, 2006	End of the Offer Period
	August 30, 2006	Settlement

TAL3T	Expected Trading Code of 28,300,000 Offer Shares. Offer Shares entitle the shareholder to dividends for the financial year starting from 1st of September, 2006.	ISIN: EE3808004461
TAL2T	Trading Code of the 5,000,000 shares issued to Silja Holdings Limited, a subsidiary of Sea Containers Limited as part of the Silja acquisition. The shares issued to Silja Holdings limited entitle the shareholder to dividends for the financial year starting from 1st of September, 2006.	ISIN: EE3807004462
TAL1T	Trading Code of the 136,500,000 shares.	ISIN: EE3100004466

Summary Financial Information

The table below presents certain summary consolidated financial information as of and for the financial years ended August 31, 2003, 2004 and 2005. This information has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. This information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements and the related notes. Our financial statements are prepared in accordance with IFRS.

	As of and for the financial year ended August 31,		
	2003	2004	2005
	(EEK in millions, unless otherwise indicated)		
Income Statement Information			
Revenue	2,996	3,406	4,063
Operating profit	481	446	629
Profit before income tax and minority interests	382	313	474
Net profit for the financial year	382	313	473
Balance Sheet Information			
Current assets	443	676	614
Non-current assets	4,107	6,232	6,313
Cash and cash equivalents	232	367	327
Total assets	4,549	6,908	6,927
Total liabilities	3,076	4,726	4,271
Interest-bearing liabilities	2,794	4,234	3,836
Equity	1,473	2,182	2,656
Cash Flow Information			
Cash flow from operating activities	842	804	891
Cash flow used in investing activities	(620)	(2,386)	(352)
Cash flow from (used in) financing activities	(144)	1,717	(579)
Per Share Information			
Adjusted weighted average number of Shares (thousands)	89,600	109,050	110,000
Earnings per Share (EPS), EEK	4.3	2.9	4.3
Ratios and Indicators[1]			
EBITDA[2]	803	720	901
EBITDA margin, %[3]	27	21	22
Operating profit margin, %[4]	16	13	15
Return on investment (ROI), %[5]	12	9	10
Return on assets (ROA), %[6]	11	8	9
Return on equity (ROE), %[7]	30	17	20
Equity ratio, %[8]	32	32	38
Number of passengers, persons	2,597,917	2,828,364	3,274,177
Number of ro-ro cargo units	94,945	103,425	131,349
Number of personnel, average	1,921	2,371	2,710

1 See "Selected Financial Information" for further explanation of the use and purpose of the ratios and indicators. EBITDA is not a measure of operating performance calculated in accordance with IFRS. EBITDA should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit or loss or cash flow data determined in accordance with IFRS. EBITDA is included herein as a supplemental item because we believe that EBITDA, when considered in connection with cash flows from operating, investing and financing activities, may provide useful information.

2 EBITDA = Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization

3 EBITDA margin = EBITDA / Revenue

4 Operating profit margin = Operating profit / Revenue

5 Return on investment (ROI) = (Profit after net financial cost + Interest expense) / (Average total assets – Average interest free liabilities)

6 Return on assets (ROA) = Operating profit / Average total assets

7 Return on equity (ROE) = Net profit / Average equity

8 Equity ratio = Equity / Total asset

RISK FACTORS

Before making an investment decision, you should carefully review the specific risk factors described below, in addition to the other information contained in this offering memorandum. Our business, financial condition and results from operations could be materially affected by each of these risks. The market price of the Shares following the Offering may decline as a result of each of these risks, and you may lose the value of your investment in whole or in part. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are immaterial, could also impair our business. Certain other matters regarding our operations that should be considered before making an investment in the Shares are set out in "Business", "Silja Overview" and "Operating and Financial Review and Prospects." The order of presentation of the risk factors below is not intended to be an indication of the probability of their occurrence or of their potential effect on our business.

Risks Relating to Our Business

We operate in a highly competitive market.

We face considerable competition in our operations, both from other ferry operators and from providers of other means of transport. In particular, many other ferry companies compete on the Helsinki—Tallinn route in both passenger and cargo traffic. The number of passengers on the Helsinki—Tallinn route has more or less stabilized over recent years at around six million passengers annually. Although we anticipate that these numbers will grow in the future, there can be no assurance that this will be the case. We have made significant investments to modernize our fleet and we believe that we have a strong customer base, an attractive fleet and product offering and a respectable brand which offer us a competitive advantage. However, we cannot guarantee that we will be successful in retaining or improving our current market position or in expanding our business through, for example, potential new routes. In the past, other ferry operators have on occasion entered the Northern Baltic Sea market through relocation of their existing vessels. Thus, there can be no assurance that new competitors will not enter the market and further increase competition. Future acquisitions by or consolidation among our competitors could also increase competition in our markets. Failure to adapt to the changes in the market, whether caused by political decision-making or otherwise, or to increased competition could have a material adverse effect on our business, results of operations and financial condition. See "Business— Competition".

The introduction of new vessels and routes and related capacity increases involves risks and uncertainties.

We continuously evaluate possibilities to introduce new vessels, to expand into alternative routes and to expand our business generally. There are risks related to our current plans regarding capacity increases on the Finland—Estonia and Sweden—Estonia routes. We currently operate two cruise ferries on the Finland—Estonia route and three cruise ferries on the Sweden—Estonia route. We believe that traffic on the Sweden— Estonia routes has future growth potential and, thus, we moved the 2,500 passenger cruise ferry Romantika to operate alongside her sister vessel Victoria I on the Stockholm—Tallinn route. The Regina Baltica was moved from the Stockholm—Tallinn route to the Stockholm— Riga route – a new market for Tallink. Furthermore, we have placed orders for two new high-speed ro-pax ferries to be used on the Helsinki— Tallinn route and for a new cruise ferry (sister vessel of Galaxy) to be used either on the current routes or potential new routes. We are also studying the potential to recommence traffic to and from St. Petersburg. In addition, Tallink recently acquired three high-speed ro-pax vessels that are currently operating on the Hanko—Rostock line, signed a charter party agreement with Compaigne Marocaine de Navigation of Morocco for the chartering of vessel Fantaasia from June to October 2006 and acquired part of Silja's operations from Sea Containers in July 2006.

Although we believe that the restructuring of the vessels on the different routes and expanding our business to new routes will improve our revenue and profitability per passenger and facilitate growth in passenger numbers, new investments in the fleet and new businesses acquired represent substantial investments for us and, thus, involve risks. In order to launch the new high-speed ro-pax concept and to market the new cruise ferry, we will have to increase our marketing expenditures, which could affect the profitability of our operations. It is also possible that the interest of the public will not meet our expectations. For example, an economic downturn in the markets in which we operate could negatively affect disposable income and, as a result, leisure preferences. In addition, the introduction of new routes involves potential difficulties in obtaining necessary permits and dealing with local authorities. For example, after almost one year of operation, we suspended our services to St. Petersburg at the beginning of 2005 as a result of factors such as high port taxes, difficulties arising from the visa regime imposed upon both European Union and Russian citizens and an underdeveloped infrastructure. The materialization of any of these risks could have a material adverse effect on our business, results of operations and financial condition.

Any failure or delay in the delivery of ordered ferries may have a material adverse effect on our business, results of operations and financial condition.

We have placed orders with Aker Finnyards Oy and Fincantieri Cantieri Navali Italiani S.p.A. to design, construct and deliver two new high-speed ro-pax ferries. Furthermore, we have entered into a shipbuilding contract with Aker Finnyards Oy, under which Aker Finnyards Oy shall design, construct, equip, complete and deliver the new cruise ferry (sister vessel of Galaxy). Any failure or significant delay in construction, completion or delivery of the new cruise ferry or the high-speed ro-pax ferries in accordance with the contracts and by the agreed deadlines could have a material adverse effect on our business, results of operations and financial condition.

We face uncertainties regarding onboard trade and price development.

Our onboard shops compete with onshore shops. Since the consumer price level in Estonia is currently lower than in Finland and Sweden, the prices in our onboard shops must be comparable to the prices in onshore shops in Estonia on vessels visiting Estonia in order to be competitive. Any reduction in the Estonian consumer price levels may reduce the demand for goods sold onboard and force us to reduce our onboard prices, which could have a material adverse effect on our business, results of operations and financial condition.

The tax-free status of trade in goods sold in onboard shops on the Helsinki—Tallinn and Kapellskär—Paldiski routes was abolished when Estonia became a member of the European Union. We currently pay Estonian, Swedish and Finnish value added taxes and Estonian excise tax on the sale of certain goods that were previously sold free of such taxes. The Estonian excise tax rate is currently lower than the Finnish and Swedish tax rates, but no assurance can be given that the Estonian tax rate will remain comparatively lower in the future. Furthermore, as a result of the abolition of the tax-free status for onboard sales, our profit margins have decreased as Estonian onshore prices have not increased sufficiently to compensate for our increased costs.

Due to the removal of the import restrictions upon Estonia's membership of the European Union, the governments of Finland and Sweden have commenced discussions on the future of excise taxation in Finland and Sweden. Finland implemented a moderate reduction of the excise taxes on alcoholic beverages in early 2005. There is currently uncertainty about which other policies, if any, will be adopted by the Finnish government. If Sweden also were to reduce the excise tax levels on goods purchased domestically, the demand for goods sold onboard and for mini-cruises might decrease. This could have a material adverse effect on our business, results of operations and financial condition.

We are highly leveraged, and if we or any of our ship-owning subsidiaries default under any of our respective loan agreements, we could forfeit the rights to our vessels.

We operate most of our vessels through individual ship-owning subsidiaries, one for each vessel. In addition, two high-speed ro-pax vessels have been ordered for delivery in 2007 and 2008, and the new cruise ferry (sister vessel of Galaxy) is expected to be delivered in the summer of 2008. We are highly leveraged due to the fact that all recent and future purchases of vessels have been and are expected to be financed mainly through loan financing and cash flows from operations. Our obligations under the loan agreements have been secured by different security arrangements, including mortgages, guarantees, assignments of earnings or insurances, charters, charter guarantees, pledges or options to pledge the shares of our ship-owning subsidiaries, pledges of bank accounts and other arrangements.

The loan agreements include several negative undertakings, relating to, among other things, entering into other financial commitments, changes in our corporate structure or the nature of our business, and consolidating or merging with another corporation. The loan agreements also contain extensive requirements relating to the use of our vessels, compliance with environmental laws and our insurance policies. Several of our loan agreements prevent our subsidiaries from paying dividends without the prior approval of the lenders. Furthermore, as a result of our legal and operational structure and the terms of the loan agreements entered into by us and our ship-owning subsidiaries, our ability to transmit certain funds among companies in the group and to pay dividends may be restricted.

Since the interest rates under our loan agreements are mainly tied to EURIBOR with specific margins, interest rate fluctuations may affect the amounts payable under the loan agreements.

All of our term loan agreements contain customary events of default, including cross-default provisions. Frequently, the cross-default provisions extend to Tallink, to certain group companies as guarantors and to Infortar. These cross-default clauses expose the companies of the group to default risks based on contract performance by other group companies. In addition, under certain agreements, it is an event of default if, without the prior consent of the relevant lender, a third party acquires in whole or in part the issued share capital of (or an equivalent to the controlling interest in) the borrower or the guarantor/shareholder or if there is a change in the ultimate beneficial ownership of the shares in the relevant borrower or guarantor or in the ultimate voting rights attaching to the shares. See also "Operating and Financial Review and Prospects—Liquidity and Capital Resources—Loan Agreements."

Any failure to comply with the loan agreements or any demand for repayment made by the banks could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in the market value of our fleet may impair our ability to obtain additional funding and have a material adverse effect on our business, results of operations and financial condition.

The market value of vessels in our fleet on the regional and global markets is subject to fluctuations. These depend in part on the general economic and market conditions affecting the ferry industry, competition from other ferry companies, the supply of similar vessels, the price of new vessels, government regulations, the development of other means of transportation, and technological advancements. It should be expected that the fair market value of our vessels will fluctuate. In addition, as vessels grow older, they generally decline in value. The design and specifications of the vessels in our fleet may limit the potential usage of the vessels in different regions and on different routes, which in turn may have an adverse effect on the potential value of the fleet. In part, the introduction of the new high-speed ro-pax ferries could adversely affect the market value of our traditional ferries, cargo vessels and high-speed ferries.

A decrease in the value of our vessels could affect our ability to borrow funds. If we determine at any time that a vessel's future useful life or earnings require us to impair its value on our financial statements, it could result in a charge against our earnings and a reduction in our shareholders' equity. If we sell any of our vessels at a time when prices are low, the sale price may be less than the vessel's carrying amount on our financial statements, with the result that we would also incur a loss and a reduction in earnings, which could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to retain key management personnel or other employees or to attract qualified new personnel, which may negatively impact our business.

Our management and the planning of our operations are conducted by a small number of executives, and the loss of any of them or of certain other members of our operating personnel could adversely affect our business. If we are unsuccessful in retaining key management personnel or in attracting qualified new management personnel, it may have a material adverse effect on our business, results of operations and financial condition.

Rising labor costs as the Estonian economy develops may have a material adverse effect on our business, results of operations and financial condition.

Labor laws of the country of a ship's flag govern the employment of the ship's crew and other onboard staff. Some of our ferries operate under the Estonian flag. If our labor costs increase due to general economic developments, increased regulation or other reasons, it may have a material adverse effect on our business, results of operations and financial condition. See "Business—Employees and Labor Relations" for a description of the terms of a recently renewed three-year agreement with the trade union regarding salary levels of our onboard staff on our ferries operating under the Estonian flag. In addition, Tallink has agreed with the Finnish Seamen's Union the principles to change the salaries for the crew sailing on the Superfast ferries on Hanko—Rostock route (for more detailed information please see stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled "TAL: Boycott ends").

Our principal shareholder Infortar and its controlling shareholders will continue to hold a significant interest in Tallink after the Offering, and, consequently, will be able to significantly influence the outcome of any shareholder vote.

Infortar AS, Citigroup Venture Capital International, Amber Trust II SCA, have indicated that, based on the information available to us, they are likely to subscribe directly or through their respective affiliates, for a total of approximately EEK 938.8 million. Therefore, after the completion of the Offering a significant part of our shares will still be controlled by Infortar. Infortar will be able to influence our management and our policies with respect to, among other things, any matters submitted to a vote of all of the shareholders. We have in the past and will in the future engage in transactions with Infortar or its affiliates. In particular, Infortar is the 50 per cent shareholder in the company owning the property of Hotell Tallink and the sole owner of the company owning the Tallink conference and spa hotel currently under construction, both of which we either currently manage or will manage. Therefore, it can be expected that the role of Infortar will remain significant in our future development and operations.

We have historically had a lean administrative, legal and accounting staff and, as a result, we may be unable to develop and maintain an effective internal control structure.

We do not currently have an audit committee. We may in the future decide to establish an audit committee to be responsible for, among other things, the oversight of our internal control processes. The failure to develop and maintain an effective internal control structure or to hire necessary personnel could have a material adverse effect on our business, results of operations and financial condition, and the increased administrative costs necessary to manage a public company could adversely affect our profitability.

Our operations could be affected by any actions taken by competition authorities.

Our current strong position on the Stockholm—Tallinn route could at some point be subject to legal constraints that may have an impact on our ability to freely conduct our operations. Companies with a high market share are subject to specific competition laws and regulations, which set out stricter operational requirements for such companies. We operate in the transportation sector, which has traditionally been of special interest to the competition authorities, particularly at the European Union level, due to the need to secure free movement of goods and services between the European Union member states. For instance, any support planned by the state for the benefit of the industry in which we operate will be subject to the requirements under European Community law. Any alleged violations of competition laws and regulations or the outcome of any legal or administrative proceedings brought against us could have a material adverse effect on our business, results of operations and financial condition.

Specific Risks Relating to Silja

Changes in Finnish and Swedish state aid regulations may cause a rise in labor costs.

We are currently operating all Silja's vessels under Finnish or Swedish flag and therefore enjoy certain tax related benefits from the governments of Finland and Sweden, which effect in lower costs of on-board personnel. We can not be certain that this policy will be continued by those governments and changes in these regulations could cause a rise in our labour costs. Changing the flag is an option, when the conditions become more unfavourable, but as there are certain costs related to re-flagging the savings could not be immediate. In addition, a strong resistance from unions could be expected when changing the flag.

Due to the ownership change in Silja Oy Ab some agreements entered with third parties may be terminated by third parties.

Certain agreements include clauses that in case of an ownership change in Silja the parties may terminate the agreement. We can not be certain that this option will not be used by some of the third parties. Therefore, in the event of agreement termination, the results may have negative material effect to business.

We can not be certain that the information presented to us by the seller during the acquisition of Silja is correct.

The decision to invest in Silja was partly made in reliance on the information presented to us by the seller. With the acquisition agreement the seller provided to us the representations, warranties and certain indemnities related to the disclosures about Silja and the correctness of such information. However, we can not be confident that such information was accurate in every detail. If at a later stage it will be discovered that the seller is in breach with its representations and warranties related to the information disclosed or undisclosed to us and if such breach will have negative material effect to us, then we could raise a claim against the seller. However, we can not be certain that any reimbursement will be received from such claim.

Risks Relating to Our Industry

Fuel costs and increases in port and regulatory fees are beyond our control and may have a material adverse effect on our business, results of operations and financial condition.

The cost of fuel used by our vessels is subject to many global and regional economic and political factors that are beyond our control. The cost of fuel can be volatile and has recently been higher than in the past. The fuel cost for our fleet represents about 10 per cent of our total operating expenses on vessels operated by Silja and the fuel cost for our fleet represents about 15 per cent of our total operating expenses on vessels operated by Tallink as a result of recent increases in fuel prices. We currently pass a small portion of our fuel costs on to our customers as a fuel surcharge. However, further increases in the cost of fuel could decrease our profit margins as we may not be able to pass on the cost to our customers without a decrease in demand. In addition, port and other regulatory fees are subject to change. We may also not be able to pass on increases in these fees to our customers without reducing demand. A material increase in the cost of fuel or port and other regulatory fees may, thus, have a material adverse effect on our business, results of operations and financial condition.

Marine transportation is inherently risky and an incident involving passenger vessels could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

The operation of ships involves the risk of accidents and incidents at sea which could bring into question passenger safety and adversely affect future industry performance. An accident similar to the sinking of the cruise ferry Estonia operated by Estline (a company which was declared bankrupt as a result of the accident and was not affiliated with Tallink) in the autumn of 1994 in the Northern Baltic Sea region could be detrimental to the ferry industry and result in a drastic reduction of passenger volumes. If a similar incident were to occur on one of our ships, the consequences for our reputation and business could be even more dramatic.

Due to difficult weather conditions with narrow navigable routes and the possibility of technical or human errors, a number of ferries operating in the Northern Baltic Sea region have run aground in the past years, particularly in the Stockholm archipelago. On September 27, 2005, our cruise ferry Regina Baltica ran aground due to a technical failure in the outer Stockholm archipelago outside of Kapellskär but was able to free herself. The vessel was out of service for a period of ten days while being repaired. We believe that this incident is not likely to have a significant effect on our business, results of operations or financial condition. While we make passenger safety our highest priority in the operation of our ships, incidents involving passenger ships operated by any passenger or cruise ferry operator anywhere in the world could adversely affect our future sales and profitability.

Compliance with environmental, health and safety and other national and international laws and regulations may increase our operating costs, and failure to comply with such laws and regulations may have a material adverse effect on our business, results of operations and financial condition.

The ferry industry is highly regulated and our operations are affected by extensive and evolving environmental, health and safety laws and regulations. Our vessels operate within the rules and regulations of the International Maritime Organization, the United Nations agency for maritime safety and the prevention of marine pollution by ships, the European Union and other jurisdictions in which our vessels operate or are registered. We have incurred, and may be required to incur in the future, considerable expenses in order to comply with these laws, regulations and customer requirements, including expenses relating to changes in operating procedures, additional maintenance, inspection and security requirements, contingency arrangements for emergency preparedness and insurance coverage. Environmental, health and safety laws and regulations change frequently and often become more stringent. Current and future environmental, health and safety laws and regulations may limit our ability to do business, increase our operating costs, require the implementation of expensive control systems, force the early phasing out of our vessels or decrease the resale value of our vessels, all of which could have a material adverse effect on the ferry industry and on our business, results of operations and financial condition.

Our failure to comply with these laws and regulations could result in substantial costs and liabilities or temporary suspension of our business. International, national, regional and local laws and regulations can subject owners, operators or charterers of vessels to material liabilities arising out of the release of, or exposure to, hazardous substances or to vessel discharges. Certain of these laws and regulations impose joint, several and, in some cases, unlimited liability on owners, operators and charterers regardless of fault. We could be held liable under these laws and regulations and such liability could be material.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations.

We insure our vessels against risks, and in amounts, which we believe to be in line with standard industry practice and the covenants set out in our loan agreements. Insurance is subject to limits and limitations. There is a possibility that some risks may not be adequately covered by insurance and that any particular claim may not be paid. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Even if our insurance is adequate to cover our direct losses, we may be adversely affected by a loss of earnings during the period in which a damaged vessel is being repaired, or while we search for a replacement vessel in the event of a loss. In addition, if our vessels suffer damage, they may need to be repaired at a dry-docking facility. The costs of dry-dock repairs are unpredictable and can be substantial. We may have to pay dry-docking costs that our insurance does not cover. Moreover, we may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. Our payment of uninsured losses or damages or increases in costs could result in significant expenses to us, which could have a material adverse effect our business, results of operations and financial condition.

Poor weather conditions in the Baltic Sea region may disturb the flow of our operations, reduce passenger volumes, and may have a material adverse effect on our business, results of operations and financial condition.

Weather conditions in the Baltic Sea region may affect both the ability of our vessels to operate and the willingness of passengers to travel on our vessels. Poor weather can result in cancelled or delayed transport or lower passenger numbers. As a major portion of the Northern Baltic Sea freezes during the winter months (typically from December / January to March / April), our high-speed ferries operating on the Helsinki— Tallinn route are removed from operation during that season. The decision regarding the operation of these ships is based on our assessment of weather conditions and, to some extent, corresponding decisions by competitors. The limitations on our operations caused by ice conditions will, to some extent, be reduced by the introduction of the new high-speed ro-pax ferries, which will be able to operate throughout the winter season. Nevertheless, poor weather conditions may have a material adverse effect on our business, results of operations and financial condition.

Terrorist attacks and other acts of violence or war may affect trade and passenger flows, which could have a material adverse effect on our business, results of operations and financial condition.

Terrorist attacks and the threat of future terrorist attacks, as well as other acts of violence and war, continue to cause uncertainty in the global economy and may lead to disruptions or changes in trade and passenger flows. Any future terrorist attacks may affect customer behavior and market demand, or may lead to anti-terrorism measures that impose costs or demands on our operations. Future terrorist attacks could result in increased volatility of financial markets and could result in regional or global economic recession. Any of these occurrences could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Doing Business in Estonia and in the Baltic Region

Regulatory, legal, political or economic developments relating to Estonia and its integration into the European Union may have a material adverse effect on our business, results of operations and financial condition.

Investors investing in emerging markets such as Estonia should recognize that these markets are subject to greater risks than more mature markets, including legal, economic and political risks. Estonia has experienced significant political, legal and economic changes and liberalization during the last two decades of transition from the Soviet rule and plan economy to independence and a market economy. In addition, for purposes of its membership of the European Union (effective as of May 1, 2004), Estonia implemented significant social and economic changes, as well as reforms of its legal and regulatory framework. As a result, the volume of Estonian legislation and other regulations has increased and is expected to increase further pursuant to the obligation to apply European Community law. Membership in the European Union has also caused significant changes to our operating environment, including changes to the status of tax-free trade and the application of the European Union's competition and environmental law.

Irrespective of the progress achieved by Estonia in its reforms, the country's legal and regulatory framework is still at a stage of significant development and has not been tested over time to ensure consistency. Changes to Estonia's political, economic, legal or regulatory framework may have a material adverse effect on our business, results of operations and financial condition.

Changes in corporate taxation in Estonia could have a material adverse effect on our business, results of operations and financial condition.

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Estonian companies are currently subject to income tax of approximately 30 per cent, which rate is due to decrease over the next three years on the amount of dividends and other distributions paid. In addition, an Estonian dividend withholding tax of 23 per cent, which rate is due to decrease to 20 per cent by 2009, is currently imposed on dividends paid by Tallink to non-resident legal persons. The European Union has granted Estonia a transition period expiring on December 31, 2008 following which time Estonia may be required to at least partly adjust its current tax regime. The possibility that Estonia may change its corporate taxation policy has periodically been subject to political discussion but we are not in a position to assess whether or, if so, when any such change may occur. Any change in Estonian corporate taxation policy could have a material adverse effect on our business, results of operations and financial condition. See "Taxation—Estonian Tax Considerations."

Fluctuations in exchange rates could have a material adverse effect on our business, results of operations and financial condition.

Our books and accounts are denominated in Estonian kroons. Our revenue is primarily denominated in euro, Swedish kronor and Estonian kroons, while our expenses are primarily denominated in euro, Estonian kroons, U.S. dollars, and Swedish kronor. Therefore, we are exposed to currency risks. The Estonian kroon is pegged to the euro at an official exchange rate of EEK 15.6466 = EUR 1 and, accordingly, it fluctuates against the U.S. dollar and the Swedish krona at the same rate as the euro. Although the Bank of Estonia has expressed its intention to maintain the current fixed exchange rate and the currency board system, there can be no guarantee that the Estonian Parliament will not amend the relevant laws and that the fixed exchange rate will be maintained in the coming years. Currently, we do not hedge our foreign exchange exposures. Fluctuations in currency exchange rates, or new currency-related policies adopted by the Estonian authorities, could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to the Offering

Possible Volatility in the Market Price of the Company's Subscription Rights, Offer Shares and Shares

Tallink's Shares are listed on the TSE and Subscription Rights and Offer Shares are expected to be listed on the TSE, there is no assurance that an active market for its Subscription Rights, Offer Shares and Shares will be sustained. There is no assurance that the market price for the Tallink`s Subscription Rights, Offer Shares and Shares will not decline. The market price of the Tallink`s Subscription Rights, Offer Shares and Shares could be subject to significant fluctuations due to various external factors and events including the liquidity of the Tallink`s Subscription Rights, Offer Shares and Shares in the market, difference between the Tallink`s actual financial or operating results and those expected by investors and analysts, the general market conditions and broad market fluctuations. Prevailing market price from time to time will depend also on many factors, including future interest rates, industry and market conditions, the Tallink`s operating results and cash flows and the market for the securities of companies in the same or similar operating segments. In recent years, most stock markets have experienced significant price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the underlying companies. Accordingly, there could be significant fluctuations in the price of the Subscription Rights, Offer Shares and Shares, including a substantial decline, following the Offering even if Tallink`s operating results meet expectations.

Risks associated with Investing in Subscription Rights as Opposed to Shares

The market for Subscription Rights may be less liquid than the market for Shares. A lack of liquidity may affect the value that investors receive for Subscription Rights sold on TSE. One should consider therefore whether the Subscription Rights are a suitable investment in light of the investment objectives, financial circumstances and other risk factors set out in this Prospectus. Investor's custodian bank or agent may charge a certain fixed and variable commission fee related to trades with Subscription Rights. Such fees could be unreasonably high relative to the total market value of Subscription Rights which investor holds.

Risks associated with the Offer Shares

The Offer Shares may be less liquid than the market for the Shares. The Offer Shares, and the five million additional shares recently issued to Silja carry different dividend rights compared to the rest of the shares until the next Annual General Meeting of shareholders (the "AGM"), which is expected to convene in late 2006. This may affect the liquidity of the Offer Shares and there is no assurance that the market price for the Offer Shares will not decline. It is also important to acknowledge that rights arising from the Offer Shares cannot be exercised before entry of the increase in share capital in the commercial register.

The Tallinn Stock Exchange has a relatively small market capitalization and is substantially less liquid than major European exchanges, which could adversely affect the ability of shareholders to sell the Shares or the Offer Shares.

Application has been made to the TSE for the Subscription Rights and Offer Shares to be admitted to trading on the TSE's market for listed securities. However, we cannot provide any assurance that the Subscription Rights and Offer Shares will be admitted to trading or that, following admission, an active trading market for the Subscription Rights and the Offer Shares will emerge, develop or be sustained after completion of the Offering. The average daily trading turnover on the TSE from January 1, 2005 to December 31, 2005 was EEK 118.8 million. From January 1, 2006 to June 30, 2006 the average daily turnover was respectively EEK 53.8 million. A total of 16 companies were listed on the TSE as of June 30, 2006. As of June 30 2006, the two largest companies in terms of market capitalization, AS Eesti Telekom and AS Tallink Grupp, represented approximately 55% percent of the TSE's aggregate market capitalization of approximately EEK 42.5 billion. Consequently, the TSE is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the TSE may impair the ability of shareholders to sell the Shares or Offer Shares on the TSE, which could increase the volatility of the price of the Shares and the Offer Shares. The delisting of any of the large companies listed on the TSE would be likely to have a negative effect on the market capitalization and liquidity of the TSE.

The TSE, where the Offer Shares are expected to be listed, is a part of the OMX Exchanges. Currently the TSE is in the process of harmonizing its standards with those of OMX. While the implementation of this change might cause some disruption to trading in the Offer Shares, Tallink expects that in the longer term it will benefit from relying on a uniform trading system in the Northern European region. OMX group is also intending to create a pan-Nordic and Baltic stock exchange list, the details of which have not been released. Should Tallink fail to meet the criterions for such a combined list that may affect the liquidity of the Offer Shares.

Future sales of the Shares or Offer Shares could adversely affect the market price of the Shares and Offer Shares.

There is no lock-up associated with this offering for any shareholder or shareholder groups. Company may decide to issue additional shares in the future. Sales of substantial amounts of Shares or Offer Shares by existing shareholders, or issuance of additional shares, or the perception that such sales or issues could occur, could adversely affect prevailing market prices for the Shares and the Offer shares.

We cannot assure you that Tallink will pay any dividend on the Shares or Offer Shares.

There is no assurance that Tallink will pay dividends on the Shares or Offer Shares, nor is there any assurance as to the amount of any dividend it might pay. The payment and the amount of any dividend will be subject to the discretion of Tallink's management board, supervisory council and, ultimately, the general meeting of our shareholders and will depend on available cash balances, anticipated cash needs, our results of operations, our financial condition and any loan agreement restrictions binding us or our subsidiaries as well as other relevant factors. See "Dividends and Dividend Policy."

If securities or industry analysts do not continue to publish research or reports about our business, the price of the Shares and the Offer Shares and trading volume respectively could decline.

The trading market for the Shares and the Offer Shares will depend on the research and reports that industry or securities analysts may publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade their ratings of the Shares and Offer Shares, the price of both may decline. If one or more of these analysts cease coverage of our company or fail to publish regular reports on us, we could lose visibility in the financial markets, which in turn could cause the price of the Shares and the Offer Shares or trading volume respectively to decline.

TERMS AND CONDITIONS OF THE OFFERING

Offering

The offering shall consist of up to 28,300,000 Offer Shares to be issued by Tallink after 30th of August as approved by the extraordinary shareholders meeting on the 2nd of August 2006, and of about 28,300,000 Rights to subscribe to the Offer Shares to be issued by Tallink on the 14th of August 2006 as approved by the extraordinary general meeting of shareholders on the 2nd of August 2006.

Offer Shares are offered through a public offer in Estonia to all our existing shareholders (incl. institutional investors and retail investors), which have registered the Subscription Rights on their securities account latest by 8 a.m. on the 29th of August 2006.

No action has been taken in any jurisdiction by AS Tallink Grupp that would permit the public offering of Rights or the Offer Shares other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Rights or the Offer Shares. See also the prospectus cover, "Plan of Distribution" and "Offering and Transfer Restrictions".

Right to Participate in the Offering

All investors who are registered as the shareholders of Tallink as of 8 a.m. local time on the 14th of August, 2006, provided they do not dispose of their Subscription Rights during the Offer Period, and investors acquiring the Subscription Rights during the Offer Period from the 14th of August until the 28th of August having the rights registered on their securities accounts as of 8 a.m. on the 29th of August 2006.

This offer is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. See also the prospectus cover, "Plan of Distribution" and "Offering and Transfer Restrictions".

Subscription rights

In this offering memorandum Subscription Rights shall be construed as shareholders' pre-emptive rights to subscribe to the Offer Shares within the meaning of section 345(1) of the Estonian Commercial Code. Pursuant to that section 345(1) of the Estonian Commercial Code, in case a company issues new shares the shareholders shall have a pre-emptive right to subscribe to the new shares in proportion to the nominal value of their current shareholding. Such pre-emptive rights can only be excluded by a shareholders' resolution whereas passing of such resolution requires at least three-quarters of the votes represented at the general meeting. The shareholders of AS Tallink Grupp have not passed any resolutions to exclude the pre-emptive rights in respect of the Offer Shares. In general, a shareholder may transfer such pre-emptive rights to subscribe to the shares under the same terms and conditions as a transfer of shares.

Subscription rights grant the holder a right to subscribe to the shares underlying that right. Under Estonian laws such rights are treated as securities, which are capable of being listed. We have on the 8th of August 2006 applied to have the Subscription Rights listed and admitted to trading on the TSE. Subscription Rights are only issued to the existing shareholders of Tallink.

Number of Rights issued

Shareholders of Tallink will receive **0.2 Subscription Rights for each existing share** as of 8 a.m. local time on the 14th of August, 2006 when the eligible shareholders list is fixed by the ECRS. **One Subscription Right will entitle the investors to a right to subscribe for one Offer Share** at the Offer Price during the subscription period.

Example: if a shareholder has five Tallink shares as of 8 a.m. local time on the 14th of August the shareholder will receive one Subscription Right, which will entitle the investor to the right to subscribe for one Offer Share at the Offer Price during the subscription period.

Rounding

Total number of Subscription Rights received by each registered shareholder on the 14th of August will be rounded up to the nearest full digit. All decimals are rounded up to the nearest full digit.

Example: if a shareholder has one Tallink share as of 8 a.m. on the 14th of August, and should receive 0.2 Subscription Rights, then instead the shareholder shall receive one Subscription Right which will entitle him to the right to subscribe for one Offer Share.

Trading of Subscription Rights

All rights issued are freely tradable during the Offer Period Tallink has submitted an application to the TSE for the listing of Subscription Rights as from 10 a.m. on the 14th of August, which is expected to be the first trading day for the Subscription Rights if such application is approved. Rights will be traded under the same terms and conditions as any other shares traded on the TSE. Trading of Rights on the TSE is expected to last until 14.30 local time on the 23rd of August 2006. The investors` custodian bank or agent may charge a certain fixed and variable commission fee related to trades with Subscription Rights. Such fees could be relatively high compared to the total market value of Subscription Rights which investor holds.

All Subscription Rights that are not used for the subscription to the Offer Shares or disposed of during the Offer Period will be canceled on the 30th of August 2006 without any monetary compensation.

Offer Period

Investors may submit undertakings to subscribe for the Offer Shares (a "Subscription Undertaking") starting at **9:00 a.m. on August 14, 2006** until **4:00 p.m. on August 28, 2006** ("Offer Period") provided that they will have received on their securities account equal number of Subscription Rights latest by 8 a.m. on the 29th of August 2006.

Offer Price

The Offer Price shall equal to EEK 55.00 per share (EUR 3.5154).

Subscription

Tallink invites investors to submit Subscription Undertakings in accordance with these Terms. Subscription Undertakings may be submitted during the Offer Period. Investor may apply to subscribe for the Offer Shares only at EEK 55.00 (EUR 3.51514) per Share ("Subscription Price").

Possible multiple Subscription Undertakings submitted by the investor shall be merged for the purposes of allocation only within each securities account opened with the custodian of ECRS and not in case of multiple subscription undertakings submitted by the investor from different securities accounts opened with the custodian of ECRS. An investor must ensure that the data in the Subscription Undertaking is correct, complete and readable. An incomplete, incorrect or unclear Subscription Undertaking may be rejected. An investor may submit the Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking and make the relevant payments.

By submitting a Subscription Undertaking an investor:

- accepts these Terms and agrees with Tallink on the application of them;
- acknowledges that by submitting of a Subscription Undertaking an investor undertakes to acquire the Offer Shares to the maximum amount indicated in the Subscription Undertaking on these Terms.

Investors with securities account with a custodian of the ECRS.

- authorizes and instructs the relevant custodian of the ECRS ("Custodian") to forward the registered transaction instruction to the registrar of ECRS;
- authorizes the Custodian and the registrar of ECRS (*AS Eesti Väärtpaberikeskus*) to amend the data in the investor's transaction instruction regarding the amount of Offer Shares to be received, and total transaction amount on the results of allocation.

Investors with a securities account with a foreign custodian

- authorizes and instructs the relevant custodian to forward the registered transaction instruction to the custodian of the ECRS to forward it to the registrar of ECRS;
- authorizes the Custodian, the Custodian of the ECRS and the registrar of ECRS (AS Eesti Väärtpaberikeskus) to amend the data in the investor's transaction instruction regarding the amount of Offer Shares to be received, and total transaction amount on the results of allocation.

Payment

Investors with securities account with a custodian of the ECRS.

By submitting a Subscription Undertaking, an investor authorizes and instructs the credit institution operating the investor's cash account connected to his securities account (which may be also the Custodian itself) to block the transaction amount on such cash account until the completion of settlement on August 30, 2006. The transaction amount shall equal the number of Offer Shares covered by the Subscription Undertaking times the Subscription Price. An investor may submit a Subscription Undertaking only if there are sufficient funds on the cash account connected to his respective ECRS securities account to cover the transaction amount.

Investors with a securities account with a foreign custodian

By submitting a Subscription Undertaking, an investor authorizes and instructs the relevant custodian operating the investor's cash account connected to his securities account to block the transaction amount on such cash account until the completion of settlement on August 30, 2006. The transaction amount shall equal the number of Offer Shares covered by the Subscription Undertaking times the Subscription Price. The relevant custodian may submit a Subscription Undertaking to the custodian of ECRS only if there are sufficient funds on the cash account connected to the investor's respective securities account to cover the transaction amount.

Amendment or Cancellation of Subscription Undertakings

An investor may amend or cancel a Subscription Undertaking until the end of the Offer Period. To do so the investor must contact the relevant custodian through which the respective Subscription Undertaking has been made, and carry out the procedures required by the respective custodian (the procedures for amending and annulling the Subscription Undertaking may differ between different custodians). All fees payable as a result of an amendment and/or annulment of a Subscription Undertaking shall be payable by the investor according to the applicable price list of the custodian.

Distribution and Allocation

In the allocation, Tallink shall take into consideration only those Subscription Undertakings, which have been completed and submitted during the Offer Period in accordance with all the requirements set out in these Terms. All other Subscription Undertakings may be rejected.

Provided that the investor has submitted the Subscription Undertakings, each Subscription Right registered on the investor's securities account with a custodian of ECRS or the custodian's securities account with a custodian of ECRS as of 8 a.m. on August 29, will grant the investor the right to one Offer Share. For investors with a securities account with a foreign custodian, it will be the foreign custodian's responsibility to ensure that for each Offer Share subscribed by the investor there is one Subscription Right registered on the investor's securities account and inform the custodian of ECRS to the contrary before 4 p.m. on August 29 2006. The number of Subscription Rights required to receive the number of shares subscribed to from each securities account of the investor must be registered on the same securities account from which each respective subscription undertaking is registered.

If the investor has subscribed to a higher number of shares than the number of Subscription Rights registered on the investor's securities account as of 8 a.m. on August 29 2006, the investor will receive the number of shares equal to the number of Subscription Rights registered on the investor's securities account and by submitting the subscription Undertaking authorizes its foreign custodian and the custodian of ECRS, as applicable, to change the investor's subscription undertaking accordingly.

Return of Funds

If the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Shares applied for, the funds blocked on the investor's cash account, or the part thereof (the amount in excess of payment for the allocated Offer Shares) shall be released by the Custodian not later than on August 30, 2006. Tallink shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

Settlement and Trading

Offer Shares allocated to investors will be transferred to the securities accounts with custodians of ECRS on August 30, 2006 as described under the captions "Instructions to investors". The official results of the offering will be announced no later than on August 31, 2006 through TSE trading system and website before trading is expected to commence on the TSE. Investors can receive information on the precise amount of Offer Shares allocated by request from their Custodian that operates their ECRS securities account or their Custodian that has a securities account with a custodian of ECRS.

Trading in the Offer Shares is expected to commence on the TSE on August 31, 2006.

Applicable Law and Dispute Resolution

The Offering shall be governed by the law of Estonia, except to the extent the rules of private international law applied by the competent court provide for the mandatory application of the laws of any other jurisdiction. Any disputes arising in connection with the Offering shall be settled by Tallinn City Court, unless the exclusive jurisdiction of any other court is provided for by the provisions of law which can not be derogated from by an agreement of the parties

INSTRUCTIONS TO INVESTORS

Submission of Subscription Undertakings

In order to subscribe for the Offer Shares an investor must have a securities account with the ECRS or with a custodian that has a securities account with the ECRS. A securities account with the ECRS may be opened through any Custodian of the ECRS. As of August 14, 2005, the following banks and investment firms operate as Custodians:

- AS SEB Eesti Ühispank;
- AS Hansapank;
- Nordea Bank Finland Plc Estonian branch;
- AS Sampo Pank;
- AS Lõhmus Haavel & Viisemann;
- AS Eesti Krediidipank;
- AS SBM Pank;
- Tallinna Äripanga AS; and
- AS Parex Banka (through its Estonian branch).

An investor intending to subscribe for the Offer Shares should contact the Custodian that operates his ECRS securities account or the Custodian that has a securities account with a custodian of ECRS and register a Subscription Undertaking for the purchase of securities in the form set out below. The Subscription Undertaking must be registered with the Custodian of the ECRS by the end of the Offer Period. The investor may use any method his Custodian offers to submit the Subscription Undertaking (e.g., through branch office, internet).

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's ECRS custodian
Security:	Tallink Grupp additional share
ISIN code:	EE3808004461
Amount of securities:	Transaction amount divided by the price (per share)
Price (per share):	EEK 55.00 per share
Transaction amount:	Amount of securities times Price
Counterparty:	Aktsiaselts Tallink Grupp
Securities account of counterparty:	99100910014
Custodian of the counterparty:	AS Hansapank
Value date of the transaction:	August 30, 2006
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

A Subscription Undertaking is deemed submitted from the moment the registrar of the ECRS receives a duly completed transaction instruction from the Custodian of the respective investor or from the Custodian of the respective investor's Custodian being and ECRS Custodian. The Subscription Undertaking is deemed annulled from the moment the transaction instruction of the respective investor has been annulled in the ECRS on the basis of the annulment order received from the Custodian of ECRS.

An investor shall be liable for the payment of all fees charged by the Custodian in connection with the submission of a Subscription Undertaking.

An investor may obtain information about the amount of Offer Shares allocated to him as of August 30, 2006 after the completion of settlement by submitting an inquiry to the Custodian operating his securities account in accordance with the terms and conditions established by the respective Custodian.

Settlement Mechanism

Offer Shares allocated to investors will be transferred to their securities accounts with ECRS on or about August 30, 2006 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares.

If the transfer cannot be completed due to lack of sufficient funds on the investor's current account, the Subscription Undertaking of the respective investor shall be rejected and the investor shall lose all Rights to the Shares allocated to him.

USE OF PROCEEDS

The aggregate net proceeds to us from the issuance of the Offer Shares in the Offering, after deduction of the fees and expenses payable by us, are estimated to amount to approximately EEK 1,544 million, based on Offer Price set forth on the cover of this offering memorandum. The fees and expenses incurred in connection with the Offering and payable by us are estimated to amount to approximately EEK 13.0 million (including applicable taxes). See "Plan of Distribution."

The net proceeds to be received by us from the Offering are expected to be used to repay indebtedness and to strengthen our financial position as part of our growth strategy involving our investment and fleet renewal program.

CAPITALIZATION

The table below sets forth our capitalization as of May 31, 2006 pursuant to IFRS, (i) on an actual basis, and (ii) as adjusted to give effect to the application of net proceeds to us of approximately EEK 1,544 million from the issuance of 28,300,000 Offer Shares as part of the Offering, based on the Offer Price. In addition, the adjusted capitalization takes into consideration the 5,000,000 shares issued to Silja Holdings Limited, a subsidiary of Sea Containers Limited, as part of the Silja acquisition. The share capital non-monetary contribution was 7,877,938 Silja Oy Ab shares at value EUR 18,850,000 that took place on 19th July, 2006.

	As of May 31, 2006	As of May 31, 2006
	Actual, unaudited	Adjusted, unaudited
	(EEK in millions)	
Cash and cash equivalents	1,224	2,781
Interest-bearing loans and borrowings payable in less than one year	1,087	1,087
Interest-bearing loans and borrowings payable in one year or more	8,538	8,538
Issued capital	1,365	1,698
Share premium	1,789	3,337
Translation adjustment	—	—
Mandatory legal reserves	28	28
Retained earnings	1,659	1,659
Total equity	4,841	6,692
Total capitalization[1]	13,379	15,230

1 Excluding cash and cash equivalents as well as interest-bearing loans and borrowings payable in less than one year.

BACKGROUND AND REASONS FOR THE OFFERING

The purpose of the Offering is to obtain additional equity financing to indirectly support our recent acquisition of the shares in Silja. Financial institutions, which financed this acquisition, and also the financial institutions, which had financed previous operations of Tallink, set a criterion, that in conjunction with the acquisition of shares in Silja, we shall increase the equity in the company to maintain our financial strength and indebtedness. It was therefore planned that approximately EEK 626 million from the proceeds of the Offering will be used to repay the outstanding debt. The size of the company has increased significantly thanks to the acquisition and we need to ensure stronger financial position by decreasing the leverage and increasing the liquidity.

Furthermore, the proceeds from the Offering help to implement the on-going restructuring process of Silja, integration of Tallink and Silja operations and our continuous strategy, including our investment and fleet renewal program.

In the Offering, 28,300,000 new shares will be offered by us. The Offering and the related share capital increase was approved by our general meeting of shareholders on August 2, 2006. The decisions of the general meeting of shareholders have been published on the Tallinn Stock Exchange and at our website on August 2, 2006.

DIVIDENDS AND DIVIDEND POLICY

The Offer Shares will be eligible for dividends and other distributions, if any, declared in respect of the financial year commenced September 1, 2006 and ending August 31, 2007, and for subsequent periods.

We have not distributed any dividends for the financial years ended August 31, 2003, 2004 and 2005, but have invested all of our retained earnings in the growth of our business. We currently expect that this policy will also be applied in the foreseeable future. Thus, there can be no assurance that we will pay any dividends in the future.

In addition, several of our loan agreements include a prohibition or restriction concerning the payment of dividends by us or by our subsidiaries without prior approval of the respective lenders. Several of our loan agreements also establish financial covenants that must be complied with throughout the term of such loan agreements. Our obligation to comply with such covenants may also hinder our ability to pay dividends. See also "Risk Factors—Risks Relating to Our Business—We are highly leveraged, and if we or any of our ship-owning subsidiaries default under any of our respective loan agreements, we could forfeit the rights to our vessels."

As to the tax considerations applicable to our dividends, see "Taxation—Estonian Tax Considerations—Dividends." As to the procedure and regulatory restrictions relating to the payment of dividends, see "Description of Share Capital—Shareholder Rights—Dividends and Other Distributions."

EXCHANGE RATES

The Estonian kroon has been pegged to the euro since January 1, 1999 at an official exchange rate of EEK 15.6466 per EUR 1.

The tables below set forth, for the periods and dates indicated, the average, high, low and period-end reference rates as published by the Bank of Estonia (Estonian central bank) for U.S. dollar per euro and for U.S. dollar per Estonian kroon. The average rate has been calculated as an average of all daily rates.

These rates are provided solely for the convenience of the reader and are not necessarily the rates used in the preparation of our financial statements. No representation is made that euro or Estonian kroons could have been converted into U.S. dollars at the rates shown or at any other rate for such periods or at such dates.

	Reference rates of U.S. dollars per euro			
	Average	**High**	**Low**	**Period-End**
2001	0.896	0.954	0.839	0.884
2002	0.945	1.048	0.860	1.048
2003	1.131	1.261	1.036	1.261
2004	1.244	1.364	1.180	1.364
2005	1.243	1.354	1.168	1.184
2006 (until June 30)	1.230	1.297	1.185	1.271
	Reference rates of U.S. dollars per Estonian kroon			
	Average	**High**	**Low**	**Period-End**
2001	0.057	0.061	0.054	0.057
2002	0.060	0.067	0.055	0.070
2003	0.072	0.081	0.066	0.081
2004	0.080	0.087	0.075	0.087
2005	0.079	0.087	0.075	0.076
2006 (until June 30)	0.079	0.083	0.076	0.081

SELECTED FINANCIAL INFORMATION

The tables below present certain selected consolidated financial information as of and for the financial years ended August 31, 2003, 2004 and 2005. This information has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. This information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements and the related notes. Our financial statements have been prepared in accordance with IFRS.

The ratios and indicators set forth in the table below are provided to illustrate certain aspects of our business and financial performance. Certain of these ratios and indicators are used by our management to evaluate our performance, while others are provided for the benefit of investors considering an investment in the Offer Shares. Although certain of these ratios and indicators are not calculated in accordance with IFRS, we believe that the ratios and indicators set forth below are customary and often used by public companies to illustrate their business and financial performance.

	As of and for the financial year ended August 31,		
	2003	**2004**	**2005**
	(EEK in millions, unless otherwise indicated)		
Income Statement			
Revenue	2,996	3,406	4,063
Cost of sales	(2,133)	(2,479)	(2,980)
Gross profit	863	928	1,083
Marketing expenses	(261)	(351)	(336)
Administrative expenses	(118)	(128)	(120)
Other operating income	3	1	2
Other operating expenses	(6)	(2)	(1)
Operating profit	481	446	629
Net financial items	(100)	(134)	(159)
Share of profit of associates	1	1	4
Profit before income tax and minority interests	382	313	474
Income tax	0.2	0.3	0.4
Profit before minority interests	382	313	473
Minority interests	—	—	0.1
Net profit for the financial year	382	313	473
Balance Sheet			
Current assets	443	676	614
Cash and cash equivalents	232	367	327
Receivables and prepayments	152	219	198
Non-current assets	4,107	6,232	6,313
Total assets	4,549	6,908	6,927
Current liabilities	953	1,242	1,125
Non-current liabilities	2,123	3,484	3,146
Total liabilities	3,076	4,726	4,271
Equity	1,473	2,182	2,656
Cash Flow Statement			
Cash flow from operating activities	842	804	891
Cash flow used in investing activities	(620)	(2,386)	(352)
Cash flow from (used in) financing activities	(144)	1,717	(579)
Per Share Information			
Adjusted weighted average number of shares (thousands)	89,600	109,050	110,000
Earnings per share (EPS), EEK	4.3	2.9	4.3

Ratios and Indicators			
EBITDA[1]	803	720	901
EBITDAmargin,%[2]	27	21	22
Operating profit margin,%[3]	16	13	15
Return on investment (ROI),%[4]	12	9	10
Return on assets (ROA),%[5]	11	8	9
Return on equity (ROE),%[6]	30	17	20
Equity ratio, %[7]	32	32	38
Number of passengers, persons	2,597,917	2,828,364	3,274,177
Number of ro-ro cargo units	94,945	103,425	131,349
Number of personnel, average	1,921	2,371	2,710

1 EBITDA = Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization. EBITDA is here included as a supplemental item, because we believe that EBITDA, when considered in connection with cash flows from operating, investing and financing activities, may provide useful information. EBITDA is not a measure of operating performance calculated in accordance with IFRS and should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit or loss or cash flow data determined in accordance with IFRS.

2 EBITDA margin = EBITDA / Revenue. EBITDA margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of the company's financing and tax position as well as depreciation related estimates.

3 Operating profit margin = Operating profit / Revenue. Operating profit margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of both the company's financing and tax position.

4 Return on investment (ROI) = (Profit after net financial cost + Interest expense) / (Average total assets—Average interest free liabilities). Return on investment measures the relationship between profits and the investment required to generate them.

5 Return on assets (ROA) = Operating profit / Average total assets. Return on assets compares income with total assets (i) measuring management's ability and efficiency in using the firm's assets to generate (operating) profits and (ii) reporting the total return accruing to all providers of capital (debt and equity), independent of the source of capital.

6 Return on equity (ROE) = Net profit / Average equity. Return on equity excludes debt in the denominator and compares net income with total shareholders' equity. It measures the rate of return on shareholders' investment and is, therefore, useful in comparing the profitability of a company with its competitors.

7 Equity ratio = Equity / Total assets. Equity ratio is a measure of financial leverage which highlights the ratio of shareholders' equity to total assets. The analysis of a company's financial leverage (or capital structure) is essential to evaluate its long-term risk and return prospects.

Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements included elsewhere in this offering memorandum. The discussion includes forward-looking statements which involve risks and uncertainties. You should review the "Risk Factors" and "Forward-Looking Statements" set forth elsewhere in this offering memorandum for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. Our audited consolidated financial statements have been prepared in accordance with IFRS.

Overview

We are a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. We own and operate passenger ferries, including cruise ferries, high-speed ro-pax ferries, high-speed ferries, ro-pax vessels and ro-ro cargo vessels on routes between Finland and Estonia, between Sweden and Estonia, between Finland and Sweden, between Finland and Germany and between Sweden and Latvia. Our current routes are between Helsinki and Tallinn, between Stockholm and Tallinn, between Kapellskär and Paldiski, between Stockholm and Riga, between Hanko and Rostock, between Turku and Stockholm/Kapellskär and between Helsinki and Stockholm (last two routes are "Silja" routes – please see "Silja Overview" for more detailed info). We are the current market leader on the Helsinki—Tallinn route and the only provider of daily passenger and ro-ro cargo traffic services on the routes between Sweden and Estonia and the only provider of regular passenger and ro-ro cargo traffic services on the route between Stockholm and Riga. In addition, we have a strong market position on Hanko—Rostock route. Altogether, we transported more than 3.2 million passengers and approximately 130,000 ro-ro cargo units in the financial year ended August 31, 2005, an increase of 16 per cent and 27 per cent, respectively, compared to the previous financial year. For respective info about "Silja" operations please see "Silja Overview". In May 2004, we broadened our product offering through the introduction of the 350-room Hotell Tallink that we operate in the principal tourist area of Tallinn. In addition, we have made a decision to start operating a new conference and spa hotel close to the center of Tallinn. See "Business—Related Party Transactions." This hotel is intended to commence operations in late 2006.

Our current fleet consists of (including "Silja" vessels – for more information on "Silja" vessels please see "Silja Overview"):

- *Eleven cruise ferries.* Our cruise ferries currently serve on routes between Finland and Estonia, between Sweden and Estonia, between Sweden and Latvia and between Finland and Sweden. In addition to providing passenger, car and ro-ro cargo transport, our newer cruise ferries provide a higher standard of accommodation and more extensive dining, shopping and entertainment offerings than other cruise or high-speed ferries on our routes, providing passengers with an enhanced mini-cruise experience.

- *Three high-speed ro-pax ferries.* Our three recently acquired three Superfast ferries are operating on the Finland-Germany route. The Superfast ferries provide transportation for passengers, cars and ro-ro cargo, with emphasis on the ro-ro cargo.

- *Three high-speed ferries.* Our current high-speed ferries provide a high-speed link between Helsinki and Tallinn, covering the journey of approximately 80 kilometers in just over one and a half hours, which is approximately half the time required by conventional ferries. The high-speed ferries transport both passengers and cars.

- *Two ro-pax ferries.* The vessels are operating between Finland and Sweden offering mainly ro-ro cargo transportation, but also with some passenger transportation capacity.

- *Two ro-ro cargo vessels.* These vessels are used for ro-ro cargo transportation with only limited passenger capacity and currently serve on routes between Finland and Estonia and between Sweden and Estonia.

Our primary business segments are geographical segments based on routes operated and our mainland business. During the financial year ended August 31, 2005, the composition of our revenue by geographic segment was as follows: Finland—Estonia traffic: 60 per cent; Sweden—Estonia traffic: 34 per cent; and other routes and mainland business: six per cent. Our secondary segments are operational segments. During the financial year ended August 31, 2005, the composition of our revenue by operational segment was as follows: onboard and onshore restaurant and shop sales: 47 per cent; ticket sales: 25 per cent; sales of cargo transport: 18 per cent; accommodation sales: two per cent; and other sales, such as charter fees and sales of travel packages: eight per cent. Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

The discussion below reflects our results of operations for the nine months of financial year ending on August 31, 2006 and the financial years ended August 31, 2003, 2004 and 2005. Our results of operations for these periods reflect a number of important developments, including macroeconomic events relating to the strong development of the Baltic countries generally and Estonia's accession to the European Union and, in particular, a number of changes to the composition of our fleet and our expansion into the mainland hotel business in Tallinn.

Historically, the sale of tax-free goods was one of the principal drivers for our business. However, following the accession of Estonia to the European Union, our onboard shop sales are no longer exempt from tax, except for shop sales onboard vessels routed through the Finnish province of Åland, which has maintained its tax-free status under the EU regulatory framework. The onboard prices that we offer our customers, which follow mainland price developments, have been maintained at approximately the same level as former tax-free prices. The abolition of the tax-free status had an initial negative impact on passenger traffic and margins. On the other hand, the accession of the Baltic countries to the European Union and the positive development of all the Baltic economies have led to an increased level of passenger and cargo traffic throughout the region.

Our results of operations for the periods discussed herein were also driven by our ongoing investment and fleet renewal program and changes in the routes operated. Our investment and fleet renewal program initiated in 2000 has continued in recent financial years with the acquisitions of new high-speed ferries, the ro-ro cargo vessel Regal Star and, more importantly, with the deliveries of our modern cruise ferries Romantika in 2002, Victoria I in 2004 and Galaxy in 2006 and the acquisition of three Superfast ferries and operations in 2006 and the acquisition of Silja with six vessels from Sea Containers in 2006, representing so far the most significant investments in our history. We believe that Romantika and Victoria I have attracted and Galaxy will attract a broader customer base as they offer new higher quality facilities.

We believe that continued investment in new vessels and upgrades to existing vessels are critical to our ability to maintain market leadership and further expand our business. Therefore, our investment and fleet renewal program is set to continue even after the delivery of Galaxy in April of 2006. In comparison with its predecessors Romantika and Victoria I, Galaxy is larger and has more high-class cabin space, larger shopping and conference areas with the latest equipment as well as a wider selection of restaurants and bars. Galaxy has replaced Romantika on the Helsinki—Tallinn route. The subsequent redeployment of Romantika alongside Victoria I on the Stockholm—Tallinn route has improved our high-quality offering on that route, allowing us to provide a uniformly high-quality mini-cruise product, with daily departures, from Stockholm and Tallinn. As a result of the delivery of Galaxy, cruise ferry Regina Baltica became available for traffic between Stockholm and Riga and after the end of the five-month chartering agreement with Compagnie Marocaine de Navigation, the cruise ferry Fantaasia will become available for traffic elsewhere.

We have placed orders for two new high-speed ro-pax ferries intended to improve our high-speed service between Helsinki and Tallinn. The ferries will be delivered in 2007 and 2008. In addition, we have placed an order for a new cruise ferry (sister vessel of Galaxy). The new high-speed ro-pax ferries ordered in August 2005 are designed to combine the best features of a traditional cruise ferry and a high-speed ferry. Such features include high speed, ice-class for year-round operations, expanded facilities for onboard dining and shopping, and space for ro-ro cargo transport. The new high-speed ro-pax ferries are intended to increase high-speed capacity on the Helsinki—Tallinn route. We believe that the new high-speed ro-pax ferries will enable us to provide additional possibilities for quick transport of ro-ro cargo. The sister vessel of Galaxy will be delivered in the summer of 2008. In addition, we have made a decision to start operating a second hotel close to the center of Tallinn. The Tallink city conference and spa hotel is expected to open in late 2006.

Recent Developments and Outlook

In the financial year ended August 31, 2005, we achieved increased efficiency in our operations. Despite the abolition of tax-free shop sales on the Helsinki—Tallinn route from May 2004, we have been able to operate profitably and were again successful in improving both our revenue and profitability compared to the previous financial year.

In the nine months of the financial year 2005/2006, passenger numbers on the Helsinki—Tallinn and the Sweden—Estonia routes decreased slightly compared to the same period in 2004/2005. We believe that this development is temporary and primarily explained by the relatively high passenger numbers in September and October 2004 resulting from our successful 15th anniversary marketing campaign. We nevertheless currently expect overall passenger numbers of the Finnish and Swedish lines in the current financial year to reach the level of the previous financial year. We further believe that the launch of Galaxy and the consequent redeployment of Romantika alongside her sister vessel Victoria I on the Stockholm—Tallinn route, will assist us in reaching growth and improved efficiency particularly in the medium-to long-term. However, the transportation of cargo units on Tallinn – Helsinki route during the nine months of current financial year has increased significantly compared to the same period of the previous financial year. The main reason behind the growth in cargo transportation on the Tallinn – Helsinki route was the continuous market development. Due to increasing cargo volumes Regal Star was transferred to Tallinn—Helsinki route and Kapella was transferred to operate between Paldiski—Kapellskär from March 2006. More cargo capacity of Regal Star (more than 1,000 lane metres compared to Kapella) has allowed us to better meet the higher demand on the Tallinn—Helsinki route.

In April 2006 we started operating on route between Sweden and Latvia (for additional information please see stock exchange release on Tallinn Stock Exchange on 17.03.2006 titled “TAL: Riga—Stockholm Route”) and started operations with three purchased Superfast ferries between Finland and Germany (for more detailed information please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled “TAL: Acquisition of three new Superfast ferries”), according to which we expect both our overall passenger numbers and revenue to grow in the current financial year. For a discussion of risks, including changes in passenger and cargo volumes, relating to our future performance, see “Risk Factors” and “Forward-Looking Statements.”

The continued increase in oil prices during the current financial year has further increased our fuel costs. We expect that oil prices will continue to remain at their current high level at least until the end of the current financial year. In addition, salary increases and start-up costs relating to Galaxy, Sweden – Latvia line and Superfast ferries operations have increased our overall operating costs during the current financial year. The salary agreements relating to the Superfast ferries will further more increase our overall operating costs during the current and following financial years (for more detailed information please see stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled “TAL: Boycott ends”). We also have incurred additional interest payments on the loan obtained to finance the Galaxy and the acquisition of three Superfast ferries, which decreased our net profits. Moreover, the acquisition of Silja with six vessels from Sea Containers will significantly increase our costs and revenues. Therefore our total costs for the current financial year have grown and will be higher than compared to the financial year ended August 31, 2005.

Given that our current high-speed ferries use gasoil, a relatively expensive type of fuel, and only provide limited onboard shopping and dining facilities, they were not profitable at the segment result level in the financial year ended August 31, 2005. As a result, one of four high-speed ferries, Tallink Autoexpress, was sold in April 2006 (for additional information please see stock exchange release on Tallinn Stock Exchange on 06.04.2006 titled "TAL: Sale of Tallink Autoexpress"). All of our profits from vessel operations on the Helsinki—Tallinn route for the financial year ended August 31, 2005 were derived from our cruise ferry and cargo operations. Revenue generated by our four high-speed ferries only accounted for approximately 19 per cent of our total vessel revenue on that route. At the same time, our cruise ferries have demonstrated increased profitability and cost efficiency at operating profit level through lower costs and increased spend per passenger. Romantika, Meloodia I and Kapella accounted for 81 per cent of our total vessel revenue and all of our operating profits from vessel operations on the Helsinki—Tallinn route in the financial year ended August 31, 2005. We expect that the planned introduction of our new high-speed ro-pax ferries ordered in August 2005 will improve the operating margin of our high-speed ferry operations.

Factors Affecting Results of Operations

Described below are certain factors that may be helpful in understanding our results of operations.

Our main revenue sources are passenger ticket sales (including fees for cabins, private car transport and use of conference facilities), sales of cargo transport and onboard sales (including sales in onboard shops, bars and restaurants). Our level of revenue primarily depends upon (i) volumes of passenger and cargo traffic, (ii) onboard expenditure by passengers and (iii) pricing. Our revenue is also affected by seasonality.

Passenger and Cargo Traffic Volumes. Passenger traffic is affected by a number of factors, including macroeconomic conditions, our ability to attract and maintain a loyal customer base and competition. We believe that our newer, improved vessels will be an important asset in expanding our customer base to include a broader range of customers and in increasing the popularity of our mini-cruises. The impact of macroeconomic factors may vary. For example, an increase in gross domestic product ("GDP") in the region would be expected to increase customer spending in general. Furthermore, a reduction in GDP in the Nordic and Baltic economies could also result in an increase to our passenger traffic in circumstances where customers opt for a mini-cruise and aim to benefit from its lower price level instead of taking a more expensive vacation abroad.

Onboard Consumption. Our operating profit is influenced to a significant extent by the levels of onboard consumption. Onboard consumption is driven by consumer habits and preferences and macroeconomic conditions, such as the level of disposable income. Our newer vessels have expanded onboard space for shopping, dining and recreation, which provides for a wider range of services and which we believe encourages higher onboard consumption.

Pricing. Competition for passengers in our markets is intense, and historically we have had a limited ability to increase revenue by raising ticket prices. While improved vessels with high-quality amenities may provide us with additional pricing power, overall market capacity and competitive service offerings will continue to affect our pricing policies. In addition, an important feature of our customer offering is the use of various campaigns with discounted prices on tickets and goods sold onboard. The relative level of excise taxes affects the relative attractiveness of the products we offer onboard as compared to prices available onshore.

Cost Structure. A major component of our total cost base is the cost of sales, representing approximately 83 per cent of our total cost base in the financial year ended August 31, 2005. Other components of our total cost base are onshore costs, representing 12 per cent of our total cost base, and financial expenses, representing five per cent of our total cost base in the financial year ended August 31, 2005. The cost of sales can be sub-divided into the following principal components: cost of goods sold (representing 24 per cent of our total cost base in the financial year ended August 31, 2005), port charges (15 per cent), fuel costs (11 per cent) and onboard staff costs (11 per cent). In 2004, the cost of inventory increased and margins decreased as a result of Estonia's accession to the European Union and the consequent removal of tax-free shop sales on the Helsinki—Tallinn route. Our onboard price levels on ships visiting Estonia follow the price development in onshore shops in Estonia. Our fuel costs are subject to volatility in oil prices, despite the fact that we purchase a large part of our fuel tax-free in Estonia. We currently pass a portion of the recent increase in oil price on to our customers through a specific fuel surcharge. Furthermore, our high-speed ro-pax ferries ordered in August 2005 will be more fuel efficient than our existing high-speed ferries.

We generally benefit from lower Estonian salary levels compared to, for example, Finland or Sweden. In August 2005, we renewed our agreement with the Estonian Seamen's Independent Union concerning salary increases for onboard staff of the vessels under Estonian flag for another three years. Pursuant to the agreement the annual employee salary increase is five per cent. See "Business—Employees and Labor Relations."

As regards financial expenses, we incur significant interest costs associated with the financing of our vessels and investments. A large part of our outstanding indebtedness is issued at floating rates and, accordingly, our results are affected by changes in interest rates payable under the loan agreements.

Seasonality. Passenger traffic on our routes is seasonal, with peaks in passenger numbers typically in the summer months of June, July and August. Furthermore, our high-speed ferries are out of service during parts of the winter season, although we will be able to operate the new high-speed ro-pax ferries throughout the winter season starting from late 2007. As a result of the seasonal nature of our operations, our profitability and cash flows also fluctuate on a seasonal and, thus, quarterly basis.

The table below illustrates the seasonality of our passenger and cargo traffic during the financial years ended August 31, 2003, 2004 and 2005 and for the first three quarters of financial year ending August 31, 2006.

Financial year	**Passengers[1]**					**Ro-ro cargo units**				
	Sep-Nov	**Dec-Feb**	**Mar-May**	**Jun-Aug**	**Total**	**Sep-Nov**	**Dec-Feb**	**Mar-May**	**Jun-Aug**	**Total**
2003	624,211	458,464	635,642	879,600	2,597,917	26,367	19,870	24,395	24,313	94,945
2004	617,392	480,040	641,915	1,089,017	2,828,364	26,502	21,449	27,944	27,530	103,425
2005	840,340	627,537	775,934	1,030,366	3,274,177	32,752	29,199	34,574	34,824	131,349
2006	738,664	598,208	839,488			37,990	32,054	46,740		

1 A single passenger taking a round-trip is accounted for as two passengers for the purpose of this table.

Results of Operations

Our main operational segments are passenger ticket sales, restaurant and shop sales and sales of cargo transport. The table below summarizes our historical results of operations for the past three financial years. The adjusted column for the financial year ended August 31, 2003 has been added to facilitate comparability between the financial year ended August 31, 2003 and the financial year ended August 31, 2004 due to changes in our operating segments during 2003.

	For the financial year ended August 31,			
	2003	2003 (adj.)[1]	2004	2005
	audited	unaudited	audited	audited
	(EEK in millions)			
Revenue	2,996	2,996	3,406	4,063
Ticket sales	827	733	880	1,019
Restaurant and shop sales	1,494	1,494	1,665	1,912
Sales of cargo transport	579	579	609	722
Travel packages[2]	—	146	169	163
Other[3]	95	44	83	247
Cost of sales	(2,133)	(2,133)	(2,479)	(2,980)
Gross profit	863	863	928	1,083
Marketing and administrative expenses	(379)	(379)	(479)	(456)
Other operating income	3	3	1	2
Other operating expenses	(6)	(6)	(2)	(1)
Operating profit	481	481	446	629

1 The following adjustments have been made to the audited 2003 financial year figures: all sales relating to travel packages have been included in "Travel packages" instead of "Ticket sales" and "Other", and onboard cabin sales have been included in "Ticket sales" instead of "Other."
2 The full price for travel packages is recorded as revenue rather than just the commissions received from customers.
3 Includes hotel accommodation sales and charter fees.

The table below summarizes the breakdown of our revenue and segment results distributed among our main geographical segments for the financial years ended August 31, 2003, 2004 and 2005:

	Revenue[1]			Gross profit / Segment result[2]		
	For the financial year ended August 31,					
	2003	2004	2005	2003	2004	2005
	(EEK in millions)					
Finland—Estonia	2,053	2,083	2,442	524	415	372
Sweden—Estonia	943	1,232	1,392	78	204	327
Mainland business	—	40	88	—	9	50
Others	—	51	141	—	(52)	(2)
Total	2,996	3,406	4,063	602	576	747

1 Revenue from external customers.
2 Segment result is the segment gross profit less any segment related marketing expenses. Expenses not related to a specific segment are recorded as unallocated expenses.

Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

Financial Year Ended August 31, 2005 Compared to Financial Year Ended August 31, 2004

Revenue. Our revenue consisted of ticket sales (25 per cent of revenue in the 2005 financial year compared to 26 per cent in the 2004 financial year), restaurant and shop sales onboard and on mainland (47 per cent in the 2005 financial year compared to 49 per cent in the 2004 financial year), sales of cargo transport (18 per cent in both the 2005 financial year and the 2004 financial year), sales of travel packages (four per cent in the 2005 financial year compared to five per cent in the 2004 financial year) and other income, principally income derived from hotel accommodation sales and charter fees (six per cent in the 2005 financial year compared to two per cent in the 2004 financial year).

Our revenue in the 2005 financial year totaled EEK 4,063 million, an increase of EEK 657 million, or 19 per cent, from EEK 3,406 million in the 2004 financial year. The growth was primarily due to increases in our passenger and cargo volumes, 16 and 27 per cent, respectively. These increases were due to increased tourism to Estonia and the inclusion of Victoria I on the Stockholm—Tallinn route for its first full financial year as well as consequently increased onboard sales. In addition, Tallink AutoExpress 4 and Hotell Tallink were operative for their first full season and financial year, respectively.

Our revenue from the Finland—Estonia route increased to EEK 2,442 million in the 2005 financial year from EEK 2,083 million in the 2004 financial year, reflecting in particular an overall growth in volumes. Our revenue from the Sweden—Estonia routes increased to EEK 1,392 million in the 2005 financial year from EEK 1,232 million in the 2004 financial year. This increase was due to growth in passenger volumes and increased spend per passenger. Revenues from our mainland operations increased to EEK 88 million in the 2005 financial year from EEK 40 million in the 2004 financial year, reflecting in particular the revenue from the operation of Hotell Tallink for its first full financial year.

Cost of Sales. Our cost of sales consisted of cost of goods sold (24 per cent of total cost base in both the 2005 financial year and the 2004 financial year), port charges (15 per cent in the 2005 financial year compared to 16 per cent in the 2004 financial year), onboard staff costs (11 per cent in the 2005 financial year compared to 12 per cent in the 2004 financial year), fuel costs (11 per cent in the 2005 financial year compared to nine per cent in the 2004 financial year), depreciation and other costs (consisting principally of maintenance and insurance cost, cost for servicing our vessels and cost relating to travel packages). The cost of sales in the 2005 financial year totaled EEK 2,980 million (73 per cent of revenue) compared to EEK 2,479 million (73 per cent of revenue) in the 2004 financial year, representing an increase of EEK 501 million, or 20 per cent. The increase was primarily due to the growth in sales volumes, increased costs for goods acquired as a result of the removal of their tax-free status, and an increase in fuel costs.

Gross Profit and Segment Result. Our gross profit amounted to EEK 1,083 million (or approximately 27 per cent of revenue) in the 2005 financial year compared with EEK 928 million (or approximately 27 per cent of revenue) in the 2004 financial year. The increase of EEK 155 million in the 2005 financial year is primarily explained by the increase in passenger volumes partly offset by the increase in cost of sales. Furthermore, the inclusion of Victoria I, which provides a relatively higher gross profit margin than Regina Baltica operating on the Sweden—Estonia route, and the inclusion of the first full year of operations of our ro-ro cargo vessel Regal Star also contributed to the increase. In addition, the gross profit change reflected the profit derived from the operation of Hotell Tallink for its first full financial year. Our high-speed ferries were unprofitable and made a loss of EEK 55 million in the 2005 financial year.

Following the planned introduction of our high-speed ro-pax ferries in 2007 and 2008, we expect that our high-speed ferry operations as a whole will become profitable. The segment result (i.e., gross profit of segment less any segment related marketing expenses) from our Finland—Estonia route shows a decrease to EEK 372 million in the 2005 financial year from EEK 415 million in the 2004 financial year. The segment result from our Sweden—Estonia routes increased to EEK 327 million in the 2005 financial year from EEK 204 million in the 2004 financial year. The segment result breakdown is calculated on a group company basis and is not based solely on the vessels' direct geographical operations. Therefore, the allocation of the expenses between the segments reported in our financial statements does not fully reflect the vessels' geographical operations.

The unaudited segment result based on revenue and the vessels' direct geographical expenses on the Finland—Estonia route was EEK 422 million in the 2005 financial year compared to EEK 377 million in the 2004 financial year. This 12 per cent increase was due to growth in revenue from this route (17 per cent) partly offset by increases in cost of goods sold and in fuel cost. The unaudited segment result based on revenue and the vessels' direct geographical expenses on the Sweden—Estonia route was EEK 272 million in the 2005 financial year, an increase of 14 per cent compared to EEK 238 million in the 2004 financial year. The main driver for this increase was the impact of the inclusion of the first full year of operation of Victoria I.

Marketing and Administrative Expenses. Our marketing expenses consist of advertising expenses, depreciation, staff costs and other costs (principally administrative and overhead expenses). Marketing expenses in the 2005 financial year totaled EEK 336 million, or eight per cent of revenue, compared to EEK 351 million, or ten per cent of revenue, in the 2004 financial year. In the 2004 financial year, marketing expenses as a percentage of revenue were higher due to the extensive marketing campaign related to the launch of Victoria I, the introduction of the Helsinki—Tallinn—St. Petersburg route (discontinued at the beginning of 2005) and the opening of Hotell Tallink. We expect our marketing expenses to increase in the near term as a result of the planned introductions of the New Cruise Ferry and the two high-speed ro-pax ferries.

Our administrative expenses consist of depreciation, staff costs and other costs (principally administrative and overhead expenses). Administrative expenses in the 2005 financial year totaled EEK 120 million, or approximately three per cent of revenue, compared to EEK 128 million, or approximately four per cent of revenue, in the 2004 financial year. Changes in applicable amortization rules of goodwill reduced depreciation in the 2005 financial year by approximately EEK 21 million.

Other Operating Income and Other Operating Expenses. Our other operating income consists of gain on disposal of property, plant and equipment, exchange rate differences and penalties received from suppliers. Other operating income increased to EEK 2 million in the 2005 financial year from EEK 1 million in the 2004 financial year. Our other operating expenses consisted of loss on disposal of property, plant and equipment, exchange rate differences and penalties paid to suppliers. Other operating expenses decreased to EEK 1 million in the 2005 financial year from EEK 2 million in the 2004 financial year.

Operating Profit. Our operating profit consists of the sum of our segment result net of unallocated expenses. Operating profit totaled EEK 629 million (15 per cent of revenue) in the 2005 financial year, an increase of EEK 183 million, or 41 per cent, from EEK 446 million (13 per cent of revenue) in the 2004 financial year. This increase primarily reflected the overall increase in passenger and cargo volumes and revenue mostly as a result of the introduction of our new vessel Victoria I and the commencement of the operations of Hotell Tallink.

Net Financial Items. Our net financial expenses consist of interest and other financial expenses and our foreign exchange losses, net of interest and other financial income and foreign exchange gains. Net financial expenses increased to EEK 159 million (four per cent of revenue) in the 2005 financial year, an increase of 18 per cent, from EEK 134 million (four per cent of revenue) in the 2004 financial year. This increase was primarily due to interest payable on additional loan financing relating to our new investments, including loans relating to the acquisitions of Victoria I, Regal Star and Tallink AutoExpresses 3 and 4.

Profit Before Income Taxes. Our profit before income taxes consists of our operating profit and the income from HT Valuuta (an associated company until August 30, 2005), net of financial expenses. Profit before income taxes in the 2005 financial year was EEK 474 million, an increase of EEK 161 million, or 51 per cent, compared to EEK 313 million in the 2004 financial year. The increase was primarily due to an increase in passenger and cargo volumes, operating and marketing cost efficiency and decreases in interest rates on our loan facilities.

Net Profit. Net profit in the 2005 financial year was EEK 473 million (12 per cent of revenue), compared to EEK 313 million (nine per cent of revenue) in the 2004 financial year. As a result of current Estonian tax laws, under which income tax is not charged on the profits when accrued but deferred until profits are distributed, we did not pay Estonian income tax on our profit for either the 2005 financial year or the 2004 financial year.

Financial Year Ended August 31, 2004 Compared to Financial Year Ended August 31, 2003

Revenue. Our revenue consisted of ticket sales (26 per cent of revenue in the 2004 financial year compared to 24 per cent (as adjusted) in the 2003 financial year), restaurant and shop sales onboard and on mainland (49 per cent in the 2004 financial year and 50 per cent in the 2003 financial year), sales of cargo transport (18 per cent in the 2004 financial year compared to 19 per cent in the 2003 financial year), sales of travel packages (five per cent in both the 2004 financial year and the 2003 financial year) and other income (two per cent in the 2004 financial year compared to two per cent (as adjusted) in the 2003 financial year).

Our revenue in the 2004 financial year totaled EEK 3,406 million, an increase of EEK 410 million, or 14 per cent, from EEK 2,996 million in the 2003 financial year. This increase was primarily due to an increase in passenger volumes and consequent increases in both ticket sales and onboard consumption. The increase reflected in particular the inclusion of Victoria I during the last four months of the 2004 financial year, the launch of our Helsinki—Tallinn—St. Petersburg route (discontinued in the beginning of 2005) and the operation of Hotell Tallink during the last three months of the 2004 financial year. The results for our operational segments “Ticket sales” and “Other” for 2003 used above represent unaudited, adjusted financial information prepared to facilitate the comparison with the 2004 financial year. Based on the audited financial statements for the 2003 financial year, ticket sales accounted for 28 per cent of revenue, and other sales accounted for three per cent of revenue.

Our revenue from the Finland—Estonia route increased slightly to EEK 2,083 million in the 2004 financial year from EEK 2,053 million in the 2003 financial year, while our revenue from the Sweden—Estonia routes increased to EEK 1,232 million in the 2004 financial year from EEK 943 million in the 2003 financial year. This increase was supported in particular by the introduction of Victoria I on this route in the spring. Our revenue from mainland operations was EEK 40 million in the 2004 financial year, our first financial year with mainland operations. This change primarily reflected the introduction of our Hotell Tallink in May 2004. Revenue from our other routes, namely the Helsinki—Tallinn—St. Petersburg route, was EEK 51 million compared to none in the 2003 financial year. The Helsinki—Tallinn—St. Petersburg route was discontinued in the beginning of 2005.

Cost of Sales. Our cost of sales in the 2004 financial year totaled EEK 2,479 million (73 per cent of revenue) compared to EEK 2,133 million (71 per cent of revenue) in the 2003 financial year. The main cost of sales items were cost of goods sold (24 per cent of the total cost base in the 2004 financial year and 23 per cent in the 2003 financial year), port charges (16 per cent in both the 2004 financial year and the 2003 financial year), onboard staff costs (12 per cent in the 2004 financial year compared to 11 per cent in the 2003 financial year), fuel costs (nine per cent both in the 2004 financial year and the 2003 financial year) and depreciation and other costs. The increase was primarily due to the abolition of tax-free status for shop sales on the Helsinki-Tallinn route as a result of Estonia’s accession to the European Union, additional fuel costs and port fees for Mariehamn, Åland, resulting from our decision to route the Stockholm—Tallinn traffic through Åland to maintain tax-free status for shop sales on this route as well as the start-up costs relating to our vessel Victoria I, our St. Petersburg operation and Hotell Tallink.

Gross Profit and Segment Result. Our gross profit amounted to EEK 928 million (or approximately 27 per cent of revenue) in the 2004 financial year compared with EEK 863 million (or approximately 29 per cent of revenue) in the 2003 financial year. The increase of EEK 64 million in the 2004 financial year resulted primarily from the increase in passenger volumes particularly on the Sweden—Estonia routes partly offset by the increase in cost of sales. The segment result from our Finland—Estonia route decreased to EEK 415 million in the 2004 financial year from EEK 524 million in the 2003 financial year, while the segment result from our Sweden—Estonia routes increased to EEK 204 million in the 2004 financial year from EEK 78 million in the 2003 financial year. The segment result from our mainland operations was EEK 9 million in the 2004 financial year, our first financial year with mainland operations. The segment result breakdown is calculated on a group company basis and is not based solely on the vessels’ direct geographical operations. Therefore, the allocation of the expenses between the segments reported in our financial statements does not fully reflect the vessels’ geographical operations.

The unaudited segment result based on the revenue and the vessels' direct geographical expenses on the Finland—Estonia route was EEK 377 million in the 2004 financial year compared to EEK 475 million in the 2003 financial year. This 21 per cent decrease was primarily due to the initial negative effect of the abolition of tax-free sales on this route in May 2004. The unaudited segment result based on revenue and the vessel's direct geographical expenses on the Sweden—Estonia route was EEK 238 million in the 2004 financial year, an increase of 87 per cent compared to EEK 127 million in the 2003 financial year. The increase was mainly due to the replacement in March 2004 of Fantaasia by Victoria I.

Marketing and Administrative Expenses. Our marketing and administrative expenses in the 2004 financial year totaled EEK 479 million (14 per cent of revenue) compared to EEK 379 million (13 per cent of revenue) in the 2003 financial year. This increase was primarily due to the increased marketing related to increased sales, the additional marketing campaigns relating to Victoria I, our Helsinki—Tallinn—St. Petersburg route, Hotell Tallink and Estonia's accession to the European Union. In addition, there were additional administrative costs relating to our St. Petersburg operations, which were discontinued at the beginning of 2005.

Other Operating Income and Other Operating Expenses. Our other operating income decreased to EEK 1 million (0.03 per cent of revenue) in the 2004 financial year from EEK 3 million (0.1 per cent of revenue) in the 2003 financial year. Other operating expenses decreased to EEK 2 million (0.06 per cent of revenue) in the 2004 financial year from EEK 6 million (0.2 per cent of revenue) in the 2003 financial year.

Operating Profit. Our operating profit decreased to EEK 446 million (13 per cent of revenue) in the 2004 financial year, a decrease of EEK 35 million, or seven per cent, from EEK 481 million (16 per cent of revenue) in the 2003 financial year. This decrease was primarily due to the initial negative effect of Estonia having joined the European Union and the consequent removal of tax-free onboard shop sales, our unprofitable St. Petersburg operation and our extensive marketing campaigns in connection with the introduction of Victoria I and Hotell Tallink.

Net Financial Items. Our net financial expenses increased to EEK 134 million (four per cent of revenue) in the 2004 financial year from EEK 100 million (approximately three per cent of revenue) in the 2003 financial year. This increase was primarily due to the payment of interest incurred under our loan facility obtained to acquire Victoria I.

Profit Before Income Taxes. Our profit before income taxes in the 2004 financial year was EEK 313 million (nine per cent of revenue), a decrease of EEK 69 million, or 18 per cent, compared to EEK 382 million (13 per cent of revenue) in the 2003 financial year. The decrease was primarily due to the initial negative effect of Estonia having joined the European Union, our unprofitable St. Petersburg operation, and our extensive marketing campaigns in connection with the launches of Victoria I and Hotell Tallink.

Net Profit. Our net profit in the 2004 financial year was EEK 313 million (nine per cent of revenue), compared to EEK 382 million (13 per cent of revenue) in the 2003 financial year. As a result of current Estonian tax laws, under which income tax is not charged on the profits when accrued but deferred until profits are distributed, we did not pay Estonian income tax on our profit for either the 2004 financial year or the 2003 financial year.

Please see Tallink's Q3 results on Tallinn Stock Exchange for financial overview of the first three quarters of financial year ending August 31, 2006.

Liquidity and Capital Resources

Cash Flows

Our principal sources of cash flow are cash from our business operations and loan facilities. Net cash provided by operating activities was EEK 891 million, 804 million and 842 million for the financial years ended August 31, 2005, 2004 and 2003, respectively. Net cash provided by (used in) financing activities was EEK (579) million, EEK 1,717 million and EEK (144) million for the financial years ended August 31, 2005, 2004 and 2003, respectively.

The principal uses of funds in the financial year ended August 31, 2005 were EEK 266 million in down payments for Galaxy and one of our two high-speed ro-pax ferries ordered in August 2005, EEK 91 million in reconstruction payments made for our existing vessels, and purchases of other items of property, plant and equipment, EEK 885 million in repayment of our existing indebtedness and EEK 170 million in interest payments. The principal uses of funds in the financial year ended August 31, 2004 related to the acquisitions of Victoria I, two high-speed ferries (one of which was reconstructed) and the ro-ro cargo vessel Regal Star as well as the repayment of our existing indebtedness and interest payments. The principal uses of funds in the financial year ended August 31, 2003 related to the repayment of existing loans and interest payments, a down payment on Victoria I, and the day-to-day financing of our usual business operations.

Pursuant to the rental agreement between TLG Hotell OÜ and Sunbeam OÜ concerning our new Tallink conference and spa hotel, we will be required to make fixed rental payments over a ten-year period in an annual amount equal to 10 per cent of the capital expenditure of the hotel. We expect to finance such rent from our existing cash balances and cash generated from that hotel operations. In addition to the fixed rent, we are also required to pay an annual amount equal to 25 per cent of net profit from the operation of the hotel. See ”Business – Related Party Transactions.”

As of August 31, 2005, we had cash and cash equivalents of EEK 327 million compared to EEK 367 million as of August 31, 2004 and EEK 232 million as of August 31, 2003.

Our principal sources of cash flow in the nine months period ended May 31, 2006 are cash from our business operations, proceeds from disposal of property, from loan facilities and issue of shares. Net cash provided by operating activities was EEK 527 million and EEK 526 million for the nine months period ended May 31, 2006 and 2005 respectively. Net cash provided by (used in) financing activities was EEK 7,711 million and EEK (396) million for the nine months period ended May 31, 2006 and 2005 respectively.

The principal uses of funds in the nine months period ended May 31, 2006 were EEK 4,854 million in payment for the Superfast vessels, EEK 2,362 million in payment for Galaxy and EEK 235 million in down payments for two high-speed ro-pax ferries and for the new cruise ferry ordered, and EEK 605 million in repayment of our existing indebtedness and EEK 124 million in interest payments.

As of May 31, 2006, we had cash and cash equivalents of EEK 1,224 million compared to EEK 189 million as of May 31, 2005.

Liquidity and Capital Resources

We believe that, taking account of our existing assets and financial condition, our working capital is sufficient for our business activities for at least the 12-month period following the date of this Offering Memorandum. We believe that we can fund our cash needs for such period from the proceeds of this Offering, cash generated from business operations and our current loan facilities. Our capitalization and indebtedness is discussed in more detail under “Capitalization.”

Capital Expenditures

Our budgeted capital expenditures for the period commenced June 1, 2006 and ending May 31, 2007, taking into account our current plans and ongoing projects, are approximately EEK 9.7 billion, consisting primarily of the EEK 7.5 billion for acquisition payment for Silja Oy Ab, remaining payments of EEK 1.5 billion for the one new high-speed ro-pax ferry as well as EEK 667 million for down-payments for the second new high-speed ro-pax ferry and new cruise ferry (sister vessel of Galaxy) on order.

Loan Agreements

We generally finance our business operations and investments in fleet through a combination of operating cash flow and debt. A major component of our outstanding indebtedness relates to acquisition financing for our vessels. Since our specific ship-owning subsidiaries own most the ships that we operate, the loans for financing the ship acquisitions are generally taken by such subsidiaries. Tallink as a parent company has three outstanding loan agreements with banks for general corporate and refinancing purposes: the facilities agreement with Nordea Bank Finland Plc for general corporate purposes and for the refinancing of certain loans of ship-owning subsidiaries, and two agreements with SEB Eesti Ühispank for the financing of the purchase of shares in Hansalink Ltd from Infortar. We also have three overdraft facilities. In addition, we have certain intra-group loan agreements, executed mainly for financing ship acquisitions.

As of August 31, 2005, our interest-bearing debt totalled EEK 3.8 billion, of which the financing for the purchases of Romantika and Victoria I represented approximately 74 per cent. Interest rates for the secured bank loans are mainly determined according to EURIBOR plus a margin, the maximum of which is 1.8 per cent per annum. In the financial year ended on August 31, 2005, the average variable interest rate on our bank loans was six months EURIBOR plus 1.38 per cent per annum. Loan agreements with related parties are, as a general rule, executed at fixed interest rate, the average of which is seven per cent per annum. Most of the bank loans are repayable in quarterly or semi-annual instalments, accompanied in some cases with a final balloon payment.

As of May 31, 2006, our interest-bearing debt totalled EEK 9.6 billion. Interest rates for the secured bank loans are mainly determined according to EURIBOR plus a margin, the maximum of which is 1.8 per cent per annum.

Currently outstanding loan agreements executed by the ship-owning subsidiaries with banks are as follows:

Borrower(s)	Financing Purpose	Lender(s)
Tallink Ltd.	Part of the purchase price of Romantika	HSH Nordbank AG, Commerzbank AG and Dresdner Bank AG
Tallink Ltd.	Financing of Silja acquisition	HSH Nordbank AG, DVB Bank
Hansalink Ltd.	Part of the purchase price of Tallink AutoExpress 2	Skandinaviska Enskilda Banken AB (Publ)
Tallink Victory Line Ltd.	Part of the purchase price of Victoria I	HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG and Norddeutsche Landesbank Girozentrale
Tallink Victory Line Ltd.	Financing of Silja acquisition	HSH Nordbank AG, DVB Bank
Tallinn-Helsinki Line Ltd.	Part of the purchase price of Regal Star	Skandinaviska Enskilda Banken AB (Publ)
Tallink High Speed Line Ltd. and Tallink Autoexpress Ltd.	Part of the purchase price of Tallink AutoExpress 3 and Tallink AutoExpress 4	Skandinaviska Enskilda Banken AB (Publ) and AS SEB Eesti Ühispank
Tallink Sea Line Ltd.	Part of the purchase price of the Galaxy	Skandinaviska Enskilda Banken AB (Publ), Danske Bank A/S, Nordea Bank Finland Plc and Dresdner Bank AG
Baltic SF VII Limited, Baltic SF VIII Limited and Baltic SF IX Limited	Part of the purchase price of Superfast 7, Superfast 8 and Superfast 9	HSH Nordbank AG, KfW, Dresdner Bank AG and Norddeutsche Landesbank
Tallink Hansaway Limited	Part of the purchase price of new high-speed Ropax 1	Nordea Bank Finland Plc
Silja Oy Ab	Repayment of certain previous loans	HSH Nordbank AG, DVB Bank, Nordea Bank Finland Plc

Outstanding bank loans on May 31, 2006, which are secured with our vessels and their respective maturities, and the outstanding amounts of such loans, are presented in the table below:

Lender(s)	Balance outstanding as of May 31, 2006[1], in EEK million	Final Maturity	Collateral Vessel
HSH Nordbank AG, Commertzbank AG, Drezdner Bank AG	1,247	May 2014	Romantika, Fantaasia
HSH Nordbank AG, Commertzbank AG, Drezdner Bank AG, Norddeutsche Landesbank Girozentrale	1,323	September 2010	Victoria I
Skandinaviska Enskilda Banken AB (Publ)	38	June 2007	Tallink AutoExpress 2
Skandinaviska Enskilda Banken AB (Publ)	156	February 2011	Regal Star
Skandinaviska Enskilda Banken AB (Publ), AS SEB Eesti Ühispank	101	June 2011	Tallink AutoExpress 3, Tallink AutoExpress 4
Nordea Bank Finland Plc	188	November 2009	Meloodia I, Regina Baltica, Vana Tallinn
AS SEB Eesti Ühispank	28	August 2006	Tallink AutoExpress 2
HSH Nordbank AG, KfW, Dresdner Bank AG and Norddeutsche Landesbank	4,362	April 2016	Superfast 7, Superfast 8 and Superfast 9
Skandinaviska Enskilda Banken AB (Publ), Danske Bank A/S, Nordea Bank Finland Plc and Dresdner Bank AG	2,043	April 2016	Galaxy

1 All the loans above bear variable interest rates based on EURIBOR, and the margin varies from one per cent to 1.8 per cent.

The project price of the new high-speed ro-pax vessel ordered from Aker Finnyards in August 2005, EUR 110 million, will be financed as follows: EUR 88 million through a loan facility and the remainder through cash from our business operations.

The financing of the new high-speed ro-pax vessel, ordered from Fincantieri in October 2005 is expected to be arranged as a combination of equity and debt financing in a manner corresponding to the financing of previous new vessels. The project price of the new cruise ferry is approximately EUR 113 million.

The financing of the new cruise ferry (sister vessel of Galaxy), ordered from Aker Finnyards is expected to be arranged as a combination of equity and debt financing in a manner corresponding to the financing of previous new vessels. The project price of the new cruise ferry is approximately EUR 165 million.

Our loan agreements with banks contain extensive restrictions to the borrower (which is either Tallink or another group company) that are targeted towards maintaining the adequate level of security for the lender and/or for avoiding further increase in the debt level of the borrower. Such restrictions are in several cases applicable also to the guarantors and/or the charterer. We (and in some cases other group companies) have provided the lenders to the borrower companies with irrevocable principal obligor guarantee style guarantees and undertakings of the relevant borrower's obligations. The guarantees are not limited to the financial obligations of the relevant borrower, but extend to the performance of the relevant borrower's obligations on demand.

Loan agreements with banks include several different negative undertakings, including restrictions on payment of dividends by the borrower or entry into any other financial commitments and obligations. Several of our loan agreements with banks require the consent of the lenders for the payment of dividends by Tallink. These requirements may restrict our ability to pay dividends to our shareholders. Several of our loan agreements with banks contain covenants to the effect that the value of the relevant security assets must not be less than between 100 per cent and 140 per cent of all sums outstanding under the relevant loan, and if less, the borrower must make up the deficiency by either granting additional security or pre-paying the deficiency.

In most of the bank loans, our relevant ship-owning subsidiary, being the actual borrower, is required to pay the earnings of the relevant vessel (the earnings being all revenues relating to the vessel) into a specific account with the relevant lender, although as long as no default has occurred, it may be entitled to withdraw sums (for the particular vessel's operation) from the account in excess of the next periodic principal and interest payment obligation. In case of some loan agreements, these requirements apply also in respect of the earnings of the charterer.

In several of the loan agreements with banks, and guarantees entered into by Tallink and its group companies in connection with such loan agreements, we have also agreed to comply with customary negative covenants including restrictions for and prohibitions of the following activities: disposition of all or a substantial part of its assets; substantial changes in the nature of its business; entry into other financial commitments and obligations; acquisitions of new vessels; establishment of further liens (except for permitted liens); merger, subdivision, amalgamation or certain reorganization transactions; granting a preference to other creditors in fulfilling its obligations; and granting of loans to or securing the obligations of non-group companies without the relevant lender's consent.

Several of the loan agreements also include financial undertakings. For example, under some of the loan agreements the borrower must ensure that the aggregate amount of its debts does not exceed a certain ratio of the value of the vessel plus its deposit with the relevant lender and its receivables. Other financial covenants include equity ratio requirements or asset liquidity requirements. The loan agreements also contain extensive provisions relating to the use of the vessels, compliance with environmental laws and insurance policies.

Our loan agreements all contain customary events of default, including cross-default provisions. Frequently, the cross-default provisions extend to the guarantors and in some cases to Tallink's parent company, Infortar. In addition, in several agreements, it is an event of default if (without the prior consent of the relevant lender) a third party acquires in whole or in part the issued share capital of (or an equivalent to the controlling interest in) the borrower or the guarantor/shareholder or if there is a change in the ultimate beneficial ownership of the shares in the relevant borrower or guarantor or in the ultimate voting rights attaching to the shares.

Obligations of Tallink and our other group companies under the loan agreements have been secured by mortgages over vessels, commercial pledges over movable assets of Tallink or its group companies, guarantees, assignments of earnings and of insurance and requisition compensation of the vessels, charter, charter guarantee, pledge or option to pledge the shares of the subsidiaries, pledge of bank accounts and other security. Substantially all of our assets, including our vessels, have been pledged to secure the obligation of Tallink and its group companies under various loan agreements.

As a result of our legal and operational structure and the terms of the loan agreements entered into by us and our ship-owning subsidiaries, our ability to transmit certain funds among companies in the group and to pay dividends may be restricted.

Off-Balance Sheet Guarantees

Tallink has provided the following outstanding off-balance sheet guarantees as security for the liabilities of its various subsidiaries.

- As of January 18, 2006, a guarantee in the maximum amount of SEK 15,600,000 to SEB Eesti Ühispank related to our Swedish subsidiary. The amount of this guarantee is subject to review and revision several times annually. The current guarantee expires on October 14, 2007;

- Guarantees to HSH Nordbank AG (formerly Hamburgische Landesbank) and Skandinaviska Enskilda Banken AB for the loans granted to our ship-owning subsidiaries amounting to EEK 9,269,851,000. The primary securities for these loans are pledges of shares of our ship-owning subsidiaries and mortgages on the ships owned by such subsidiaries. The guarantees expire upon fulfillment of all obligations under the related loan agreements;

- Tallink has issued an unlimited guarantee to Nordea Bank Finland Plc. to guarantee the loan given to Silja in the amount of EUR 350 million with maturity of 7.5 years by HSH Nordbank AG, DVB Bank and Nordea Bank Finland Plc. to refinance the previous loans of Silja;

- A guarantee in the amount of EEK 2,200,000 to SEB Eesti Ühispank related to our subsidiary TDF Kommerts OÜ. The guarantee expires on September 24, 2007; and

- A guarantee in the amount of EEK 260,000 to SEB Eesti Ühispank related to our subsidiary Tallink Travel Club OÜ. The guarantee expires on May 26, 2007.

Critical Accounting Policies

We have applied IFRS fully on a continuous basis since the financial year ended August 31, 2002 including comparative figures for the previous financial year. Preparation of financial statements under the IFRS requires our management to make estimates and judgments that affect reported amounts of revenue, expenses, assets and liabilities. Such estimates and judgments, when not apparent from readily available sources, are based on historical experience and various other assumptions that are believed to be reasonable in the circumstances in which they are made. We believe that the following are the critical estimates and judgments used in the preparation of our financial statements under the IFRS.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings—over 20 years
- Plant and equipment—over five years
- Ships—over five to 55 years
- Other equipment—over three to five years

According to the revised IAS 16, depreciation charge is, as of the financial year ended August 31, 2004, calculated separately for each significant part of a vessel on a straight-line basis over the estimated useful life of each part as follows (new useful lives used in the financial year ended August 31, 2005 have been presented in parentheses):

- Hull—over 11 to 50 years (over 11 to 55 years)
- Machinery—over 11 to 40 years (over 11 to 43 years)
- Onboard equipment (short-term usage)—over five to six years (over five to ten years)
- Onboard equipment (long-term usage)—over ten to 21 years (over ten to 25 years)

Depreciation is discontinued when the carrying value of an asset equals with its residual value. The residual value of hull is based on the current prices of relevant metals and the probable quantity of scrap metals realizable at the end of a vessel's useful life. We estimate that the residual value of other items of property, plant and equipment is zero.

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

Due to changes in useful lives and residual value of hull, the depreciation charge decreased by EEK 26.1 million and EEK 63.5 million, respectively, during the financial years ended August 31, 2005 and 2004 (compared with the previous financial year).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and the carrying value exceeds the estimated recoverable amount, the individual assets or group of assets comprising cash-generating units are written down to their recoverable amount, which is specified as the higher of an asset's market value and value in use. On an annual basis, at least two independent brokers determine the market value of our vessels and identify impairment indicators, if any.

Dry-docking Costs

Our vessels are dry-docked at intervals of two to five years. The major expenditures related to the dry-docking are capitalized and recorded in the same line of the balance sheet as the vessels. The depreciation period applied to capitalized dry-docking costs coincides with the frequency of dry-docking (two to five years).

Goodwill

In accordance with standards IFRS 3 and IAS 36 (revised 2004), new standards were adopted for business combinations where the agreement date was on or after March 31, 2004 and goodwill and other intangible assets, which arose from such business combinations in the financial year ended August 31, 2004.

In the financial year ended August 31, 2005, these standards were also adopted for the goodwill arising from the business combinations, the agreement date of which was before March 31, 2004 and other intangible assets.

In accordance with IFRS 3 and IAS 36 (revised 2004), goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Following adoption of IFRS 3 and IAS 36 (revised 2004), we discontinued annual goodwill amortization and impairment tests at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) from September 1, 2004. The transitional provisions of IFRS 3 require us to eliminate the amount of the accumulated amortization by EEK 30.6 million through recording a corresponding amount to gross carrying amount of goodwill.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated (i) represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and (ii) is not larger than a segment based on the group primary reporting format.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Contractual Obligations

The table below presents an analysis of the length of our contractual obligations as of August 31, 2005.

EEK millions	**Payments due by period**		
	Total	**Less than 1 year**	**More than 1 year**
Finance lease obligations	1,916	981	935
Other loans	3,641,115	630,745	3,010,370
Bonds	193,306	58,747	134,559
Total	3,836,337	690,473	3,145,864

The table below presents an analysis of the length of our contractual obligations as of May 31, 2006.

EEK millions	**Payments due by period**		
	Total	**Less than 1 year**	**More than 1 year**
Finance lease obligations	1,916	861	332
Other loans	9,485,977	948,543	8,537,424
Bonds	138,087	138,087	—
Total	9,625,257	1,087,491	8,537,766

Market Risk Disclosure

The management of financial risks is centralized in our financial department, which is responsible for all borrowings within the group as well as all exposure linked to the interest, currency, credit, liquidity and bunker price risks.

Interest rate risk

In our operations, we use a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases and cash. The group borrows in desired currencies at both fixed and floating rates of interest having regard to current market rates and future trends. As of August 31, 2005, loans with fixed interest rate represented close to eight per cent of the group's total interest-bearing liabilities. We use interest rate swaps to modify our exposure to interest rate movements and manage our interest expenses. As of August 31, 2005, we had an agreement in effect which exchanged floating interest rates for fixed interest rates at a nominal amount of EEK 93 million maturing in 2007 (EEK 146 million as of August 31, 2004). As of August 31, 2005, the fair value of this derivative amounted to EEK 913,000 (EEK 793,000 as of August 31, 2004), recorded as other payable in the balance sheet.

In our operations, we use a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases and cash. The group borrows in desired currencies at both fixed and floating rates of interest having regard to current market rates and future trends. We use interest rate swaps and interest rate options to modify our exposure to interest rate movements and manage our interest expenses. As of May 31, 2006, we had an agreement in effect at a notional amount of EEK 1,224 million. As of May 31, 2006, the fair value of interest rate derivative amounted to EEK (-1,318) thousand.

Currency risk

Approximately 15 per cent of our total revenues from operations by Tallink and approximately 30 per cent of our total revenues from operations by Silja are denominated in Swedish Kronor. We seek to minimize currency transaction risk through matching foreign currency inflows with outflows and through currency forward contracts. As of May 31, 2006 the Group had approximately SEK 50 million of forward cover. Another transactional currency exposure is against the U.S. Dollar for the purchase of ship fuel and insurance. The Group has partly offset USD open position by fixing forward USD exchange rate with Group's bunker supplier. The net open position in the currency exposure was not hedged by derivative financial instruments at the end of the period.

Credit risk

Our maximum credit risk exposure in respect of unsecured receivables as of August 31, 2005 was EEK 153 million (EEK 185 million as of August 31, 2004). There is no significant concentration of credit risk within our group.

Our maximum credit risk exposure in respect of unsecured receivables as of May 31, 2006 was EEK 282 million. There is no significant concentration of credit risk within our group.

Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and other debentures. Excess liquidity is invested in short-term money market instruments.

Bunker price risk

The total bunker cost for our fleet represents about 10 per cent of our total operating expenses on vessels operated by Silja and the total bunker cost for our fleet represents about 15 per cent of our total operating expenses on vessels operated by Tallink. Changes in bunker prices follow the changes in the oil price and the U.S. Dollar price. To stabilize the bunker cost between June 1 and August 31, 2005, we had a related agreement with our fuel supplier, NT Marine. There was no active hedging against bunker price development at the end of the financial year although the group is considering possibilities to start hedging bunker price risk together with the related U.S. Dollar risk.

Fair values

In the opinion of our management, there are no significant differences between the carrying value and the fair value of financial assets and liabilities of our group

European Mini-Cruise and Transport Ferry Markets

The European mini-cruise and transport ferry industry has some features in common with the global cruise industry, while also differing from that industry in some important respects. The global cruise industry has been a high-growth segment of the leisure industry, dominated by globally operating cruise companies such as Royal Caribbean Cruises, Star Cruises, Carnival, and P&O Princess. Companies in this industry sell a cruise product, typically an onboard vacation lasting one or two weeks with a wide array of leisure activities and onboard entertainment. Such cruises often stop at several ports of call in tropical or exotic locations, depending on the itinerary, and customers in the middle age and older demographic segments have traditionally constituted a large part of the customer base. The European mini-cruise and transport ferry industry, on the other hand, has primarily been driven by demand for passenger transportation from one destination to another.

Mini-cruises are typically shorter one- or two-day cruises, often round trips between two destinations, allowing the passenger departing from the port to spend a day at a destination abroad before returning home on the same cruise ferry. The ferries often have car and cargo decks, allowing for the transport of cars, buses and ro-ro (roll-in / roll-out) cargo such as trucks (“ro-ro cargo”), and providing a further source of revenue. Particularly on longer routes and cruises, cabins are sold to accommodate passengers. Another important source of revenue for mini-cruise and passenger ferry operators is onboard sales, including sales in restaurants, bars and shops.

The largest European market areas for mini-cruise and passenger traffic include the Mediterranean area, with routes within and between Spain, France, Italy and Greece as well as the Atlantic area, with routes within and between the United Kingdom, Ireland, the Continental Europe and Norway, as well as the Baltic Sea region. The Northern European mini-cruise and passenger traffic market can be divided broadly into traffic on the Northern Baltic Sea, with routes mainly between Finland, Sweden and Estonia, and traffic on the Southern Baltic Sea, with routes mainly within and between Denmark, Sweden, Norway, Germany and Poland.

Traffic in the Northern Baltic Sea region has traditionally been more cruise-product oriented than traffic in other European markets. For instance, although many passengers take the ferry between Helsinki and Stockholm or between Helsinki and Tallinn as a means of transport, many people also take the ferry solely for the mini-cruise experience. The mini-cruise ferry passenger typically departs from one port in the evening, spends the next day at the destination and then returns on the same cruise ferry in the evening to arrive at the home port either later that day or the following morning. The appeal of this concept is that it allows for a short holiday that can, for instance, be taken at the weekend, without using vacation time. While mini-cruises are targeted at passengers seeking both transportation and leisure, high-speed ferries focus on offering relatively quick transportation. For example, a high-speed ferry makes the trip between Helsinki and Tallinn in approximately one and a half hours compared to the minimum of three and a half hours with a conventional cruise ferry.

The opportunity to make tax-free purchases has traditionally been an added feature of the mini-cruise leisure experience. Originally, both onboard and onshore tax-free sales were an important driver of passenger volumes in the Northern European mini-cruise and passenger ferry market. Despite the abolition of tax-free sales in onboard shops on ferries and generally between the European Union member states, customers have continued to benefit from the tax-free price levels as ferry operators have chosen to accept lower margins for competitive reasons. As a parallel development, customs restrictions within the European Union have been removed or substantially relaxed and traffic among the European Union member states has increased overall. Today, the strongest drivers for passenger traffic in the region include increased business and holiday travel as well as differences in onshore consumer price levels. For example, Estonian onshore price levels are generally lower than in Finland or Sweden. Furthermore, in order to attract more passengers, ferry operators are generally broadening their offering of services and leisure activities on cruises.

Due to relatively high demand for overnight leisure mini-cruises on the Northern Baltic Sea routes compared to other European markets, the vessels employed tend to be substantially larger than ferries on routes of similar distance in other European markets, often resembling the luxury liners operated by the global cruise companies. Most cruise ferries on the various Baltic Sea routes are ro-pax ferries that carry both passengers and ro-ro cargo ("ro-pax ferries").

Our Geographic Market Area

The area around the Baltic Sea constitutes a large economic area within the pan-European economy. Surrounded by Sweden and Finland to the north and west; Denmark, Northern Germany, and Poland to the south; and the Baltic countries of Estonia, Latvia and Lithuania as well as the Russian city of St. Petersburg to the east, the Baltic Sea region is home to more than 80 million people. Travel by sea has always been a key means of transportation in the area, mainly due to considerably short distances by sea between the major cities and ports. Passengers often choose to travel by ferry instead of by plane or other means of transport. For example, in 2005, approximately 97 per cent of Finnish passengers and more than 70 per cent of Swedish passengers visiting Estonia arrived by ferry (15-20 per cent of Swedish passengers arrived by airplane). Passenger ferry traffic on the Northern Baltic Sea dates back more than one hundred years. The countries surrounding the Northern Baltic Sea have historically been and continue to be active trading partners. The European Union membership of the Baltic countries has been the most recent catalyst for trade.

Recent developments and trends

Ferry operators in the Northern Baltic Sea region transported approximately 16.6 million passengers and around of 620,000 ro-ro units of cargo between Finland, Sweden and the Baltic countries in 2005. In line with global trends, tourism in this geographic region and particularly in the Baltic countries has been growing in recent years, particularly in 2004. According to statistics of the Estonian Tourist Board, the number of overnight tourists visiting Estonia grew by 20 per cent in 2005 compared to 2004 and by an annual average of 16 per cent since 2001. In our view, this development demonstrates the increased growth potential for the tourism industry in this area, including the local ferry and hotel operators. As a result of close distance and the high capacity of ferry transportation available between Helsinki and Tallinn (approximately 97 per cent of Finnish passengers arrived by ferry in 2005), approximately one-half of all tourists visiting Estonia are Finnish. However, the proportion of Finnish tourists relative to the total number of tourists visiting Estonia has decreased moderately over the past few years as tourist flows from other European countries and especially from Sweden, have begun to grow. In 2005, the number of Swedish tourists visiting Estonia increased by 22 per cent compared to 2004.

The drivers of increased tourism in the Baltic countries include the accession of Estonia, Latvia and Lithuania to the European Union, an improved supply of tourism services and accommodation, steady economic growth in the region as well as the improving standard of living in the Baltic countries. Improved living standards have further supported the increase in outbound leisure trips and tourism from the Baltic countries, especially by Estonians. For example, the average GDP of the Baltic countries increased by 8.5 per cent in 2005 (EU-25 average 3 per cent) and by 8.2 in 2003 (EU-25 average 3.2 per cent), resulting in increased disposable income.

The key attractions for tourists visiting Estonia include Tallinn's historic atmosphere, a rich national culture and appealing and safe leisure activities such as well-known spas, considerably lower prices for consumer goods (including food, alcoholic beverages and tobacco) and beauty services, and good quality service. Estonia also offers growing business opportunities. While the majority of cruise passengers stay in Tallinn (either onboard or onshore), Estonia also functions as a point of transit to other Baltic and even Central European destinations. Since the majority of travelers are tourists, passenger trends in the region are somewhat seasonal, with peaks in passenger numbers during the summer months of June, July and August. Cargo traffic volumes, on the other hand, are more dependent on general economic conditions and trade activity, which typically peaks in late fall and during spring each year, decreasing the impact of seasonality in passenger traffic.

Main routes in the region

The most widely traveled routes in the Northern Baltic Sea region are the routes between Finland and Sweden, which also have the longest post-second world war history. Finnish and Swedish mini-cruise passengers have traveled the Northern Baltic Sea for more than 40 years. Close governmental relationships, a common language tradition, active business cooperation and cultural similarities have supported such traffic. The travel time on the route between Helsinki and Stockholm of some 350 kilometers is approximately 16 hours (with a brief stop in Mariehamn, Åland), whereas the western Finnish city of Turku can be reached from Stockholm within 12 hours. On these routes the mini-cruise experience has traditionally been the central motivation of the journey.

Maritime traffic between Finland and Estonia also has a relatively long tradition dating back to the beginning of the 20th century and is today well-established with several operators. Passenger traffic has accelerated following Estonia regained independence in 1991, from less than two million passengers annually during the early 1990's to approximately six million passengers annually today. Almost all of the passenger and cruise ferry traffic between Finland and Estonia is on the Helsinki – Tallinn route with a distance of only approximately 80 kilometers and travel times ranging from approximately one and a half hours with a high-speed ferry to three and a half hours with a conventional cruise ferry. Finnish passengers have traditionally constituted the vast majority of passengers. The proximity of Estonia offers a number of options for Finnish tourists, who can, for example, spend a day or two onshore, spend a day in Tallinn and a night onboard, go for a mini-cruise or simply dine at one of Tallinn's restaurants and return with a high-speed ferry the same night. The variety of options makes Tallinn an attractive, easy and quick getaway destination. Traffic from Tallinn to Helsinki has also grown steadily, initially driven mainly by cargo and business traffic and subsequently supported by growing numbers of tourists. In 2005, close to 500,000 Estonians visited Finland, making Estonians the third largest tourist group visiting Finland.

The table below shows the development of passenger ferry traffic through the ports of Helsinki to and from Estonia, Sweden between 2003 and 2005:

	Passengers (million)[1]		
	Year ended December 31,		
Destination	**2003**	**2004**	**2005**
Estonia	5.6	6.0	6.2
Sweden	2.5	2.5	2.6

Source: ShipPax Statistics

1 A single passenger taking a round-trip constitutes two passengers for the purpose of this table.

Traffic between Sweden and Estonia commenced in 1990 and has historically had, and continues to have, fewer passengers than the Finland – Estonia route and the Finland – Sweden routes. Traffic volumes were heavily affected by the sinking in 1994 of the passenger ferry Estonia operated by the Estline company on the Stockholm – Tallinn route. However, in the past few years passenger volumes have been increasing, most recently as a result of the European Union accession of the Baltic countries. European Union membership has boosted both passenger and cargo volumes on routes between Finland and Estonia as well as Sweden and Estonia. For the approximately 11,000 Swedish passengers departing from the Stockholm ports daily, Estonia and the other Baltic countries are becoming an attractive alternative to traditional Finnish destinations. Tallinn, which is a distance of some 350 kilometers from Stockholm, can be reached in the same time of approximately 16 hours (with a brief stopover in Mariehamn, Åland) as Helsinki but offers a very different experience with its medieval city centre, spas, cheaper shopping and restaurants.

The table below shows the development of passenger ferry traffic through the ports of Stockholm to and from Estonia, Finland:

	Passengers (million)[1]		
	Year ended December 31,		
Destination	2003	2004	2005
Estonia	0.5	0.7	0.6
Finland	6,1	6,0	6,3

Source: ShipPax Statistics

1 A single passenger taking a round-trip constitutes two passengers for the purpose of this table.

The passenger and ro-ro cargo volumes on the key routes between Finland and Estonia, Finland and Sweden, Sweden and Estonia, and Finland and Germany between 2003 and 2005 are shown in the table below:

	Passengers (million)[1]			Ro-ro cargo units (thousands)		
	Year ended December 31,					
	2003	2004	2005	2003	2004	2005
Finland – Estonia	5.7	6.1	6.2	127	164	177
Finland – Sweden*	8.3	8.2	8.4	243	264	270
Sweden – Estonia	0.5	0.7	0.8	52	51	49
Finland – Germany**				250	265	276

Source: ShipPax statistics

1 A single passenger taking a round-trip constitutes two passengers for the purpose of this table.
* Sea of Åland
** Attica Group information

Cargo transport to and from Estonia has also grown rapidly with the growth of the Estonian economy and, more recently, with the European Union membership of the Baltic countries. Another factor aiding growth in cargo volumes is the development of the '*Via Baltica*,' a 670 km highway running from Tallinn to Poland. The *Via Baltica* is the shortest route connecting Finland and parts of Russia with Continental Europe through the three Baltic countries of Estonia, Latvia and Lithuania. Traffic from more central parts of Europe to Finland (and also to St. Petersburg and other areas in Northwestern Russia) has traditionally been routed through Denmark and Sweden or by vessels directly from Germany. We expect that the recent accession to the European Union of Poland and the Baltic countries, the consequent removal of customs and the ongoing upgrading of local roads will increase the importance of cargo traffic routed through the *Via Baltica* in the future. Please refer to the above table for statistics showing the recent development of ro-ro cargo traffic from Finland and Sweden to Estonia.

Current and Future Tax Status of Onboard Sales

As in several other European mini-cruise and passenger ferry markets, tax-free sales have played an important economic role in traffic in the Northern Baltic Sea region. Due to regulatory developments within the European Union, onboard tax-free shop sales (excluding bar and restaurant sales and onboard consumption) on routes between the European Union member states have ceased. The Finnish province of Åland, however, is exempt from the relevant European Union regulations. As a result, it has been possible for ferry operators to route ferries between Sweden and Estonia and between Finland and Sweden through Åland and tax-free shop sales on these particular routes have accordingly been preserved. The stopover in Åland does not increase journey time significantly. Traffic on the Kapellskär – Paldiski route is not routed through Åland, and, as a result, tax-free shop sales are not available on this particular route. Compared to the Stockholm – Tallinn route, the demand for tax-free sales in shops on the Kapellskär – Paldiski route is lower and the value that customers place on faster transport between Sweden and Estonia is greater. As of the date of this Offering Memorandum, there is no time limitation on

Åland's special status and we believe that Åland will continue to enjoy such status for the foreseeable future.

Alcohol and tobacco sales have traditionally been subject to a relatively high degree of regulation in Finland and Sweden. High taxation rates have elevated the price of alcoholic beverages and tobacco in Finland and Sweden compared to most other countries in the European Union (Swedish and Finnish excise taxes have been up to ten times higher than the European Union minimum excise tax level of EUR 5.50 per liter of pure alcohol). Estonia's lower excise tax rates (Estonia currently has a moderate excise tax level of EUR 9.06 per liter of pure alcohol) and onboard prices, together with the relaxation of Finnish and Swedish private import quotas for alcoholic beverages and tobacco, have led to increased sales in onboard shops as well as for shops in Tallinn. Minor amendments in excise tax rates on alcohol are being considered by the Estonian Parliament in order to apply the same excise tax rates in respect of wine and fermented beverages (other than beer). It is not yet clear whether the excise tax on fermented beverages will be increased or the excise tax on wine will be decreased. As excise taxes on alcohol in Finland and Sweden constitute an important source of tax revenues for both countries, the Finnish and Swedish governments have, in order to maintain the competitiveness of local prices, engaged in discussions seeking to reduce unit-specific excise taxes on alcohol in the future. Finland has already implemented a moderate decrease of these excise taxes as of March 1, 2004.

Competition

In addition to us, the largest companies by revenue that provide mini-cruise and passenger transport services in the Northern Baltic Sea region are Viking Line, Sea Containers (under "SuperSeaCat"), Eckerö Linjen and Birka Line. There are also a number of smaller ferry companies such as Nordic Jet Line and Linda Line operating only with high-speed ferries between Helsinki and Tallinn. For Viking Line, the majority of revenue originates from routes between Finland and Sweden. Eckerö Linjen only operates regular passenger and cargo traffic between Finland and Estonia and Sweden and Finland, whereas Birka Line primarily concentrates on traffic to or via Åland.

The main providers of cargo transportation services on the Germany—Finland route are Finnlines and Transfennica.

For further discussion of the competitive environment, see "Business – Competition.

BUSINESS

Overview

We are a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. We own and operate passenger ferries, including cruise ferries, high-speed ro-pax ferries, high-speed ferries, ro-pax vessels and ro-ro cargo vessels on routes between Finland and Estonia, between Sweden and Estonia, between Finland and Sweden, between Finland and Germany and between Sweden and Latvia. Our current routes are between Helsinki and Tallinn, between Stockholm and Tallinn, between Kapellskär and Paldiski, between Riga and Stockholm, between Hanko and Rostock, between Turku and Stockholm/Kapellskär and between Helsinki and Stockholm (last two routes are "Silja" routes – please see "Silja Overview" for more detailed info). We are the current market leader on the Helsinki—Tallinn route, the only provider of daily passenger and ro-ro cargo traffic services on the routes between Sweden and Estonia and the only provider of regular passenger and ro-ro cargo traffic services provider on the Stockholm—Riga route. In addition, we have a strong market position on Hanko—Rostock route. Altogether, we transported more than 3.2 million passengers and approximately 130,000 ro-ro cargo units in the financial year ended August 31, 2005, an increase of 16 per cent and 27 per cent, respectively, compared to the previous financial year. In May 2004, we broadened our product offering through the introduction of a 350-room Hotell Tallink that we operate in the principal tourist area of Tallinn. In addition, we have made a decision to start operating a new conference and spa hotel close to the center of Tallinn. This hotel is intended to commence operations in late 2006.

Our principal sources of revenue are restaurant and shop sales onboard our vessels, ticket sales and sales of cargo transport. Our total revenue for the financial year ended August 31, 2005 amounted to EEK 4,063 million, the majority of which was derived from revenue in passenger and cargo operations between Finland and Estonia. The table below sets forth the development and geographical breakdown of our revenue for the financial years ended August 31, 2003, 2004 and 2005:

	For the financial year ended August 31,		
	2003	**2004**	**2005**
	(EEK in millions)		
Finland—Estonia	2,053	2,083	2,442
Sweden—Estonia	943	1,232	1,392
Mainland business	—	40	88
Other	—	51	141
Total	2,996	3,406	4,063

Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

We currently own a fleet consisting of eleven cruise ferries (of which four are "Silja" ferries – please see detailed info in section "Silja Overview") carrying both passengers and ro-ro cargo, three high-speed ro-pax ferries operating between Hanko and Rostock, three high-speed ferries operating between Helsinki and Tallinn, two ro-ro cargo vessels and two ro-pax vessels (two ro-pax vessels are "Silja's" vessels – please see detailed info in section "Silja Overview"). In 1997, we changed our operating model from chartering into ship ownership and acquired our first three vessels. In 2000, we started to invest in new vessels, including the cruise ferries Romantika (introduced in 2002), Victoria I (in 2004) and Galaxy (in 2006), and the new cruise ferry (sister vessel of Galaxy) expected to be introduced in 2008. Please see stock exchange release on Tallinn Stock Exchange on 19.12.2005 titled "TAL: Ordering new vessel" for additional information. Our new cruise ferries provide improved accommodation facilities, larger onboard shopping areas and a broader offering of other services compared to our traditional ferries. We also plan to introduce new high-speed ro-pax ferries on the Helsinki—Tallinn route. We have placed orders for two new high-speed ro-pax ferries intended to improve our high-speed service between Helsinki and Tallinn. The ferries will be delivered in 2007 and 2008. The new high-speed ro-pax ferries are designed to combine the best features of a traditional cruise ferry and a high-speed ferry such that they can be operated year-round and can travel at almost the same speed as existing high-speed ferries but with increased passenger capacity, expanded shopping and dining facilities and other services. In addition to building new vessels, Tallink has expanded its fleet through acquisition of vessels from other companies. In April 2006 Tallink acquired three Superfast ferries (please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries") and in July 2006 Tallink acquired part of Silja's operations from Sea Containers (please see stock exchange release on Tallinn Stock Exchange on 12.06.2006 titled "TAL: Sea Containers to sell Silja ferry business to Tallink").

Key Strengths

We believe that our position as a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region, as well as a leading provider of ro-ro cargo services on selected routes, is based on the following key strengths:

- *Strong market position.* We are currently the leading operator on the Helsinki—Tallinn route, with a market share of approximately 43 per cent of passengers during the financial year ended August 31, 2005. On the routes between Sweden and Estonia, we had a market share of more than 90 per cent of all passenger ferry traffic. We are currently the only company to provide regular daily service between Stockholm and Tallinn, between Kapellskär and Paldiski and regular service between Riga and Stockholm. Furthermore, during the financial year ended August 31, 2005, we had a market share of approximately 45 per cent of the ro-ro cargo traffic between Finland and Estonia and approximately 95 per cent between Sweden and Estonia. In addition, we have a strong market position on the route between Finland and Germany. We are also the leading operator between Helsinki and Stockholm and between Turku and Stockholm/Kapellskär (please see detailed info in section "Silja Overview").

- *High-quality, flexible fleet.* As a result of our ongoing investment and fleet renewal program, we currently deploy some of the most advanced cruise ferries in the Northern Baltic Sea region. In particular, we believe that our cruise vessels Romantika, Victoria I and brand new Galaxy, with their state-of-the-art facilities and quality onboard services, have set a new benchmark for travel standards in the Northern Baltic Sea region. The program is set to continue with the delivery of the new cruise ferry (sister vessel of Galaxy), scheduled for 2008, and the introduction of the two recently ordered high-speed ro-pax ferries, scheduled for delivery in 2007 and 2008. All of our passenger ferries are equipped with a car/cargo deck, where cars, buses, trucks and trailers can be loaded while passengers are boarding. Combining passenger traffic with cargo tonnage also allows for more frequent cargo departures and mitigates the effect of the seasonality of passenger traffic.

- *Broad product offering.* We focus on offering our customers a wide range of transportation and leisure products and services varying from a one-way high-speed ferry trip to complete mini-cruises combined with overnight hotel and spa stays. A large proportion of our products are sold by means of various product and travel packages. Travel packages may be tailored to suit customer preferences in each market as to the type of vessel, length of trip, use of conference facilities and other services, hotel accommodation in Tallinn and other features, such as various onshore leisure experiences.

- *Strong brand.* Our high market share, high-quality products and services and the regularity and flexible offering of our vessel departures have supported the creation of a strong brand and a competitive advantage. We are especially well-established and enjoy strong positive "Tallink" brand recognition in Estonia and Finland, while in Sweden we continue to focus on increasing positive brand recognition. In addition, we operate under the "Silja" brand, which is a well-known brand in the Northern Baltic Region, especially in Sweden and Finland. For additional information on "Silja" brand, please see section "Silja Overview". Our strong brand has helped us to create an increasingly loyal customer base. Our customer base has been strengthened through our rapidly growing loyalty club program, which has increased the number of repeat customers. We seek to reinforce customer loyalty and strengthen further our brand recognition by approaching our customers in a manner tailored specifically to each of our geographic markets through our wide sales network with dedicated marketing offices and agents in each market.

- *Competitive cost base.* We actively manage and monitor our costs. Through our investment and fleet renewal program, we have introduced new vessels operating at a lower cost per passenger than our previous vessels, thereby increasing the profitability of our fleet. We believe that we also have fewer onshore personnel than most of our competitors. In addition, due to the ongoing transitional period following Estonia's accession to the European Union, we currently benefit from a corporate income tax regime under which income tax is not charged on profits when accrued but deferred until profits are distributed to shareholders, third parties or otherwise.

- *Experienced management team with a proven track record.* We have a proven track record of investment and innovation. Since the late 1990s, our current management has successfully changed our operating model and launched and implemented our investment and growth plan to date. Our management has been instrumental in our transformation into a leading operator of mini-cruise and passenger transport and ro-ro cargo services in the Northern Baltic Sea region. We believe that our growth strategy, and particularly our investment and fleet renewal program, demonstrates our management's understanding of the dynamics of our market and has resulted in considerable growth of our business operations, market shares and profitability.

Strategy

We aim to be the leading provider of high-quality mini-cruise and passenger transport services, as well as the leading provider of ro-ro cargo services on selected routes, in the Baltic Sea region. Even though our business has grown rapidly for nearly ten years, we believe that there are additional growth opportunities in the region over the coming years. The cornerstones of our operating strategy are described below:

- *Continue to invest in our fleet.* We believe that continued investment in new vessels and upgrades to existing vessels are critical to our ability to maintain market leadership and further expand our business. In addition to introducing the new cruise ferry in 2008, we plan to introduce next generation high-speed ro-pax ferries on the Helsinki—Tallinn route in 2007 and 2008. Our newer vessels are designed to increase our efficiency and profitability by increasing passenger traffic while reducing operating costs per passenger. We believe that the introduction of additional modern vessels equipped with improved onboard amenities will lead to increased per-passenger spend and will attract a broader customer base. In addition, the higher comfort, safety and environmental standards of our newer vessels will further strengthen the Tallink brand association with high-quality products and services.

- *Build upon strong positions on existing routes.* We are the market leader on all of the routes that we currently operate. We will seek to maintain and strengthen our overall market share and volumes in both passenger and cargo traffic on our designated routes by continuously improving comfort and quality standards and providing convenient and reliable timetables for our service. On the well-developed Helsinki—Tallinn route, we aim to maintain and strengthen our market share by further increasing our strong brand recognition and by broadening our customer base. On the routes between Sweden and Estonia, we will focus on continuing to increase traffic volumes for both passengers and cargo, in particular by promoting the attractiveness of our mini-cruise experience and Tallinn as a new alternative destination for tourists. In both markets, we will seek to increase sales to business conference passengers, families and young professionals. We actively market our existing product offering throughout the Nordic and Baltic countries through our own sales agencies and through affiliations with travel agencies.

- *Pursue new growth opportunities in the Northern Baltic Sea region.* We continuously evaluate potential growth opportunities presented by introducing new routes, products and services. We believe that the growth in tourism and commerce with and among the Baltic countries provides us with opportunities to introduce new routes. Following the delivery of the new cruise ferry (sister vessel of Galaxy), one of our older cruise ferries will become available for traffic elsewhere. In addition, our cruise ferry Fantaasia, which is currently in charter, will soon be available for operation. We also seek growth opportunities in travel-related products and services that will support our cruise and passenger transport business. For example, the operation of Hotell Tallink and the proposed conference and spa hotel close to the center of Tallinn support our cruise business by offering high-quality overnight accommodation in Tallinn that can easily be combined with our ferry products. We believe that travel services, such as innovative and varied travel packages, including cruises, hotel stays and cultural experiences, provide further opportunities to attract new groups of customers and improve our profitability.

- *Maintain profitability through efficient and flexible management, while seeking revenue growth.* We aim to focus on growth opportunities that will allow us to maintain and improve our profitability. We have a tradition of efficient and flexible management of our assets, including the ability to introduce profitable new routes and to transfer and relocate our vessels to new routes or, for example, charter operations, in order to seek the highest available return from our assets. Our onshore and management organizations are lean, which enables us to operate efficiently and to make quick decisions in response to market developments and opportunities.

History

The origins of the Tallink brand date back to 1989, when a company named Tallink was founded as a Finnish-Soviet joint venture. The joint venture was primarily intended to transport tourist passengers on the approximately 80 kilometer route between Helsinki and Tallinn. In 1990, its first year of operation, the company operated only one chartered vessel, the Tallink ferry, and transported approximately 166,000 passengers on the Helsinki—Tallinn route. In 1991, Estonia gained independence, which rapidly increased the country's appeal as a tourist destination, mostly among the Finnish public. To respond to the growing demand for trips from Finland to Estonia, the company chartered in 1993 the Georg Ots ferry, which had previously been in competition with the company's own ferry. During 1993, when the state-owned Estonian Shipping Company ("ESCO") acquired all of the shares in the company, we also achieved the milestone of transporting one million passengers annually.

In 1994, an operating company named EMINRE was established to continue the use of the Tallink brand. By the mid-1990s, the market for transport between Helsinki and Tallinn had evolved as a growing group of passengers began to seek a quicker form of transport to the more leisurely cruise concept. As a result, so-called high-speed ferries were introduced on the Helsinki—Tallinn route. These were able to transport passengers between the two capitals in approximately one hour and 40 minutes, as opposed to the approximately three and a half hours required by the conventional cruise ferries.

In 1996, a new operating company named AS Hansatee commenced operations under the Tallink brand. AS Hansatee was owned by ESCO, AS Eesti Ühispank and a second private investor, which sold its interest in AS Hansatee in 1996. In the same year, a new management team headed by the current Chairman of our management board and CEO Enn Pant, was brought in to improve performance. This was accompanied by a change in ownership and a fundraising of approximately EUR 13 million, whereby management and certain companies related to Eesti Ühispank became shareholders. Our principal shareholder, Infortar, was formed in connection with this management buy-out. See "Principal Shareholders—Infortar."

We initially chartered all of our vessels, but the new management team changed our operating model from chartering to ship ownership in 1997, during which we also acquired our first three vessels. In the same year, we were also subject to a management buy-out by our current management, the present group structure was introduced and AS Hansatee became Aktsiaselts Hansatee Grupp (subsequently, renamed Aktsiaselts Tallink Grupp).

In 1998, we achieved the milestone of two million passengers annually and introduced the first route between Sweden and Estonia (Kapellskär—Paldiski). The Stockholm—Tallinn route was introduced in January 2001. We continued to implement our growth strategy by acquiring additional cruise and high-speed ferries and by starting to invest in new vessels. We ordered two high-class cruise ferries, the first of which, Romantika, was delivered in 2002.

In 2003, a group of international institutional investors became shareholders of Tallink through an international private placement transaction. The private placement, which amounted to EUR 37 million in total, consisted of both an issue of new shares by Tallink and the sale of existing shares by Tallink's largest shareholder, Infortar. The private placement transaction enabled us to continue to pursue our growth strategy. In 2004, we acquired two additional high-speed ferries, our second ro-ro cargo vessel and introduced Romantika's sister vessel, Victoria I.

In August 2005, Tallink placed orders for two new high-speed ro-pax ferries intended to improve our high-speed service between Helsinki and Tallinn. The ferries will be delivered in 2007 and 2008.

In November 2005, Tallink was listed on Tallinn Stock Exchange after launching an initial public offering of shares for retail investors in Estonia and Finland and a private placement for international institutional investors (for additional information please see stock exchange release on Tallinn Stock Exchange on 21.11.2005 titled "TAL: AS Tallink Grupp launches an initial public offering")

In December, 2005, Tallink placed an order for a new cruise ferry (sister vessel of Galaxy). The ferry will be delivered in summer 2008 (for additional information please see stock exchange release on Tallinn Stock Exchange on 19.12.2006 titled "TAL: Ordering new vessel").

In April 2006, Tallink introduced its brand new cruise vessel Galaxy, which started operating between Helsinki and Tallinn (for additional information please see stock exchange release on Tallinn Stock Exchange on 18.04.2006 titled "TAL: Delivery of M/S Galaxy").

In April 2006, Tallink acquired three Superfast ferries and started operating between Finland—Germany (for additional information please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries").

In July 2006, Tallink acquired part of Silja's business from Sea Containers (for additional information please see stock exchange release on Tallinn Stock Exchange on 12.06.2006 titled "TAL: Sea Containers to sell Silja ferry business to Tallink").

Operational Segments

Our main revenue sources are passenger ticket sales, restaurant and shop sales and sales of cargo transport. Passenger tickets are sold through our own sales network and through travel agencies in Finland, Sweden, Germany, Estonia, Latvia, Lithuania and Russia. Ticket sales include the price of tickets sold, cabins rented to passengers as well as, for example, use of conference facilities and transport of private cars. Restaurant and shop sales include all sales made to passengers onboard the ferries, including sales of tax-free goods and sales in restaurants, bars and casinos. Sales of cargo transport include tonnage and unit-specific payments for ro-ro cargo and buses.

Routes Operated

Finland—Estonia Route

We transport both passengers and cargo on the well-developed Finland—Estonia route between Helsinki and Tallinn, the origins of which date back to the Soviet Union era. Following a decade of strong growth in the 1990s, passenger numbers between Finland and Estonia have been steady at approximately six million passengers annually over the last five years. Approximately 97 per cent of Finnish passengers visiting Estonia arrive by ferry. We have a strong position on this route and currently operate the cruise ferries Galaxy and Meloodia I, both of which carry passengers and ro-ro cargo units. In addition, we operate three high-speed ferries and the ro-ro cargo vessel Regal-Star on this route.

The cruise ferry Galaxy currently departs once a day from each port taking the evening departure from Helsinki and the voyage takes three and a half hours. Despite the short distance, Galaxy offers a true mini-cruise experience during which passengers from Finland spend the evening and night on the cruise ferry and are able to spend a few hours in Tallinn in the morning before the ship returns to Helsinki. Meloodia I departs twice daily from each port, with the journey time being three hours and fifteen minutes. Meloodia I's primary product is the day cruise where passengers leave for Tallinn in the morning, spending about four and a half hours in the city before returning in the evening. The second departure of Meloodia I from the respective port is a "night departure," intended mainly for cargo and passengers with cars. Both of the cruise ferries also carry ro-ro cargo, buses and private cars on the car/cargo deck.

We also operate three high-speed ferries on the Helsinki—Tallinn route, namely Tallink AutoExpress 2, Tallink AutoExpress 3 and Tallink AutoExpress 4. One of four Tallink Autoexpress's was sold in the April 2006 (for additional information please see stock exchange release on Tallinn Stock Exchange on 06.04.2006 titled "TAL: Sale of Tallink Autoexpress"). These high-speed ferries offer frequent daily departures between the two destinations. The crossing is made in approximately one and a half hours and as such, the high-speed ferries are ideal for passengers who need to reach their destination quickly. Traffic on the high-speed ferries is seasonal, as the service is suspended during the winter months (typically December/January—March/April) due to the potentially difficult ice conditions on the Northern Baltic Sea. Passengers on these vessels include business travelers, day cruisers and passengers with overnight hotel packages. The high-speed ferries also carry a limited number of cars and buses but not heavier ro-ro cargo.

Sweden—Estonia Routes

Regular traffic between Sweden and Estonia commenced 15 years ago. After a promising start in 1990, traffic on this route was severely affected by the sinking of the passenger cruise vessel Estonia in 1994 operated by the now bankrupt Estline company in the Northern Baltic Sea region. Passenger, private car and heavier cargo unit traffic has, however, almost doubled since 1998 and the average annual growth of passenger numbers has been approximately 27 per cent since 2001. Up to 70 per cent of Swedish passengers visiting Estonia arrive by ferry.

Currently, we are the only operator of passenger and cargo services with daily departures between Sweden and Estonia. We operate a total of four vessels from two different destinations in both Sweden and Estonia. Despite the two different ports at each end, we view both destinations effectively as one since Stockholm and Kapellskär on the one hand and Tallinn and Paldiski on the other are located close to each other. Regular bus services to and from three different locations in Sweden, provided especially for the use of our cruise passengers, allow us to serve Swedish customers located outside the Stockholm region.

Stockholm—Tallinn Route. Following a positive start and development on the Kapellskär—Paldiski route since 1998, we started operating the Stockholm—Tallinn route in January 2001. On the Stockholm—Tallinn route (directed through Mariehamn, Åland, to obtain the tax-free status for onboard shop sales), we currently operate two cruise ferries, Victoria I and Romantika, with one daily departure by each cruise ferry in the afternoon from each port. The duration of the voyage, including a short stop at Mariehamn, Åland, is approximately 16 hours and the ferry arrives at its destination the following morning. The main product is a mini-cruise with two nights onboard the vessel and a day at the destination, although one-way trips combined with a hotel package or a private car trip around the Baltic region are becoming increasingly popular. Ro-ro cargo is transported on the car and cargo decks of both Victoria I and Romantika.

Kapellskär—Paldiski Route. We entered the Sweden—Estonia market in 1998 by commencing regular traffic on the Kapellskär—Paldiski route, where we currently operate one cruise ferry, Vana Tallinn. Vana Tallinn also has a car/cargo deck similar to our other cruise ferries. In addition, we operate the ro-ro cargo vessel Kapella on this route. Vana Tallinn departs once daily from Paldiski in the morning and once daily in the morning from Kapellskär, effectively completing a one-way voyage in only 11 hours and a round trip every 24 hours. Traffic on the Kapellskär—Paldiski route is not directed through Åland, which means that tax-free onboard shop sales are not available on this route. Compared to the Stockholm—Tallinn route, the demand for tax-free sales in shops on the Kapellskär—Paldiski route is comparatively low and, in our view, the value that customers place on faster transport between Sweden and Estonia is comparatively higher.

Latvia—Sweden Route. Tallink began regular ferry service on the Riga—Stockholm route in April 2006 with Fantaasia. After the chartering of Fantaasia (for additional information please see stock exchange release on Tallinn Stock Exchange on 18.05.2006 titled "TAL: Establishing a new subsidiary, chartering a vessel"), Regina Baltica continued the operations in May 2006. Latvia—Sweden route is a new market for Tallink and we are hoping this operational segment will prove to be a successful expansion.

Finland—Germany Route. After the acquisition of three Superfast ferries (for additional information please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries"), Tallink started operating between Hanko-Paldiski-Rostock. After the Finnish Seamen's Union boycott in May 2006 (for additional information please see stock exchange release on Tallinn Stock Exchange on 31.05.2006 titled "TAL: Finnish Seamen's Union starts illegal boycott on Superfast VIII" and stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled "TAL: Boycott ends"), Tallink changed the timetable for Superfast vessels excluding the port of Paldiski and started operations between Hanko and Rostock. The acquisition of three Superfast ferries is part of Tallink's strategy whereby we broaden our operations and at the same time insure the company's strong future development perspective.

Finland—Sweden Routes. We are currently operating on two routes between Finland and Sweden. Firstly, the Helsinki-Stockholm route and secondly the Turku-Stockholm/Kapellskär route. All of the vessels on this route are operated by Silja and for additional information on these routes, please see section "Silja Overview".

Future Potential Routes

Following the delivery of the new cruise ferry (sister vessel of Galaxy), one of our older cruise ferries will become available for traffic elsewhere. In addition, the chartering agreement for our cruise ferry Fantaasia will end in late 2006.

St. Petersburg—Estonia/Finland Route. The historic former Russian capital St. Petersburg is considered to be one of the most beautiful cities in the world, offering tourists numerous attractions and cultural experiences. At the same time, the rapidly increasing levels of wealth and disposable income in the St. Petersburg area, with a population of some six million have allowed Russian outbound tourism to increase significantly. On April 1, 2004, we opened a route between Helsinki, Tallinn and St. Petersburg. Despite the great potential of the new line, the expected significant increases in port fees, the visa regime imposed on both the European Union and Russian citizens by the Russian authorities and the underdeveloped governmental infrastructure lead us to suspend traffic on this route in the beginning of 2005. We are currently monitoring the development of port fees and applicable visa regulations and would consider reopening this route in the future, should the current requirements be abolished or relaxed or the visa application process become more manageable.

Products

The table below shows the amount and percentage of our revenue derived from each of our operational segments between the financial years ended August 31, 2003, 2004 and 2005:

	Financial year ended August 31,					
	2003[1]		2004		2005	
	EEK in thousands	%	EEK in thousands	%	EEK in thousands	%
Ticket sales[2]	827,091	28	879,684	26	1,018,683	25
Restaurant and shop sales	1,494,322	50	1,664,566	49	1,912,232	47
Sales of cargo transport	579,014	19	609,383	18	721,690	18
Other[3]	95,171	3	252,622	7	410,356	10
Total revenue	2,995,598	100	3,406,255	100	4,062,961	100

1 Our operational segments were partly changed beginning with the 2004 financial year, which changes are not reflected in the figures for the 2003 financial year in this table. See "Operating and Financial Review and Prospects" for adjusted figures in respect of the 2003 financial year.
2 Includes cabins, private cars and conference facilities.
3 Includes our operational segments "Revenue from packages," "Accommodation sales," "Other" and "Income from leases of vessels."

Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

Ticket Sales

We sell passenger tickets and package holidays through our own network of sales agencies as well as through a wide network of travel agencies. Products sold include passenger tickets, car tickets, cruises, travel and hotel packages (including accommodation, sightseeing, tours and golf), and conference packages. There is a wide selection of passenger tickets with a variety of different options and pricing for different ships, departure dates and times as well as cabin classes. Passenger tickets may also include pre-paid onboard meals as well as transport of a private car. While some sales are made well in advance, last-minute departures advertised through newspapers are also quite common.

Our passenger numbers have grown steadily, although ticket prices may vary significantly depending on the route, competition, special offers and campaigns. In our experience, there is an increasing demand for more expensive high-quality cabins and better restaurants. Our ongoing fleet renewal program and the introduction of new vessels have improved the standard of our vessels and the service offering onboard and have enabled us to increase passenger ticket prices for trips on the new vessels. The table below sets forth the development of our passenger ticket sales and passenger numbers on the Finland—Estonia and Sweden—Estonia routes in the financial years ended August 31, 2003, 2004 and 2005:

	Finland – Estonia			Sweden – Estonia		
	Financial year ended August 31,					
Ticket sales	2003[1]	2004	2005	2003[1]	2004	2005
Ticket sales per passenger (EEK)	216	220	241	576	639	565
Number of passengers (million)	2.1	2.2	2.5	0.5	0.6	0.7
Total ticket sales (EEK million)	458	488	614	275	364	388

1 The total ticket sales line item is unaudited and has been adjusted to facilitate comparability with the figures for the 2004 financial year and 2005 financial year. Total ticket sales in our audited financial statements for the 2003 financial year amounted to EEK 567 million on the Finland—Estonia route and EEK 260 million on the Sweden—Estonia route.

Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006.

Private Cars. All of our vessels transport private cars on the car/cargo deck. There is limited room for private cars on the high-speed ferries, whereas several hundred cars can be transported in the car decks of larger cruise ferries. We also sell tickets for private car transport as part of our passenger ticket sales. Private car transport sales are generally linked to sales of tailored travel packages often involving additional features, such as hotel or spa stays or Baltic roundtrips.

Conference Facilities. Our cruise ferries also provide a variety of other offerings and facilities, such as conference facilities. We offer both standard packages that cover basic requirements and also tailor-made packages to accommodate the specific needs of clients. The use of conference facilities onboard our vessels have increased in the past few years and have been supported by the larger and better-equipped facilities on our newer vessels. Our aggregate conference-related sales amounted to EEK 113 million in the 2005 financial year, an increase of 13 per cent from the previous financial year. Onboard conferences enable customers to hold a quick getaway conference and also offer onboard recreation facilities for participants. The 340 square meter conference area of Romantika located on its ninth deck offers a selection of ten well-equipped conference rooms, while the equally well-equipped conference facilities onboard Victoria I offer 11 conference rooms for a maximum of 400 participants. The conference area of Galaxy has 9 different size halls, of which many are possible to join together, thereby combining their size and capacity. Thanks to its spaciousness, the conference center can service a maximum of 324 guests at one time.

Restaurant and Shop Sales

Onboard sales consist of all sales in restaurants, bars, pubs, shops, conference halls, saunas and gaming areas.

Restaurants and Bars. Our cruise and high-speed ferry passengers can dine at varying price levels, ranging from traditional à la carte and buffet restaurants to fast food dining areas and pubs. We have developed menus suited to Nordic tastes, accompanied by culinary inspiration from other ethnic cuisines. We focus strongly on the quality of our food and service, and our chefs and bartenders have won several awards. Onboard sales in restaurants and bars have retained their tax-free status on all of our routes following Estonia's accession to the European Union.

Shops. All of our vessels have onboard shops, where passengers can purchase consumer goods, such as alcoholic beverages, tobacco, cosmetics, sweets, clothing, toys and accessories (the shops on the ro-ro cargo vessels have a smaller product offering). Our onboard shops compete with onshore shops. Since consumer prices in Estonia are currently lower than in Finland and Sweden, the prices in our onboard shops on the ferries traveling to Estonia must be comparable to Estonian consumer price levels to attract our passengers to purchase goods onboard. Previously, all items sold in onboard shops were tax-free, meaning that no excise or value added taxes were levied on any of the goods sold. Since May 2004, our only tax-free route for onboard shop sales connected to Estonia is the Stockholm—Tallinn route operated through Åland (for additional information on Silja routes and tax-free conditions please see section "Silja Overview". Despite the abolition of tax-free shop sales on traffic between Finland and Estonia, we continue to offer our customers products at price levels comparable to tax-free prices to attract passengers to shop onboard our vessels.

We aim to provide a positive shopping experience onboard our vessels and we regularly improve the selection and display of goods sold in the shops. The customer base varies according to the season and the day of the week. For this reason, we must adapt our marketing campaigns in order to reach a wide range of customers. We intend to continue improving the efficiency of the retail space for sweets, spirits and tobacco products in our shops. Shop refurbishment on both the Finland—Estonia and Sweden—Estonia routes will continue, including the introduction of self-service perfume shops on the Sweden—Estonia routes.

The table below shows the development of restaurant and shop revenue per passenger on the routes between Finland and Estonia and Sweden and Estonia in the financial years ended August 31, 2003, 2004 and 2005. In particular, the table below shows the effect of the abolition of tax-free shop sales on the Helsinki—Tallinn route in May 2004 as well as the introduction of Victoria I to the Stockholm—Tallinn route in March 2004.

	Finland – Estonia			Sweden – Estonia		
	Financial year ended August 31,					
Restaurant and shop sales	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
Ticket sales per passenger (EEK)	562	528	488	633	814	861
Number of passengers (million)	2.1	2.2	2.5	0.5	0.6	0.7
Total ticket sales (EEK million)	1,192	1,173	1,243	302	464	591

For additional information on products offered under “Silja” brand, please see section “Silja Overview”.

Sales of Cargo Transport

General. In the cargo business, we operate under the combination tonnage concept, meaning that our vessels generally carry both cargo and passengers. We do not transport container cargo on our vessels (for additional information on types of cargo transported under “Silja” brand, please see section “Silja Overview”). The two main constituents of our cargo business are private car transport and ro-ro cargo transport. Our vessels are equipped with separate car and cargo decks onto which private cars, buses and ro-ro cargo can be driven while the passengers are embarking. Car transport sales often accompany the purchase of a passenger ticket. Cargo traffic is often related to business logistics and its development is closely linked to general economic conditions and trade activity.

The recent increase in cargo transport is mainly due to the accession of the Baltic countries to the European Union and the consequent customs removals, which have increased traffic on the *Via Baltica*. Our customer base for cargo services consists of a wide range of clientele, from large transport companies to small or medium-sized companies. We aim to work closely with our customers in order to continuously enhance our processes and service level, offering a flexible, efficient and affordable service.

Finland—Estonia Route. We have been transporting goods between Finland and Estonia under the Tallink brand for over ten years. During the financial year ended August 31, 2005, we carried 81,000 units of ro-ro cargo on the route between Helsinki and Tallinn, an increase of 60 per cent from the financial year ended August 31, 2004. We are currently the market leader on this route, with unparalleled cargo capacity and year-round service. We believe that our skilled and experienced crew and onshore staff, combined with long-standing customer relationships, have earned Tallink a reputation as a highly reliable provider of freight transport between Finland and Estonia. For the number of cargo units transported on this line during the third quarter of financial year ending August 31, 2006, please see Tallink’s Q3 results on Tallinn Stock Exchange.

The development of ro-ro cargo and private car transport onboard our vessels and the vessels of our competitors Viking Line and Eckerö Linjen on the route between Helsinki and Tallinn during the years ended December 31, 2003, 2004 and 2005, respectively, is shown in the table below:

	Finland—Estonia					
	Year ended December 31,					
	Ro-ro cargo (cargo units in thousands)	Private cars (thousands)	Ro-ro cargo (cargo units in thousands)	Private cars (thousands)	Ro-ro cargo (cargo units in thousands)	Private cars (thousands)
Tallink		108		150	90	199
Silja Line*	34	97	32	132	11	142
Viking Line	25	5	29	48	29	75
Eckerö Line	17	43	27	60	47	80
Other operators	0	35	10	58	0	58
Total	127	288	165	448	177	554

Source: ShipPax statistics

* On December 31, 2005 AS Tallink Grupp had not acquired any parts of Silja Oy Ab.

Sweden—Estonia Routes. In the financial year ended August 31, 2005, we carried 50,000 units of ro-ro cargo on the route between Sweden and Estonia, a decrease of five per cent from the previous year. We have strengthened our market position with the commencement of operations on the Stockholm—Tallinn route. Four vessels are currently operating on the routes between Sweden and Estonia, where we are the only operator of daily passenger and ro-ro cargo transport services. We have been serving the Kapellskär—Paldiski route as a cargo operator since 1998. We believe that our service from Kapellskär to Paldiski in just 11 hours is one of the fastest ways to transport cargo between Sweden and Estonia. On the Stockholm—Tallinn route, we are currently the only provider of ro-ro cargo transport services. In addition the transfer of Romantika to this route in summer 2006 increased our cargo capacity on this route by approximately 35 per cent compared to 2003. For the number of cargo units transported on this line during the third quarter of financial year ending August 31, 2006, please see Tallink's Q3 results on Tallinn Stock Exchange.

Finland—Germany Route. After the acquisition of three Superfast ferries in April 2006 (for additional information please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries"), Tallink started operating between Hanko—Paldiski—Rostock. The route was later changed by excluding the port of Paldiski (please see "Industry overview – Business – Routes Operated – Finland—Germany Route"). Superfast ferries operation is cargo driven route – meaning that a large portion of income is derived from cargo sales. For the number of cargo units transported on this line during the third quarter of financial year ending August 31, 2006, please see Tallink's Q3 results on Tallinn Stock Exchange.

Sweden—Latvia Route. Since the Riga-Stockholm route is new market for Tallink and cargo contracts are usually formed for a period of one year, we expect an increase in transported cargo units in calendar year 2007. For the number of cargo units transported on this line during the third quarter of financial year ending August 31, 2006, please see Tallink's Q3 results on Tallinn Stock Exchange.

Finland—Sweden Routes. For additional information on cargo services offered under "Silja" brand, please see section "Silja Overview".

Other

Hotel Operations***.*** In response to increased tourist activity, we have engaged in hotel operations to support and supplement our passenger traffic business. In May 2004, Tallink's wholly-owned subsidiary, Osaühing TLG Hotell, began operating the 350-room Hotell Tallink in the principal tourist center of Tallinn. Previously, we used the services of other hotels to accommodate passengers staying overnight in Tallinn. Hotell Tallink, which is a member of the Best Western hotel chain, now predominantly serves our passengers who stay in Tallinn overnight or for a longer period of time, but is also available to other visitors. Approximately 70 per cent of our hotel customers are our passengers staying overnight in Tallinn. The number of overnight stays has been continuously increasing with respect to both our Finnish and Swedish customers as hotel packages have become more popular. We believe that our combined ship and hotel check-in and reservation system is an important advantage in attracting our ferry passengers to our hotel.

The table below shows the average room occupancy rates for Hotell Tallink compared to other Tallinn hotels and Estonian hotels in general between May and December 2004 and from January 1 through December 31, 2005.

	2004	2005
	%	
Hotell Tallink[1]	54	60
Tallinn hotels	63	60
Estonian hotels in general	49	47

Source: Estonian Tourist Board

1 Hotell Tallink was leased from April 30, 2004 and opened in May 2004.

We believe that our annual average occupancy rate of 54 per cent from the opening of the hotel in May 2004 through the end of the year 2004 and approximately 60 per cent in the period from January to December 2005 demonstrates the rapidly growing interest in Hotell Tallink. Currently, three-quarters of all reservations are made through our own sales network and mostly comprise our ferry passengers. An average stay in Hotell Tallink is approximately 1.26 nights compared to a Tallinn average of 1.77, which reflects our current customer base. We believe that growing interest in hotel packages, together with increased tourism to Tallinn in general, provides considerable potential for increased sales and will enable us to further increase Hotell Tallink's occupancy rate, length of average stay and sales levels.

We lease Hotell Tallink from a real estate company, Osaühing HTG Vara, jointly owned by Tallink's largest shareholder Infortar and by E.L.L. Kinnisvara AS, a subsidiary of Aktsiaselts Merko Grupp, a leading Estonian construction and real estate group. The term of the lease and related operations agreement is ten years. See "Related Party Transactions."

In addition, we plan to operate a new 290-room conference and spa hotel close to the center of Tallinn near the port area. This hotel is scheduled to open in late 2006. In August 2005, we signed a rental agreement with OÜ Sunbeam (a wholly-owned subsidiary of Infortar) which is the owner of the relevant real property. Compared to our Hotell Tallink, the new conference and spa hotel will have a broader service offering, including a spa, sauna and wellness facilities.

Hotel Packages. Our hotel packages typically consist of transport on our vessels together with an overnight stay in a Tallinn hotel, with Hotell Tallink as the primary, but not the exclusive, choice. The growing interest in hotel packages and overnight stays in Tallinn is a result of the increased tourist flow to the Baltic countries. Hotell Tallink provides an additional option for accommodation and has been well received by our customers.

Gambling. We offer traditional gambling facilities on all of our cruise ferries. These include entertainment machines, slot machines and (on larger cruise ferries) gambling tables, such as roulette and black jack.

Chartering. Effective fleet deployment is an important part of our strategy and business. We view chartering as a means of optimizing asset utilization from time to time. We recently signed a charter party agreement with Compaigne Marocaine de Navigation of Morocco for the chartering of vessel Fantaasia from June to October 2006.

Sales and Marketing

Finland is our most important market in terms of revenue and the majority of our customers come from Finland. We offer our Finnish customers a broad range of services, including different vessel types and frequent departures as well as price options depending on customer preferences. We believe that we have strong and positive brand recognition in Finland and that our brand is readily associated with travel to Tallinn. Our mini-cruise and high-speed ferry products are well-known. Many of the travelers onboard our vessels are repeat customers. For example, the number of members in our TallinkClub loyalty program has grown rapidly. The delivery of Romantika, with high-quality cabins and services, has increased our customer base and per passenger spend. We expect this trend to continue with the introduction of the new state of the art cruise ferry Galaxy which was delivered in April 2006 for the Helsinki-Tallinn route.

On the Sweden—Estonia routes, we are the only operator offering daily departures. We transported approximately 700,000 passengers in fiscal year 2004/2005, which is more than the number of passengers transported by our competitors but considerably less than the number of passengers on our well-developed Finland—Estonia route. Despite good progress shown by market surveys during the past few years, our brand, whilst well associated with the end destination Tallinn, is not equally well recognized in Sweden as in Finland. However, we believe that our brand will benefit from the operation of Victoria I, which was introduced in 2004, and the transfer of Romantika to the Stockholm—Tallinn route in the spring of 2006.

Our network of sales agencies and a network of travel agencies selling tickets for our ferries constitute the most important components of our sales and marketing organization. All major travel agencies in Finland, most travel agencies in Estonia and the major travel agencies in Sweden, Latvia and Lithuania sell tickets for our ferries as well as travel packages in which transport and/or accommodation on our ferries form part of the package. All of these travel agencies support our sales and marketing function and use a direct online connection to our booking system. Our own network of sales agencies is divided into country organizations for Finland, Sweden Latvia and Estonia. The Finnish organization is responsible for Finnish customers, the Estonian organization is responsible for customers in Estonia, Russia and Lithuania, the Latvian organization is responsible for customers in Latvian and the Swedish organization is responsible for Swedish customers and customers in other Scandinavian countries. The Estonian organization is also responsible for onboard marketing. This decentralized marketing function allows greater flexibility to adapt our marketing activities in response to cultural differences in individual markets.

On the German—Finland route we cooperate with Attica Group who is our main sales agent in Lübeck in marketing Superfast products and services in Germany. In the future we will expand our own sales network.

Marketing Activities

As our most important target segment is leisure travel, we market our services primarily through various types of consumer media, including newspapers and other publications, television, radio, internet and billboards. Brochures and other marketing materials supplement the information offering. When planning our marketing activities, we utilize a variety of sources. These include third-party market research (brand awareness studies, studies on tourism trends, analysis of ferry traffic), competitive information (statistics on competitors, cruise and ferry information newsletter), our own real-time statistics, our own research (passenger interviews, feedback from travel agents), our own campaigns and our new booking system. Our marketing department uses a rolling marketing action plan that is prepared for the following 12 months but continuously updated to reflect market developments. While over one-half of our external advertising is based on annual contracts, a significant part of our marketing budget is flexible and used as deemed appropriate.

In Finland, where we have a high market share on the highly competitive Helsinki—Tallinn route, we focus on frequent advertising in the main newspapers and selected magazines as well as outdoor advertising. Television and radio commercials are optional advertising channels. Traditionally, our main Finnish customer groups have included middle-aged and older tourists, for whom our more traditional service offering is well-suited. For marketing purposes and to maintain our competitive advantage, our main target groups currently include families, corporate groups and business travelers as well as young urban adults and professionals. We currently view these groups as offering the greatest potential. We focus primarily on selling a wider variety of experiences, such as individual and package tours of the Baltic countries by private car, spas, theater, opera and golfing.

In Sweden, we focus mainly on increasing our positive brand recognition as well as on the attractiveness of our mini-cruise offering and Tallinn and Riga as a tourist destination. While the onboard mini-cruise experience is still the most important single attraction, the attractive and dynamic destination offered by Tallinn and Riga with its medieval centers, cultural venues and ever expanding tourist attractions is also an important feature in our marketing. We aim to capture a larger portion of both leisure and business travel to Estonia and Latvia. Furthermore, our newest vessels provide a high safety standard, which is a particularly important feature for the Swedish public. We believe that growth will primarily be driven by onboard conferences, family passengers with private cars and high-end customers attracted by our high-quality vessels. We continuously measure market requirements and brand recognition through surveys and campaigns and use cross-promotions with well-known Swedish brands. Our public relations and marketing focus is mainly on daily newspapers, outdoor marketing and occasional television commercials.

Booking System

We have recently modernized our ticket booking and sales systems. Our new central online booking and check-in system, CarRes, was implemented in 2002 and provides improved statistics and information on line and cruise passengers as well as car and cargo traffic. The system connects our ticket offices in each country and also incorporates travel agencies and Internet customers. The system has improved customer service by facilitating booking, boarding and registration. The online internet booking system that can currently be used in Estonia, Finland and Sweden, is an important addition to and improvement of our customer service.

Call Centre

Due to increasing passenger numbers, we have implemented an IP-protocol based Call Centre in cooperation with Elion, the largest fixed-line telecommunication services provider in Estonia. The new system offers much greater flexibility to redirect calls, maintain and manage waiting lists and monitor the activity of call center personnel than regular phone systems. All calls from Finnish customers that are waiting to be connected to the Helsinki booking office can be redirected to Estonia, thus maximizing the number of calls answered. Similarly, calls waiting to be connected to our Swedish booking office can be redirected to Estonia, where we employ multi-lingual call center staff. In Latvia we have our own call centre which can also be redirected to Estonia if needed

Customer Loyalty Program

TallinkClub is a customer loyalty program connecting us with more than 100,000 customers. It is designed to offer versatile, high-quality travel services to meet the needs of our frequent passengers. TallinkClub members receive discounts on ticket prices, take advantage of our special service telephone line for convenient booking of their trips and receive the latest information on club activities. TallinkClub members also receive a newsletter containing information on the latest special trips and travel opportunities, events and member-only offers. Cooperation agreements with a multitude of shops and service providers make it possible to provide TallinkClub members with special offers and services. Onboard the vessels, TallinkClub benefits are available in restaurants, tax-free shops and certain other facilities.

In addition, Silja operates a highly successful loyalty program named Club Silja – for additional information on Club Silja please see section “Silja overview”.

Fleet

Current Fleet

We currently own and operate a fleet of 21 vessels as shown in the table below (Silja vessels not included in this table – please see the note below the table).

Vessel	**Route operated**	**Built / Acquired**	**Maximum passengers[1] / Cargo lane meters or private cars[2]**
		2006	2,800 / 1,130
Victoria I	Stockholm—Tallinn	2004	2,500 / 1,000
Romantika	Stockholm—Tallinn	2002	2,500 / 1,000
Meloodia I	Helsinki—Tallinn	1979 / 2002	1,600 / 730
Regina Baltica	Stockholm—Riga	1980 / 2002	1,500 / 780
Vana Tallinn	Kapellskär—Paldiski	1974 / 1997	800 / 650
Fantaasia	In charter	1979 / 1997	1,550 / 810
High-speed ro-pax ferries			
Superfast IX	Hanko—Rostock	2002 / 2006	728 / 1,900
Superfast VIII	Hanko—Rostock	2001 / 2006	717 / 1,900
Superfast VII	Hanko—Rostock	2001 / 2006	717 / 1,900
High-speed ferries			
Tallink AutoExpress 4	Helsinki—Tallinn	1996 / 2004	574 / 171
Tallink AutoExpress 3	Helsinki—Tallinn	1997 / 2004	580 / 171
Tallink AutoExpress 2	Helsinki—Tallinn	1997 / 2001	673 / 175
Ro-ro cargo vessels			
Regal Star	Helsinki—Tallinn	1999 / 2004	80 / 2,087
Kapella	Kapellskär—Paldiski	1974 / 1999	50 / 633

1 Based on information obtained from the passenger ship certificates.
2 For high-speed ferries, the figure represents the number of private cars.

Six Silja vessels are not reflected in the upper table. For an overview of Silja's fleet please see section "Silja Overview".

The vessels that we operate are registered with the register of ships in Cyprus, in Finland, in Sweden or in the Bahamas. We operate all of our vessels either under the Estonian, Swedish or Finnish flag pursuant to bareboat-charter agreements entered into between the relevant subsidiary and either Tallink (in the case of vessels on the Finland—Estonia route; Vana Tallinn and Fantaasia), AS Hansatee Cargo (in the case of vessels on the Sweden—Estonia routes and Regina Baltica, except Vana Tallinn), AS Tallink Baltic (in case of vessels on the Finland—Germany route). In addition, Silja Oy Ab has concluded some bareboat-charter agreements in case of some of the Silja brand vessels. Vana Tallinn is operated by AS Hansatee Cargo on the Kapellskär—Paldiski route based on a time-charter agreement with Tallink. Regina Baltica is operated by AS Tallink on the Riga—Stockholm route based on a time-charter agreement with AS Hansatee Cargo. Fantaasia, was chartered (time-charter) to Compagnie Marocaine de Navigation, a Maroccaine company and trading starting from June 2006 until October 2006 in the Mediterranean Sea.

New Vessels

We have embarked on a substantial investment and fleet renewal program, the principal components of which have involved the purchase of Romantika, Victoria I and Galaxy. In 2000, we ordered Romantika from Aker Finnyards Oy. The cruise ferry was delivered and began to operate on the Helsinki—Tallinn route in May 2002. In 2002, we ordered Victoria I also from Aker Finnyards Oy. This cruise ferry was delivered and began to operate on the Stockholm—Tallinn route in April 2004. In 2004 we ordered Galaxy also from Aker Finnyards Oy. The cruise ferry was delivered and began to operate on the Helsinki—Tallinn route in April 2006. Romantika, Victoria I and Galaxy are currently the newest cruise ferries operating in the Northern Baltic Sea region. We believe that Romantika, Victoria I and Galaxy have attracted a broader customer base because they offer new higher quality facilities.

In addition to the higher standard of facilities, Romantika and Victoria I generate increased profitability and operate at lower costs per passenger than the previous Tallink ferries on these routes. For example, while between June and December 2002 Romantika carried 13 per cent fewer passengers on the Helsinki—Tallinn route than Fantaasia and Meloodia I combined had carried on that route during the same period in the previous year, the gross revenue generated by Romantika was nine per cent higher and the operating costs four per cent lower compared to the combined result of operations of Fantaasia and Meloodia I. A similar development can be demonstrated on the Stockholm—Tallinn route, where Victoria I replaced Fantaasia in early 2004. In the financial year ended August 31, 2004, Victoria I, due to its increased capacity, carried 128 per cent more passengers on the Stockholm—Tallinn route than its predecessor Fantaasia in the financial year ended August 31, 2003, while the gross revenue generated by Victoria I was 138 per cent higher compared to Fantaasia and the operating costs were only 93 per cent higher. We are expecting Galaxy to carry even more passengers than Romantika carried when she was operating on the route between Helsinki and Tallinn.

The project price (including construction, marketing and start-up costs) for each of Romantika and Victoria I amounted to approximately EUR 150 million, the majority of which was funded through loan facilities. The vessels are 193.8 meter passenger cruise ferries each with a capacity of 2,500 passengers. The technical specifications of the new vessels, especially ice-class and higher speed, will allow us to transfer them to new routes and markets if desired.

Romantika and Victoria I each have up-to-date onboard equipment. The vessels have larger shopping areas, offering a wider range of goods, than previous vessels. The vessels also offer a variety of bars and dining options, with six restaurants in all offering over 1,500 seats for dining. Six different entertainment areas, including discos, bars, cabarets, pubs and Internet cafés, can host more than 2,000 passengers. The cabins, all of which are above the car deck, are equipped with a TV and furnished to a high standard. The vessels' modern and well-equipped conference rooms, saunas, pools and onboard Internet connections mean a higher standard classification for the vessels, thus enabling us to maintain higher fares.

Galaxy has a maximum capacity of 2,800 passengers, with accommodation provided by 927 cabins. In comparison to its predecessors Romantika and Victoria I, Galaxy is larger, has more high-class cabin space, expanded shopping and conference areas with latest equipment as well as a wider selection of restaurants and bars. The price for Galaxy amounted to EUR 165 million, mostly financed through a loan facility. Moreover, we have used an option to order another vessel similar to Galaxy. We expect that the increased high-quality offering of Galaxy will broaden our customer base.

We also have plans to introduce two new high-speed ro-pax ferries on the Helsinki—Tallinn route. The new high-speed ro-pax ferries are designed to combine the best features of a traditional cruise ferry and a high-speed ferry. These features include high speed, expanded facilities for dining and shopping onboard, and space for cargo transport. The new high-speed ro-pax ferries are intended to increase capacity on the Helsinki—Tallinn route. With the new high-speed ro-pax ferries we could provide additional possibilities for swift cargo transport. In August 2005, we agreed to order one high-speed ro-pax ferry from the Finnish company Aker Finnyards Oy and another from the Italian company Fincantieri Cantieri Navali Italiani S.p.A. The deliveries of these ferries are expected in the spring of 2007 and 2008, respectively. The prices for the high-speed ro-pax ferries are EUR 110 million and EUR 113 million, respectively.

The table below sets forth the vessels on order by all operators in the Northern Baltic Sea region based on publicly available information.

Vessel type	Expected time of delivery	Maximum passengers / Cargo lanemeters	Operator / Manufacturer
High-speed ro-pax ferry	2007	1,900 / 2,000	Tallink /Aker Finnyards
High-speed ro-pax ferry	2008	2,080 / 2,000	Tallink /Fincantieri
Cruise Ferry	2008	2,800 / 1,100	Tallink /Aker Finnyards
High-speed ro-pax ferry	2008	2,500 / N/A	Viking Line/Aker Finnyards
Ro-pax ferry	2006	500 / 4,200	Finnlines/Fincantieri
Ro-pax ferry	2006	500 / 4,200	Finnlines/Fincantieri
Ro-pax ferry	2006	500 / 4,200	Finnlines/Fincantieri
Ro-pax ferry	2006	500 / 4,200	Finnlines/Fincantieri
Ro-pax ferry	2007	500 / 4,200	Finnlines/Fincantieri

Competition

Competitors

In addition to us, the largest companies by revenue providing passenger transport, mini-cruise and ro-ro cargo services in the Northern Baltic Sea region are Viking Line, Sea Containers, Eckerö Linjen and Birka Line.

The main providers of cargo transportation services on the Germany-Finland route are Finnlines and Transfennica

Viking Line is a Finnish company listed on the Helsinki Stock Exchange and based in Åland. It focuses mainly on passenger ferry and cargo traffic and mini-cruises between Finland and Sweden, routed through the home port of its vessels, Mariehamn. Viking Line has a long history of traffic between Finland and Sweden dating back to 1959. Viking Line operates six cruise ferries (five of which are in service between Finland and Sweden and one between Helsinki and Tallinn) built between 1980 and 1992.

Eckerö Linjen and Birka Line, both based in Mariehamn, Åland, are smaller ferry operators with only a few cruise ferries operating on certain specific routes. Eckerö Linjen, which is the largest shareholder of Birka Line, operates daily traffic on the Helsinki – Tallinn route. Eckerö Linjen further operates daily traffic between Grisslehamn, Sweden, and Eckerö, Åland. Birka Line’s business concept is to operate traffic to, from and via Åland, while also chartering out seven cargo vessels that operate in Northern Europe as well as in North and South America. Birka Line is listed on the Helsinki Stock Exchange.

Nordic Jet Line and Linda Line are smaller high-speed ferry operators on the Helsinki – Tallinn route with two high-speed ferries each. Both companies operate regular passenger traffic during the spring, summer and autumn.

Finnlines is a ro-ro and ro-pax services operator between Finland and its major trading partners in Europe. Finnlines’ ro-pax traffic offers lines from Helsinki and Turku to Germany. Finnlines is listed on the Helsinki Stock Exchange.

Transfennica is ro-ro services provider between Finland and major European ports. Sea Containers is a fast-ferry operator between Tallink and Helsinki using the “SuperSeaCat” vessels.

The below table shows the operators of passenger, ro-ro and ro-pax business on routes in the Baltic Sea region, and the vessels currently in service:

Operator	Route operated	Vessel / Type / Built	Maximum passengers / Cargo lane meters[1] or private cars[2]
Tallink	Stockholm – Tallinn	Victoria I / Cruise ferry / 2004	2,500 / 1,000
	Stockholm – Tallinn	Romantika / Cruise ferry / 2002	2,500 / 1,000
	Kapellskär – Paldiski	Kapella / Ro-ro cargo vessel / 1974	50 / 633
	Kapellskär – Paldiski	Vana Tallinn / Cruise ferry / 1974	800 / 650
	Helsinki – Tallinn	Galaxy / Cruise ferry / 2006	2,800 / 1,130
	Helsinki – Tallinn	Meloodia I / Cruise ferry / 1979	1,600 / 730
	Helsinki – Tallinn	Regal Star / Ro-ro cargo vessel / 1999	80 / 2,087
	Helsinki – Tallinn	AutoExpress 2 / High-speed ferry / 1997	673 / 175
	Helsinki – Tallinn	AutoExpress 3 / High-speed ferry / 1997	580 / 171
	Helsinki – Tallinn	AutoExpress 4 / High-speed ferry / 1996	574 / 171
	Stockholm – Riga	Regina Baltica / Cruise ferry / 1980	1,500 / 810
	Hanko – Rostock	Superfast VIII / High-speed ro-pax/2001	717 / 1,900
	Hanko – Rostock	Superfast VII / High-speed ro-pax/2001	717 / 1,900
	Hanko – Rostock	Superfast IX / High-speed ro-pax/2002	728 / 1,900
Silja Line	Helsinki – Stockholm	Symphony / Cruise ferry / 1991	2,670 / 950
	Helsinki – Stockholm	Serenade / Cruise ferry / 1990	2,670 / 950
	Turku – Stockholm	Europa / Cruise ferry / 1993	3,123 / 932
	Turku – Stockholm	Festival / Cruise ferry / 1986	2,000 / 1,080
	Turku – Stockholm	Sea Wind / Ro-pax ferry / 1971	260 / 1,200
	Turku – Stockholm	Sky Wind / Ro-pax ferry / 1986	364 / 1,800
Sea Containers	Helsinki – Tallinn	SuperSeaCat 3 / High-speed ferry / 1999	800 / 175
	Helsinki – Tallinn	SuperSeaCat 4 / High-speed ferry / 1999	800 / 175
Viking Line	Helsinki – Stockholm	Mariella / Cruise ferry / 1985	2,700 / 1,115
	Helsinki – Stockholm	Gabriella / Cruise ferry / 1992	2,400 / 970
	Turku – Stockholm	Amorella / Cruise ferry / 1988	2,420 / 970
	Turku – Stockholm	Isabella / Cruise ferry / 1989	2,200 / 970
	Helsinki – Tallinn	Rosella / Cruise ferry / 1980	1,700 / 720
	Stockholm – Mariehamn	Cinderella / Cruise ferry / 1989	2,700 / 1,130
	Mariehamn – Kapellskär	Ålandsfärjan / Cruise ferry / 1972	963 / 360
Eckerö Linjen	Helsinki – Tallinn	Nordlandia / Cruise ferry / 1981	2,000 / 780
	Helsinki – Tallinn	Translandia / Ro-ro cargo vessel / 1976	104 / 1549
	Grisslehamn – Eckerö	Roslagen / Cruise ferry / 1972	1,320 / 390
	Grisslehamn – Eckerö	Ålandia / Cruise ferry / 1972	1,320 / 440
Birka Line	Stockholm – Mariehamn	Paradise / Cruise ferry / 2004	1,800 / -
Nordic Jet Line	Helsinki – Tallinn	HSC Nordic Jet / High-speed ferry	486 / 52
	Helsinki – Tallinn	HSC Baltic Jet / High-speed ferry	428 / 52

Linda Line	Helsinki – Tallinn	Jaanika / High-speed ferry	200 / -
	Helsinki – Tallinn	Laura / High-speed ferry	200 / -
Finnlines	Helsinki – Travemünde	R-Finnpartner / Ro-pax ferry / 1995	300 / 3050
	Helsinki – Travemünde	R-Finntrader / Ro-pax ferry / 1995	300 / 3050

Source: ShipPax statistics (for Tallink based on passenger ship certificates).

1 On average, trucks require 15-16 lane meters of space on the car and cargo deck.

2 For high-speed ferries, the figure indicates the number of private cars.

3 There is a number of ro-ro cargo vessels operating in Finland-Germany route that are not included in this table.

Traffic Volumes and Market Shares

The overall passenger and ro-ro cargo volumes in the Northern Baltic Sea region between Finland, Sweden and the Baltic countries have been increasing at a moderate pace during the past few years. The table below shows the growth of passenger and cargo traffic volumes at the ports of Tallinn, Helsinki, Turku, Kapellskär, Stockholm and Rostock between the years ended December 31, 2003, 2004 and 2005:

	Passengers[1]			Ro-ro cargo units		
	Year ended December 31,					
	2003	2004	2005	2003	2004	2005
Tallinn, EST	5,658,334	6,532,348	6,480,651	201,139	227,671	242,603
Helsinki, FIN	8,515,078	8,700,000	8,800,000	203,208	240,000	198,000
Turku, FIN	4,062,346	3,879,414	3,763,403	107,371	119,540	125,332
Stockholm, SWE	7,190,083	7,823,821	8,121,000	138,253	98,360	146,000
Kapellskär, SWE	1,464,427	1,472,411	1,524,000	139,028	142,356	163,000
Hanko, FIN	170,915	176,793	175,870	17,761	47,593	66,808
Rostock, GER	2,330,000	2,250,000	2,225,000	77,500	93,300	117,547

Source: ShipPax statistics.

1 A single passenger taking round-trip counts as two passengers for the purpose of this table.

In the Northern Baltic Sea region, passenger traffic and cargo volumes have traditionally been highest on the Helsinki – Stockholm route. The volumes on the Stockholm – Tallinn and Kapellskär – Paldiski routes are considerably lower than those on the Helsinki – Stockholm, Turku – Stockholm and Helsinki – Tallinn routes.

There are six companies operating on the Helsinki – Tallinn route. We believe that we are the market leader in both passenger and ro-ro cargo traffic on this route with market shares of approximately 43 percent in passenger traffic and 45 in cargo traffic in the financial year ended August 31, 2005.

We believe that the passenger market shares of the different operators on the Helsinki – Tallinn route in the year ended December 31, 2005 were as follows:

Company	Passengers (%)
Tallink	42
Silja Line*	18
Viking Line	15
Eckerö Linjen	15
Nordic Jet Line	8
Linda Line	3
Other operators	0
Total	100

Source: Tallink's management accounts, publicly available information on competitors and Port of Tallinn.

* On December 31, 2005 AS Tallink Grupp had not acquired any parts of Silja Oy Ab and the later acquisition, that took place in July, 2006, did not include the operations on Helsinki—Tallinn route. Therefore part of former Silja remains our competitor on this route using the name Sea Containers.

On the routes between Sweden and Estonia, we are currently the only company with daily passenger and ro-ro cargo services between Stockholm and Tallinn and between Kapellskär and Paldiski. We expect he routes between Sweden and Estonia to be growth areas in terms of volume and revenues in the medium-term. This expectation is supported by our recent market studies and feedback from our onboard and onshore questionnaires as well as our positive experience with Victoria I.

On the route between Sweden and Latvia we are currently the only company with scheduled passenger and ro-ro cargo services between Stockholm and Riga.

Our main competitors in the providing ro-ro cargo services on the routes between Finland and Germany are Finnlines and Transfennica. The table below shows the ro-ro cargo traffic volumes and market shares of main players on the routes between Finland and Germany in the years ended December 31, 2003, 2004 and 2005:

	Ro-ro cargo units			Market share, %		
	Year ended December 31,					
	2003	2004	2005	2003	2004	2005
Superfast Ferries*	50,221	47,742	80,378	20	18	29
Finnlines	123,842	134,930	125,076	50	51	45
Transfennica	65,723	61,300	59,214	26	23	22
Other	10,135	21,260	11,039	4	8	4
Total	249,921	265,232	275,707	100	100	100

Source: Attica Group statistics.

* In 2003 and 2004 two vessels in operations. Part of 2005 operated by 3 vessels.

We have a significant share of the markets in which we operate. Companies having such a significant share are subject to specific competition regulations setting forth more stringent standards for the market behavior of such companies. To date no disputes or other issues have arisen from such regulation. See "Risk Factors – Our operations could be affected by any actions taken by competition authorities."

Regulation

Safety

Our subsidiary Osaühing HT Laevateenindus is responsible for technical management, safety, human resources and insurance of our fleet and it seeks to ensure that our fleet is operated in a safe and efficient way and in accordance with all international and national regulations. The first priority of the company is to seek to ensure compliance with the technical and operational aspects of the fleet with international conventions related to safety, such as the STCW (International Convention on Standards of Training, Certification and Watchkeeping for Seafarers) and the SOLAS (International Convention for Safety of Life at Sea). The Tallink Safety Management System is audited by Lloyds Register and Bureau Veritas in accordance with ISM Code (International Safety Management Code) requirements. During their respective navigation periods, all of our vessels hold safety management certificates, which certify that the vessels are operated in accordance with the approved Safety Management System. Furthermore, by the start of each respective navigation period, we obtain ship security certificates for all our vessels, which evidence that safety surveys have been carried out in respect of the vessels and that they have been deemed compliant with applicable safety requirements.

In 2000 and 2001, HT Laevateenindus arranged for several major modifications to be made to our vessels in order to ensure the highest level of navigational and operational safety. HT Laevateenindus also renewed all lifesaving appliances onboard our vessels. As a result, all of our vessels are now fitted with modern, high-quality lifesaving appliances, life rafts and fast rescue boats.

Currently, all of our vessels are fitted with VDRs (Voyage Data Recorder or "Black Box") according to the IMO (International Maritime Organization) regulations in order to provide a useful tool for investigation, training and evaluation. AIS (Automatic Identification Systems), a useful navigational safety tool used during voyages, have already been installed on the vessels.

HT Laevateenindus oversees the training and certification of crewmembers and ensures the compliance of crewmembers' training with the STCW convention. All training and certification activities are carried out in cooperation with Estonian training centers and maritime academies. Vessel personnel undergo regular training according to applicable regulations to ensure readiness for possible emergency situations.

We believe that all lifesaving equipment onboard our vessels meets the highest safety standards. We emphasize the establishment of good seamanship practices and nautical safety standards.

Environment

Environmental issues are one of the highest priorities of the Tallink Safety Management System. Vessels are maintained and operated in accordance with the MARPOL convention (International Convention for the Prevention of Pollution from Ships) in order to ensure that air and sea pollution is kept at the lowest practicable level. Our newest vessels Victoria I and Galaxy have an operational exhaust gas catalyzer system installed and Romantika has been designed to allow for the installation of such system. The applicable air pollution level requirements are met and oil with lower sulphur content of 1.5 % used onboard of our vessels.

All of our vessels have received all required international oil pollution prevention certificates. During their respective navigation periods, our vessels also hold valid sewage pollution prevention certificates to the extent required. Handling of garbage on the vessels is regularly recorded and several of our vessels also hold a special garbage pollution prevention attestation. As the certificates are issued for limited periods, we regularly apply for the renewal of the certificates before their expiry.

We (as well as some of our competitors) operate high-speed ferries on the Helsinki—Tallinn route. According to a number of articles recently published in the Estonian press, there is a problem with stern waves of high-speed ferries, which may cause damage to the shores and port of an Estonian island, Aegna. To our knowledge, several investigations have been conducted regarding this matter, but it has not been proven that waves of the high-speed ferries cause damage to the shores and port. As a result, no material restrictions to the traffic of high-speed ferries have been adopted or proposed by the Estonian authorities.

Trademarks

We have registered the trademark "Tallink" in Estonia, Finland, Sweden and Germany. The registration process in Russia is pending. In Finland, the owner of the trademark is our Finnish subsidiary Tallink Finland Oy. We have also registered "Tallink" as a Community trademark (CTM). In addition, have several other registered trademarks, such as "Hansatee", "Hansaway", "Hansalink" and "Hansatee Baltic Service". In July 2006 we acquired the new trademarks in connection to purchase of Silja Oy Ab (for additional information on Silja's trademarks please see section "Silja Overview"). We are also entitled to use the following trademarks: "SUPERFAST FERRIES", "SUPERFAST FERRIES" with logo, "Act Fast Book Superfast", "Superfast Travel Specials", "The Youngest and Fastest Fleet" on route Germany – Finland (Estonia).

We do not own any patents, utility models or geographical indications, nor do we own, hold or use material proprietary industrial and/or intellectual property rights with respect to which we have not filed a patent, trademark or copyright application. For purposes of our business, we use various types of software programs under license agreements.

We are currently using the following domain names: "tallink.ee", "hansatee.ee" and "tallink.com." The registered user of the domain name "tallink.se" is Tallink Sverige AB and, of the domain name "tallink.fi," Tallink Finland Oy. Additionally, we have filed applications for the registration of the domain names "tallink.lv" and "tallinks.lv".

Material Contracts

Silja Shares Purchase Agreement

On July 19, 2006 the Silja shares purchase was concluded. The relevant agreement was executed on June 11, 2006 regarding the 100 %of Silja Oy Ab shares. The agreement foresaw specifically that the purchase price should be paid by transferring to Silja Holdings Ltd 5 million AS Tallink Grupp shares in addition to ca 450 million EUR (equivalent to 7,041 billion Estonian kroons) that were transferred to Silja Holdings Ltd. The transaction comprises 6 of Silja vessels, namely Silja Symphony, Silja Serenade, Silja Europa, Silja Festival, Seawind and Skywind, the crews of the above mentioned vessels, the facilities and trademarks as specified in section “Silja Overview”. The transaction precluded the fast ferry services and the “legacy” vessels of Silja.

Shipbuilding Agreements

On August 1, 2005, we and Aker Finnyards Oy entered into an agreement for the design, construction and delivery of a 1,900 passenger high-speed ro-pax ferry scheduled to be delivered in May 2007. The purchase price of EUR 110 million is payable in six installments, one of which has already been made.

On October 13, 2005, Tallink Superfast Limited, our wholly-owned subsidiary, entered into an agreement with Fincantieri Cantieri Navali Italiani S.p.A. for the design, construction and delivery of a 2,080 passenger high-speed ro-pax ferry scheduled to be delivered in January 2008. The purchase price of EUR 113 million is payable in five installments, one of which has already been made.

On 17th of December 2006 we concluded the Shipbuilding Agreement with Aker Finnyards Inc regarding the sister vessel to Galaxy for 164 million EUR to be delivered on or before 30th of June, 2008. The purchase price is payable in six installments 1 of which has already been made.

Charter Agreements

All 21 vessels in our fleet are operated by either our parent company Tallink or by our wholly-owned subsidiaries Aktsiaselts Hansatee Cargo, Aktsiaselts Tallink Baltic, Aktsiaselts Tallink, Silja Oy Ab. The vessels are mostly owned by our ship-owning subsidiaries. Nine vessels have been bareboat-chartered by Tallink, three vessels by Hansatee Cargo and three vessels by Tallink Baltic. However, one of the vessels bareboat-chartered by Tallink, Vana Tallinn, has been time-chartered (i.e. with crew) to Hansatee Cargo and one vessel, Regina Baltica, bareboat-chartered to AS Hansatee Cargo, has been time-chartered to AS Tallink. Three vessels operated by Silja are owned by Silja Oy Ab and the other three vessels operated by Silja have been bareboat-chartered by Silja Oy Ab.

Therefore, vessels currently operating between Finland and Estonia are operated by Tallink, while vessels operating between Sweden and Estonia are operated by Hansatee Cargo. The vessel on the route between Sweden and Latvia is operated by AS Tallink, the three Superfast vessels trading between Finland and Germany are operated by AS Tallink Baltic and all six vessels operating between Finland and Sweden are operated by Silja Oy Ab. One of our cruise ferries, Fantaasia, was time-chartered to Compagnie Marocaine de Navigation, a Maroccaine company and trading starting from June 2006 until October 2006 in the Mediterranean Sea (Italy, France, Morocco).

Loan Agreements

The loan agreements and guarantees entered into by us and our group companies are discussed in “Operating and Financial Review and Prospects—Liquidity and Capital Resources—Loan Agreements.”

Insurance

All 21 vessels in our fleet have been insured under insurance policies from leading Scandinavian and European marine insurers like Ålandia Bolagen, Pohjola, Gard and others for H&M, LOH, increased value, freight and war risks. For P&I ships are insured under insurance policies from Gard and UK P&I Club. Several of our loan agreements contain covenants regarding the level of insurance (e.g. some of the loan agreements require the vessels to be insured at their fair market value or at 120 per cent of the outstanding principal loan amount, whichever is higher).

The aggregate fleet insurance coverage as at August 1, 2006 is EUR 1,593,000,000. The fleet insurance policies are typically renewed for a period of one year, and the next renewal for marine hull, hull interest, freight interest, war risk and loss of hire insurance is scheduled for January 1, 2007 and April 16, 2007.

Protection and indemnity insurance is typically renewed annually, the next renewal date being February 20, 2007. The limit of liability per incident under the protection and indemnity insurance is USD 4.25 million.

We believe that our insurance policies correspond to standard industry practices and meet the requirements of the covenants of our loan agreements.

As a general rule, all rights and claims of ship-owning subsidiaries that arise from insurance agreements entered into by them in respect of the vessels that have been mortgaged as a security for loans taken by Tallink and/or such ship-owning subsidiaries have been assigned to the respective lenders.

In some cases, loan agreements that are secured by such mortgage require that rights and claims of all assured parties under insurance contracts be assigned to the respective lender.

Employees and Labor Relations

The average number of our employees by type of activity for each of the financial years ended August 31, 2003, 2004 and 2005 and as at June 30, 2006 is set forth in the table below (since Tallink had not acquired any parts of Silja Oy Ab by June 30, 2006, the following table does not reflect the employees of Silja – additional information about the employees of Silja can be found in section “Silja Overview”):

	Financial year ended August 31,			
	2003	2004	2005	2006, as at 30.06
Onshore	340	561	753	1,007
Onboard	1,581	1,810	1,957	2,604
Total	1,921	2,371	2,710	3,611

The average number of our employees by country of employment for each of the financial years ended August 31, 2003, 2004 and 2005 and as at June 30, 2006 is set forth in the table below (since Tallink had not acquired any parts of Silja Oy Ab by June 30, 2006, the following table does not reflect the employees of Silja – additional information about the employees of Silja can be found in section “Silja Overview”):

	Financial year ended August 31,			
	2003	2004	2005	2006, as at 30.06
Estonia	1,711	2,150	2,461	3,098
Finland	136	140	155	227
Sweden	74	79	88	94
Russia	0	3	6	3
Latvia	0	0	0	189
Total	1,921	2,372	2,710	3,611

On August 30, 2005, we renewed our agreement with the Estonian Seamen's Independent Union (*Eesti Meremeeste Sõltumatu Ametiühing*) regarding salary levels of our onboard staff. The agreement has a term of three years, which commenced on September 1, 2005. The annual increase in employees' salaries under the agreement is five per cent. Distribution of salary funds amongst work positions has been agreed in a supplemental agreement between Tallink, the Estonian Seamen's Independent Union and our subsidiaries Hansaliin and HT Laevateenindus. Regarding the vessels Superfast VII, Superfast VIII and Superfast IX we have concluded an agreement establishing the rules for salaries for the crew onboard these vessels. The salaries shall be increased to the level of 60 % of the Finnish standard in year 2006 starting from 1st of June 2006, and the future perspective graduate rise according to the aforementioned agreement stipulates the level of salaries to meet the Finnish standard 100 % by summer 2008.

Legal Proceedings

Neither Tallink nor any of our subsidiaries have during the 12 months preceding the date of this offering memorandum been or are currently involved in any legal or arbitral proceedings or material disputes which may have or have had a material adverse effect on our business, results of operations or financial condition. Our management is not aware of any facts or circumstances that could reasonably be expected to lead to any material claims being made against us or any of our subsidiaries in the foreseeable future.

On November 19, 2004, we filed a claim with the European Commission regarding the fees charged by the Port of Tallinn, which is still pending. We have also filed claims against the Maritime Administration and the Ministry of Economic Affairs and Communications regarding the lighthouse and ice-breaking fees charged to them. These matters are also pending.

Osaühing HT Meelelahutus, one of our subsidiaries, was previously involved in a dispute with the Estonian Tax Board regarding payment of income tax. On March 18, 2003, the Tax Board issued a formal notice of assessment according to which HT Meelelahutus was obliged to pay corporate income tax for the years 1998 and 1999 in the amount of EEK 379,167 and income tax on expenses not related to business for the year 2000 in the amount of EEK 134,988 (plus interest in the amounts of EEK 234,119 and EEK 54,814, respectively). HT Meelelahutus challenged the formal notice of assessment. On June 5, 2003, the Tax Board approved the challenge and repealed in full the formal notice of assessment issued on March 18, 2003. The Tax Board indicated, however, that, in the event of additional evidence, a new formal notice of assessment might be issued which could increase the tax liability.

Real Estate and Premises

The table below describes our main business premises, all of which are leased by Tallink.

Location	Nature of lease	Area (sq. m.)
Tallinn, Tartu mnt. 13	Headquarters leased from SEB Eesti Ühispank	2,941
Tallinn, Tallinn Old Port area	Several operational premises leased from the Port of Tallinn	2,163
Paldiski, Rae põik10	Leased by AS Hansatee Cargo from the Port of Tallinn	70
Helsinki, Several locations	Leased from various lessors	1,430
Helsinki, Länsisatama	Leased from the Port of Helsinki	350
Stockholm, Terminal 2	Leased	960
Rostock, Ost-West-Strasse 35, Germany	Leased by AS Tallink Grupp	1,045
Riga, several locations	Leased from various lessors	213

In addition, we own 3,065 square meters of residential land at Käsmu village in Estonia. The site contains the historic building of Käsmu Marine School, an architectural and historic monument subject to restrictions arising from the Estonian Heritage Act, including a right of pre-emption in favor of the Republic of Estonia. This real estate is used for training purposes. Also, we own an apartment in S.-Petersburg of 112.4 square meters used for the staff accommodation purposes.

Organization

Operational Organization

Our headquarters are located in Tallinn. The operational structure of our business is similar to the legal structure of our group of companies and is divided into ship operations, marketing companies and service companies. Each ship is managed as a separate entity comprised of technical crew and service staff. Sales companies in Finland, Sweden, Latvia and Germany and Tallinn in Estonia are responsible for ticket sales to passengers in their respective countries. Company level functions mainly administered out of Tallinn include finance, service and maintenance and purchasing.

Legal Structure

AS Tallink Grupp is the operating parent company of our group of companies. Set forth below is a structural chart showing the legal entities belonging to our group of companies. The respective ownerships in the table are 100% unless stated otherwise.

AS Infortar
41,86 %

AS Tallink Grupp
Holding company and Finland-Estonia route

Other Shareholders
58,14 %

Shipowning Companies

- Kapella Shipping Ltd, Bahamas
  "Kapella"
- Tallinn-Helsinki Line Ltd, Cyprus
  "Regal Star"
- Vana Tallinn Line Ltd, Cyprus
  "Vana Tallinn"
- Tallink Line Ltd, Cyprus
  "Fantaasia"
- Tallinn Swedish Line Ltd, Cyprus
  "Meloodia I"
- Tallinn Stockholm Line Ltd, Cyprus
  "Regina Baltica"
- Tallink Ltd, Cyprus
  "Romantika"
- Tallink Victory Line Ltd, Cyprus
  "Victoria I"
- Tallink Fast Ltd, Cyprus
  Newbuilding, hull no 1361
- Hansalink Ltd, Cyprus
  "Tallink AutoExpress 2"
- Tallink Autoexpress Ltd, Cyprus
  "Tallink AutoExpress 3"
- Tallink High Speed Line Ltd, Cyprus
  "Tallink AutoExpress 4"
- Tallink Sea Line Ltd, Cyprus
  "Galaxy"
- Tallink Superfast Ltd, Cyprus
  Newbuilding, hull no 6140
- Tallink Hansaway Ltd, Cyprus
  Newbuilding, hull no 1356
- Baltic SF VII Ltd, Cyprus
  Superfast VII
- Baltic SF VIII Ltd, Cyprus
  Superfast VIII
- Baltic SF IX Ltd, Cyprus
  Superfast IX

Passenger Traffic & Cargo Companies

- AS Hansatee Cargo, Estonia
  Sweden – Estonia routes
  - Tallink Sverige AB, Sweden
    Sales & marketing in Sweden
- Tallink Finland Oy, Finland
  Sales & marketing in Finland
- AS Tallink, Estonia
  Latvia – Sweden route
- OOO Tallink-Ru, Russia
  Sales & marketing in Russia
- AS Tallink Baltic, Estonia
  Finland – Germany route
- AS Tallink Latvija, Latvia
  Sales & marketing in Latvia

Service Companies

- OÜ HT Laevateenindus, Estonia
  Technical ship management
- OÜ HT Meelelahutus, Estonia
  Entertainment on ships
- OÜ Hansaliin, Estonia
  Onboard personnel crewing
- OÜ TLG Hotell, Estonia
  Operator of Hotell Tallink
- AS Tallink Duty Free, Estonia
  Supply of goods for ships
  - OÜ TDF Kommerts, Estonia
    Supply of goods for ships
  - OÜ HT Hulgi Tolliladu, Estonia
    Public customs warehouse
- OÜ Tallink Travel Club, Estonia
  Travel Services
- OÜ Hansatee Kinnisvara, Estonia
  Lease of vehicles
- OÜ TLG Meedia, Estonia
  Media and advertising,
  70% of the sharecapital
- AS V.S & I, Estonia
  Dormant
- AS HTG Invest, Estonia
  Stevedoring services
- Ingleby (1699) Ltd, UK
  Process Agent
- OÜ Mare Pharmacy, Estonia
  Pharmacy. *Under Foundation*

AS Tallink Scandinavian, Estonia
Holding company of Silja Oy Ab

- Silja Oy Ab, Finland
  Operation of Silja vessels
  (please see the special chapter)

Related Party Transactions

We and certain of our other group companies have entered into certain agreements with companies affiliated with our group. The most relevant of these recent and ongoing agreements are the following:

- TLG Hotell rents the Hotell Tallink building in Tallinn from a real estate company, Osaühing Vara HTG, jointly owned by our largest shareholder Infortar (50% ownership) and by E.L.L. Kinnisvara Aktsiaselts (50% ownership). The rent period is ten years from April 30, 2004, subject to an automatic extension period of five years, unless either of the parties gives a notice of termination at least three months in advance of the expiry of the original term. The rent payment consists of an annual fixed payment of EUR 1,917,345, plus 11 per cent of the turnover of TLG Hotell's last financial year (subject to certain minimum and maximum amounts) from September 1, 2005;

- TLG Hotell has entered into a contract with OÜ Sunbeam (a wholly-owned subsidiary of Infortar), which is the owner of the relevant real estate upon which the new conference and spa hotel is being built, relating to the renting and operation of the new hotel by TLG Hotell and sets forth that the rental period will be ten years and that the rent shall consist of an annual fixed payment in the amount of ten per cent of the capital expenditure of the hotel made by OÜ Sunbeam, plus 25 per cent of the net profit of TLG Hotell from the operation of this hotel;

- Tallink and Infortar have entered into a service agreement for the provision by Infortar of management services, arrangement of meetings, provision of legal services and preparation of all necessary documents for our supervisory council. The annual fee for the services provided by Infortar is EEK 720,000. The agreement has been entered into for an unspecified term;

- Tallink and Infortar have entered into an authorization agreement for the execution of legal and other operations by Tallink in the interests of and in the name and account of Infortar;

- Tallink and Hansatee Cargo have each concluded an agreement with H.T. Valuuta for the provision of currency exchange services on the vessels operated by the group companies;

- Tallink leases premises of 93 square meters from OÜ Mersok, which is a company owned by Enn Pant, the Chairman of our management board and our CEO;

- In 2003, Tallink obtained two loans from SEB Eesti Ühispank amounting to an aggregate of EEK 237,503,000. Tallink assumed such debt obligations in order to partially set-off Tallink's obligation to pay to Infortar the purchase price for the shares of Hansalink Limited (the company which owns the vessel Tallink AutoExpress 2) that Tallink purchased from Infortar in 2003. The loans are secured, among other things, by a guarantee issued by Infortar for which we pay a certain fee;

We have concluded several material agreements with our wholly-owned subsidiaries, such as charter agreements, management services agreements, agency agreements, ship management agreements, agreements for provision of security and entertainment services, loan agreements, and for other purposes. We have also issued various guarantees for securing the performance of obligations of our subsidiaries, associates and other related parties. For additional information, see Note 20 to the financial statements of each financial year. We believe that all of the above agreements have been entered into on an arm's length basis.

PRO FORMA FINANCIAL INFORMATION

Due to the fact that this prospectus does not include financial statements that reflect the situation after the acquisition of Silja, we have prepared a pro forma statement that offers an indication of the key financials of the company after the acquisition of Silja. The following discussion includes information that has been prepared for illustrative purposes only and because of the nature of pro forma financial information, it must be taken into consideration, that this information addresses hypothetical situation and, therefore, does not represent the company's actual financial position or results. The discussion also includes forward-looking statements which involve risks and uncertainties. You should review the "Risk Factors" and "Forward-Looking Statements" set forth elsewhere in this offering memorandum for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

The acquisition of Silja was structured as a share sale deal whereby Tallink and its wholly-owned Estonian subsidiary AS Tallink Scandinavian acquired from Sea Containers' subsidiary Silja Holdings Limited 100 per cent of the issued shares (i.e. 62,897,682 shares) in Silja Oy Ab together with most of the Silja shipping business. The share purchase agreement was signed on June 11, 2006. The agreement was approved by AS Tallink Grupp shareholders on June 22, 2006 at an extraordinary shareholders meeting and was also approved by the Competition Authorities of Estonia, Finland and Sweden. The transaction was finally completed on July 19, 2006.

The acquired business includes the Helsinki—Stockholm line operations with vessels Silja Serenade and Silja Symphony, Turku – Stockholm/Kapellskär operations with vessels Silja Festival, Silja Europa, Sky Wind and Sea Wind and the respective on-shore operations and trademarks of these lines. The acquired company differs significantly from the former Silja Oy Ab since there were a number of changes made at the time of the completion of the transaction. The most important changes were the following:

- Silja Opera was transferred out from Silja and is not included on the balance sheet after the completion;
- Silja Europa, that was only operated (through a charter arrangement) and not owned by Silja before the completion of the transaction, was transferred to Silja and is included on the balance sheet after the completion of the transaction;
- Sky Wind, that was not owned by Silja before, was transferred to Silja and is included on the balance sheet after the completion of the transaction;
- SuperSeaCat vessels were not owned, but only operated by Silja before the completion of the transaction. The operation neither the vessels of SuperSeaCat vessels were not included in the business acquired;
- Cruise vessel Walrus was owned and operated by Silja and was sold before the completion of the transaction to a third party and was therefore not included in the business acquired;
- Cruise vessel Finnjet was transferred out from Silja and is not included on the balance sheet after the completion.

The list of legal entities of Silja can be found in section "Silja Overview".

At the time of the completion of the transaction we disclosed the statutory accounts of Silja Oy Ab for the financial year 2005 (please see www.tallink.com – Extraordinary General Meeting). It should be noted that those accounts do not reflect the changes that took place at the completion of the transaction and therefore do not reflect the accounts of the business as it was bought. In addition, it should be taken into consideration that the net result of financial year 2005 in amount of EUR -102 million included non-recurring costs in amount of EUR 79 million of which EUR 70 million were write-offs on ships, EUR 12 million were other restructuring costs and EUR 3 million were the gains on sale of assets. The remaining negative net result in the amount of EUR 23 million included the results of the unprofitable business segments and assets that were not included in the business we acquired.

The consideration for the sale of Silja's shares was EUR 450 million (EEK 7,041million) cash and 5 million new ordinary shares in Tallink that were issued to Silja Holdings Ltd. (a subsidiary of Sea Containers). The shares in Tallink that were issued to Sea Containers' subsidiary Silja Holdings Limited, as part of the consideration for the sale of Silja's shares, cannot be sold within 12 months of the sale's completion without Tallink's permission and the shares entitle the shareholder to dividends for the financial year starting from 1st of September, 2006. The EUR 450 million (EEK 7,041million) cash consideration was financed through a combination of Silja's existing debt refinancing within Silja and other external bank loans of up to approx. EUR 400 million (EEK 6,258 million) and equity of approx. EUR 60 million (EEK 939 million) (please see stock exchange release on Tallinn Stock Exchange on 16.06.2006 titled "TAL: Signed loan agreements" and stock exchange release on Tallinn Stock Exchange on 14.06.2006 titled "TAL: Additional information on acquisition of Silja").

In a highly competitive environment, like Sweden—Finland route, it can be less costly and time-consuming to invest in a running company than to invest in new vessels. Considering that Silja was on sale, we saw an appealing opportunity that corresponded with our strategy to pursue new growth opportunities in Northern Baltic Sea region. Therefore the acquisition of Silja was a reasoned next step for Tallink to continue its expansion strategy. There is an ongoing restructuring process in Silja which we hope will improve the results and in addition we are hoping to find synergies between the two companies.

The table below offers an indication of the assets and liabilities assuming the acquisition of Silja would have been completed at 31.05.2006[1].

EEK in millions	**Tallink [2] 31.05.2006**	**Silja [3] 31.05.2006**	**Adjustments & Eliminations**	**Silja + Tallink 31.05.2006**
Current assets	1,732.3	1,020.0	-1,164.7 [4]	1,587.6
Non-current assets	13,450.2	7,051.5	674.1 [5]	21,175.8
Total assets	**15,182.5**	**8,071.5**	**-490.6**	**22,763.5**
Current liabilities	1,802.8	1,288.3	-139.9 [6]	2,951.3
Non-current liabilities	8,538.1	5,926.5	216.5 [7]	14,681.1
Total liabilities	**10,340.9**	**7,214.8**	**76.7**	**17,632.4**

1 the purchase price allocation for the transaction has not been completed by the date of this calculation. The information is based on the assumption that the Silja's adjusted numbers reflect the fair value of the assets and liabilities. After the fair value evaluation and after the consolidation according to IFRS the assets and liabilities may differ from the numbers indicated herein.
2 information based on AS Tallink Grupp unaudited interim consolidated condensed financial statements for the first nine months of the financial year 2005/2006 according to IFRS.
3 information based on Silja accounting reports and management accounts according to Finnish Accounting Standards (FAS). Assets and Liabilities are adjusted to reflect the Silja business acquired by Tallink and to reflect the changes that took place at the completion of the transaction.
4 adjusted with the changes in cash in relation to cash payments for Silja shares and elimination of intra group receivables.
5 consolidation eliminations in intangible assets and long-term intra group receivables.
6 adjusted with the financing of the transaction and elimination of intra group liabilities.
7 adjusted with the financing of the transaction and elimination of intra group liabilities.

The table below offers an indication of the Net sales and EBITDA assuming the Silja would have operated for the past 12 months addressing the structure after the completion of the acquisition of Silja.

	Tallink[1]	**Silja[2]**	**Silja + Tallink**
	01.06.2005 – 31.05.2006	**01.06.2005 – 31.05.2006**	
Net sales	4,273.1	5,431.1	9,704.2
EBITDA	877.0	669.8	1,576.8

1 information based on AS Tallink Grupp unaudited interim consolidated condensed financial statements for the first nine months of the financial year 2005/2006 and AS Tallink Grupp audited annual report 2004/2005 less management accounts for the first nine months of the financial year 2004/2005 according to IFRS.

2. information based on Silja accounting reports and management calculations according to FAS. Net Sales and EBITDA are based on past 12 months (June 2005-May 2006) results adjusted with and assuming that the Silja business acquired by Tallink with the respective operations would have been effective for the full period and that the changes that took place at the completion of the transaction would have been effective for the full period.

The main and relevant differences between FAS and IFRS would be the following:

- Income Taxes – Finnish Accounting Standards require deferred taxes to be recognized in the consolidated financial statements, but there does not exist such detailed regulations as in IFRS. In addition, bookings based on IFRS regulations cause also deferred tax items as taxation rules in Finland do not follow IFRS principles. IFRS as main principle requires deferred tax liabilities and deferred tax assets to be recognized for all taxable and deductible temporary differences;
- Property, Plant and Equipment – differences may be related to issues like capital expenditure of chartered ships (optional, like in IFRS), capitalization of spare parts (optional in FAS) and determination of appropriate depreciation plans for tangible assets. Under IFRS an entity is required to determine the depreciation charge separately for each significant part of an item of PPE;
- Lease contracts – accounting of lease contracts is at present forbidden in FAS. This is because all lease contracts are accounted as operating leases both in the consolidated financial statements and in separate accounts;
- Revenue recognition – there is a very limited guidance relating to revenue recognition in Finnish Accounting Standards. As main principle revenue is recorded at the time the product is delivered or service rendered following accrual basis. The non-existence of detailed guidance may sometimes leads to situations where the accrual basis has been inappropriately used and some inconsistency exists;
- Employee benefits – Under IFRS the accounting treatment of post-employment benefits are based on the distinction between defined contribution plans and defined benefit plans – there is no such distinction in Finnish Accounting Standards; however, the accounting for defined contribution plans is the same, but the accounting of the defined benefit plans under FAS is based on the actuarial accounting method used by the pension actuaries, regulated by the supervising authority, differing to some extent from the method required by IFRS;
- Impairment of assets – the accounting rules dealing with impairment of assets is very limited in Finnish Accounting Standards. The accounting practice relating to impairment of assets has been quite inconsistent and there has not been any generally accepted, detailed principles to follow the recoverable amount of assets;
- Financial Instruments – FAS allows both the historical cost method and the fair market value method. Historical cost method results in significant differences compared to IFRS, but fair market value method results in minor differences in the equity.

We believe that the differences between the IFRS and FAS have no major influence on the pro forma financial information presented above.

The main reasons why we publish this pro forma financial information table in different format than our regular financial reports are the following:

- Accounting and reporting in Silja is based on Finnish Accounting Standards and accounting and reporting in Tallink is based on Estonian Accounting Act and IFRS. It is technically complicated to compare the income statements and balance sheets of Silja and Tallink. The balance sheet form of Silja is very different from the Balance Sheet form of Tallink and comparing the different rows of these balance sheets creates a risk that the outcome presented to the investor is inaccurate. In addition, the different accounting principles could be used for balance sheet and income statement items with similar names;

- In a situation, where only few weeks have passed from the acquisition, it has not been possible to adjust the Silja's accounting to IFRS. At the time being the balance sheet reflecting the situation after the acquisition has not yet been compiled;
- The more detailed numbers we try to disclose in this prospectus, the greater the risk that we may present misleading information to the investor. Consolidated financial information in accordance with IFRS, will become available when we publish our annual financial report.

REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF AS TALLINK GRUPP

We have performed the procedures agreed with you and enumerated below with respect to the pro-forma consolidated total current and non-current assets and total current and non-current liabilities of AS Tallink Grupp + Silja Oy Ab as of May 31, 2006 and pro-forma consolidated revenue and EBITDA of AS Tallink Grupp + Silja Oy Ab for the 12-months period then ended (hereafter "pro-forma key financials"), which are set out in the table on page 88 of the Offering Memorandum. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements regarding financial information, as issued by the International Federation of Accountants. The procedures were performed solely to assist you in the issuing new shares of AS Tallink Grupp and are summarized as follows:

1. We traced the financial information used for preparing the pro-forma key financials to the relevant financial information from the internal accounting software of AS Tallink Grupp and its subsidiaries (hereafter "Tallink");

2. We traced the financial information used for preparing the pro-forma key financials to the relevant financial information from the accounting software of Silja Oy Ab and its subsidiaries (hereafter "Silja");

3. The original financial information of Silja obtained from the relevant accounting software was adjusted for the pro-forma key financials, as the acquired company differs significantly from the former Silja. We compared these adjustments with the information on the changes to the acquired company made at the time of the completion of the purchase transaction of the shares of Silja Oy Ab on July 19, 2006. This information was obtained from the management of AS Tallink Grupp, who is responsible for the correctness and completeness of the list of these changes.

The managements of AS Tallink Grupp and its subsidiaries (including Silja Oy Ab) are responsible for the correctness and completeness of the financial information in the accounting software. Based on the procedures performed by us, we did not note any errors or exceptions that we would like to draw your attention to. We have considered adjustments listed below as items 1 a-g. We have not considered whether these adjustments represent all necessary adjustments for the purpose of presenting pro-forma key financials as of May 31, 2006.

However, please note that:

1. the changes to the acquired business, which are considered by the management of AS Tallink Grupp in the preparing the pro-forma key financials, are following:

    a. "Silja Opera" was transferred out from Silja and is not included on the balance sheet after the completion;

    b. "Silja Europa", that was only operated (through a charter arrangement) and not owned by Silja before the completion of the transaction, was transferred to Silja and is included on the balance sheet after the completion of the transaction;

    c. "Sky Wind", that was not owned by Silja before, was transferred to Silja and is included on the balance sheet after the completion of the transaction;

    d. SuperSeaCat vessels were not owned, but only operated by Silja before the completion of the transaction. Neither the operation of nor the vessels of SuperSeaCat were included in the business acquired;

    e. Cruise vessel "Walrus" was owned and operated by Silja and was sold before the completion of the transaction to a third party and was therefore not included in the business acquired;

f. Cruise vessel “Finnjet” was transferred out from Silja and is not included on the balance sheet after the completion;

g. Existing loans of Silja were refinanced by banks and AS Tallink Grupp and its subsidiaries.

2. the consolidation of the financial information of Silja is carried out by the separate software “Frango”. We have not tested this software;

3. the consolidated financial information of Silja used for the pro-forma key financials has been prepared under the Finnish generally accepted accounting principles (hereafter “Finnish GAAP”) and the financial information of Tallink used for the pro-forma key financials has been prepared under the accounting principles determined by the International Financial Reporting Standards (hereafter “IFRS”). The areas, where in the main differences between Finnish GAAP and IFRS exist as well as the opinion of the management of AS Tallink Grupp on the effect of these differences have been disclosed on the page 89 of the Offering Memorandum;

4. the purchase price allocation in connection with the acquisition of the shares of Silja Oy Ab as required by IFRS 3 “Business Combination” has not been carried out yet and the possible effect from the purchase price allocation is not included in the pro-forma key financials.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standard on Auditing, we do not express any assurance on the pro-forma consolidated total current and non-current assets and total current and non-current liabilities of AS Tallink Grupp + Silja Oy Ab as of May 31, 2006 and pro-forma consolidated revenue and EBITDA of AS Tallink Grupp + Silja Oy Ab for the 12-months period then ended.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standard on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accounts and items specified above and does not extend to any financial statements of AS Tallink Grupp, taken as a whole. Moreover, we have not performed any procedures (incl. these specified above) in respect to other information presented in the Offering Memorandum.

Tallinn, August 8, 2006

Hanno Lindpere
Ernst & Young Baltic AS

SILJA OVERVIEW

The following discussion includes forward-looking statements which involve risks and uncertainties. You should review the "Risk Factors" and "Forward-Looking Statements" set forth elsewhere in this offering memorandum for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Background

Silja has grown to be a leading passenger transportation and freight shipping service provider in the Northern Baltic Sea region, with a reputation for excellence, underpinned by a high quality and well regarded asset base. The Silja brand is particularly strong within the region, and the business is viewed as a familiar and important national asset in Finland as a result of its long history and involvement within the daily lives of Finns and Swedes alike.

Company history

The history of Silja dates back to late 1800's. During 1918 service between Turku and Stockholm was set up and a service between Helsinki and Stockholm was later introduced. Further ships were added to these routes in the early 1950s as the passenger volumes grew rapidly.

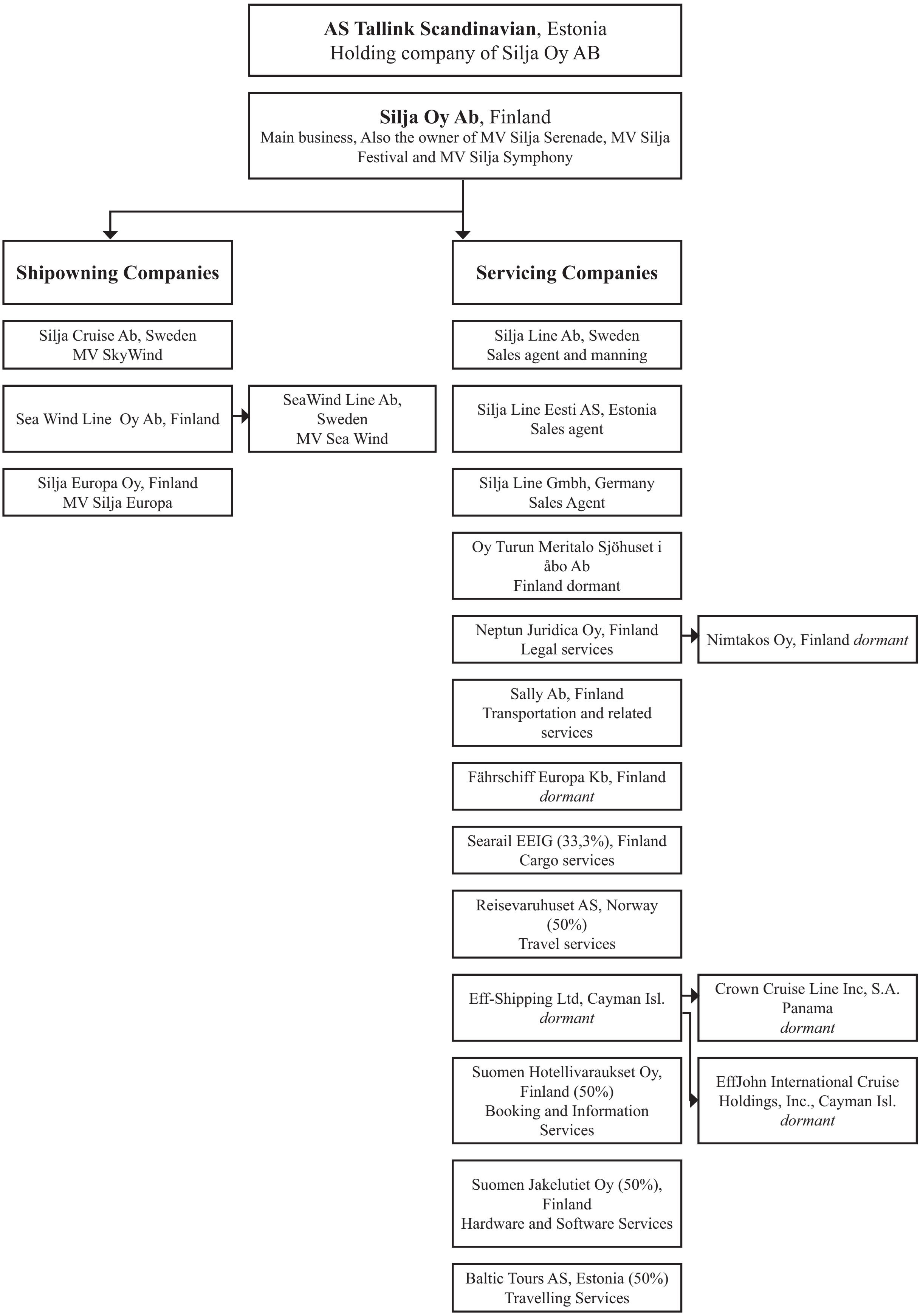
Sea Containers acquired a substantial minority stake in Silja in 1999, and bought the Business outright in June 2002, subsequently de-listing it from the Helsinki Stock Exchange in January 2003.

On 19th of July 2006 Silja became a subsidiary of AS Tallink Grupp.

Company structure

As of 19th of July 2006 Silja Oy Ab, the parent company of Silja, belongs to AS Tallink Scandinavian, a subsidiary of Tallink, which is a public limited company registered in Estonian Commercial Register by the registration code 11253879.

Set forth below is a structural chart showing the legal entities beginning with AS Tallink Scandinavian. The respective ownerships in the table are 100% unless stated otherwise.


AS Tallink Scandinavian, Estonia
Holding company of Silja Oy AB
Silja Oy Ab, Finland
Main business, Also the owner of MV Silja Serenade, MV Silja Festival and MV Silja Symphony
Shipowning Companies
Servicing Companies
Silja Cruise Ab, Sweden
MV SkyWind
Sea Wind Line Oy Ab, Finland
SeaWind Line Ab, Sweden
MV Sea Wind
Silja Europa Oy, Finland
MV Silja Europa
Silja Line Ab, Sweden
Sales agent and manning
Silja Line Eesti AS, Estonia
Sales agent
Silja Line Gmbh, Germany
Sales Agent
Oy Turun Meritalo Sjöhuset i åbo Ab
Finland dormant
Neptun Juridica Oy, Finland
Legal services
Nimtakos Oy, Finland *dormant*
Sally Ab, Finland
Transportation and related services
Fährschiff Europa Kb, Finland
dormant
Searail EEIG (33,3%), Finland
Cargo services
Reisevaruhuset AS, Norway (50%)
Travel services
Eff-Shipping Ltd, Cayman Isl.
dormant
Crown Cruise Line Inc, S.A. Panama
dormant
Suomen Hotellivaraukset Oy, Finland (50%)
Booking and Information Services
EffJohn International Cruise Holdings, Inc., Cayman Isl.
dormant
Suomen Jakelutiet Oy (50%), Finland
Hardware and Software Services
Baltic Tours AS, Estonia (50%)
Travelling Services

Structure of the Management

Board of Directors nominated at 19th of July 2006:

Mr. Enn Pant (please see section “Management” for additional information)

Mr. Ain Hanschmidt (please see section “Management” for additional information)

Mr. Keijo Erkki Mehtonen (please see section “Management” for additional information)

Mr. Andres Hunt (please see section “Management” for additional information)

Mr. Kustaa Lauri Äimä (please see section “Management” for additional information)

Mr. Ashwin Roy

Mr. Ashwin Roy (born 1975) is a Vice President at Citigroup Venture Capital International (“CVCI”), Citigroup’ private equity business focusing on the developing markets. Ashwin has been with CVCI since 2001 and has been involved in a number of transactions across Central and Eastern Europe (CEE) and Russia, including CVCI’s investment into Tallink in 2003. Prior to CVCI he was a Fund Manager with Societe Generale Asset Management (SGAM), managing closed-ended funds investing in listed and private equity in CEE. Before SGAM, Ashwin worked for PricewaterhouseCoopers’s London office, in audit and transaction support. He holds an MA in Economics from King’s College, University of Cambridge, and is a qualified Chartered Accountant.

Employees and Labour Relations

	2005, October	**2006, as in June**
Onboard	2,317	1,955
On shore	870	640
Total	3,187	2,595

Silja is bound to several collective bargaining agreements (CBA) agreed both on local and on central union level the majority of these CBAs run until 2007 or 2008. These agreements apply different terms on personnel onshore and onboard as well as on different employment positions. A regular forum of consultation and communication takes place with the principal unions representing the staff, which are Finnish Ship’s Officers Organisation, Finnish Engine Officers Organisation, Finnish Seamen’s Union and Swedish Ship Officers Association, Swedish Merchant Marine Officers Association and the Swedish Union for Service and Communication.

Business Overview

Silja carries approximately 3.5 million passengers and 100,000 freight units annually on its routes where it runs a fleet of six vessels, comprising:

- Four large cruise-ferry vessels;
- Two ro-paxes.
- Silja’s routes represent:
- Helsinki to Stockholm, via the Åland Islands;
- Turku to Stockholm and Kapellskär via the Åland Islands (incorporating Silja’s SeaWind Line subsidiary).

The passenger volumes have been stable for the last decade, whilst the freight market has been growing strongly since the early 1990's. In 2004 Silja's Finnish and Swedish passenger volumes equated to 51 per cent and 11 per cent of their respective populations. Silja is well positioned to capture its share of growth in the freight markets, whilst its extremely strong market position on the stable Finland – Sweden passenger routes, coupled with its premium product, provides the group with the potential to capture further market share.

Comparison of routes operated by Silja and main routes operated by Tallink (approximate figures for annual traffic in millions for no. of passengers and thousands for no. of cargo units)

Operator	Routes	No. of passengers	No. of cargo units
Silja	Helsinki—Stockholm	1.5	20.0
Silja	Turku—Stockholm/Kapellskär	2.0	80.0
Tallink	Helsinki—Tallinn	2.5	81.0
Tallink	Tallinn—Stockholm / Paldiski—Kapellskär	0.7	50.0

Silja Fleet

Vessel	Route operated	Built / Refurbished	Maximum passengers[1] / Cargo lane meters or private cars
Cruise ferries			
Silja Serenade	Helsinki—Stockholm	1990	2,852 / 950
Silja Symphony	Helsinki—Stockholm	1991	2,852 / 950
Silja Europa	Turku—Stockholm/Kapellskär	1993	3,123 / 932
Silja Festival	Turku—Stockholm	1986 / 1992	2,023 / 885
Ro-pax ferries			
Sea Wind	Turku—Stockholm	1972 / 1984 / 1989	260 / 1,050
Sky Wind	Turku—Stockholm	1986 / 2002	370 / 1,400

1 Based on information obtained from the passenger ship certificates.

Silja's Service

Silja operates routes from Turku to both Stockholm and Kapellskär under the Silja brand, using the Silja Europa and Silja Festival cruise vessels, each operating one round trip daily, with a journey time of 21 hours for the complete trip. Additional services between Turku and Stockholm are operated by Silja's SeaWind Line subsidiary, with Sea Wind and Sky Wind ro-paxes operating between six and seven round-trips per week, offering, primarily, a passenger transport and freight service. All vessels stop off at the Åland Islands. Silja operates route from Helinski—Stockholm under Silja brand, using the Silja Serenade and Silja Symphony. As with the Helsinki—Stockholm service, the majority of passengers using the route are recreational passengers, though transport represents a higher proportion of passengers, due mainly to the shorter transit time between Finland and Sweden.

Silja is the only freight ferry operator that has the capacity to carry railway wagons and this provides booking flexibility for Silja's freight customers. The preference of road freight operators for evening sailings (which allow drivers to sleep overnight on the vessel) means that day time sailings typically have lower load factors. Rail freight is used to balance capacity utilisation.

The pattern of passenger yield throughout the year is more consistent on Helsinki—Stockholm, although the summer and Christmas months provide seasonal highs.

The routes operated by Silja are illustrated below:

Table 1: Route summary

Helsinki—Stockholm (via Åland Islands) Premium Short-Cruise Service	Silja Serenade Silja Symphony	One leg daily, year-round One leg daily, year-round
Turku—Stockholm/Kapellskär (via Åland Islands) Transport, Short-Cruise and Freight Services	Silja Festival	One round trip daily to Stockholm, year-round
	Silja Europa	One round trip daily to Kapellskär, September to May One round trip daily to Stockholm, May to September
	Sky Wind	Six or seven round trips per week, Turku—Stockholm, year-round
	Sea Wind	Six or seven round trips per week, Turku—Stockholm, year-round

Cruise Passenger, Vehicle and Freight Traffic

Currently the bulk of revenue across these routes is generated through passenger and vehicle traffic. Silja benefits from its strong brand name and perception as a premium quality product giving it a valuable and stable position as market leader on the key Helsinki — Stockholm short cruise route, and the Turku — Stockholm/Kapellskär route. The quality of Silja's asset base is key to its positioning, with the vessels on each of the routes being specifically built for the market dynamic of the trade.

Silja has a proactive vessel renewal/refurbishment policy. The flagship vessels Silja Symphony and Silja Serenade are widely regarded as one of the highest quality vessels operating in the Northern Baltic Sea, offering a full range of retail, entertainment and accommodation to passengers on this leisure-cruise route. As a result, customer preference surveys consistently rank Silja as the preferred operator on its routes.

Silja's freight business consists primarily of transportation of trailers. Silja also holds a unique position as the sole operator of rail freight ferry services between Sweden and Finland (through Searail EEIG, a joint venture with the Finnish and Swedish state-owned railroads). The flexibility of the fleet allows Silja to run freight services on all its vessels. The principal freight route remains the Turku – Stockholm/Kapellskär route, where Silja operates the Sky Wind and Sea Wind ro-pax vessels. Freight on this route, in particular, has shown significant recent growth in volume and pricing. This trade is forecast to continue to grow in the coming years.

Safety and Environment

Silja's environmental and safety work is an integral part of the Silja Quality Management (SQM) system, which covers all Silja operations. SQM incorporates both the Silja Safety Management System (SSMS), which is based on the International Safety Management (ISM) Code, and Silja Line's ISO 14001 compliant environmental management system, SQM Environment.

Silja's shipping operations, terminals and fleet were awarded ISM certification based on the ISO 9002 quality standard. Certification is awarded following a safety audit by the Finnish and Swedish maritime authorities. The ISM Code lays down a set of minimum safety requirements as well as general guidelines and compulsory measures for the prevention of environmental damage according SOLAS, MARPOL, STCW and other maritime conventions as applicable. The Code also defines the Company's responsibility to report incidents and nonconformities.

In addition to continuous monitoring, the Company carries out routine internal audits on all its vessels and on-shore operations annually to supervise compliance with the environmental management system and the ISM Code. The internal audits are carried out by auditors appointed by the Company.

Under the Silja Safety Management System, precautions are taken against accidents by means of risk management, standard safety routines, engineering improvements, continual training of personnel and ongoing development. All incident reports are analyzed, and the necessary investigations and corrective measures are carried out.

Key Strengths

- Long established, with a history going back over 120 years, as one of the leading operators in the Baltic cruise ferry market, the largest ferry market in Europe;
- Consistent passenger base volume with market leading customer satisfaction ratings. The most recognised and highly regarded cruise ferry brand in the region;
- Leading market share on routes operated;
- Diversity of revenue streams through a strong offering of retail, leisure, freight and other activities.

Competitive Advantages

- Ownership of the “Silja Line” name. Silja is one of the region’s most well-known brands. Silja has a reputation as a high quality and reliable product which has been built up over years of successful operation;
- Silja is the only freight ferry operator that has capacity to carry railway wagons. Searail EEIG, Silja’s joint venture with the Finnish and Swedish state-owned railroads, provides the business with a major strategic advantage in relation to the carriage of rail freight;
- Club Silja loyalty programme with over 450,000 members/households.

Market Overview

Background - Economy & Region

Silja operates cruise and freight ferry services crossing the Northern Baltic Sea between Finland and Sweden. The region is one of the most dynamic in Europe, with the established economies of Finland and Sweden.

With all the main economies of the Northern Baltic showing good recent growth, the economic climate overall in the region can be characterized as favourable. There is a further spur to growth in the market as the Russian economy continues to liberalise and the signs are, therefore, that the economies in which Silja operates will continue to grow.

Passenger Market

- Recreational passengers — those looking to enjoy the cruise experience and benefit from duty free purchase opportunities, typically returning on a short round trip service;
- Transport passengers — those using the service as a means of travel, typically having varied return plans; and;
- Conference — those using the vessels’ conference facilities for business purposes.

The market for recreational cruises is particularly important to Silja’s operations. The tradition of recreational cruise travel is well established in the region, particularly among Finns and Swedes, with the principal routes being services offered between Finland and Sweden. A feature of this market is that it allows operators to generate significant revenues from retail and entertainment services onboard the ships, in addition to pure ticket revenues.

Businesses seeking to use conference facilities represent a smaller proportion relative to the market, but by their nature tend to carry higher margins.

Freight Market

Sweden is understandably a key trading partner for its near neighbour, Finland, representing the destination for 11.0 per cent of goods exported and the source of 10.9 per cent of goods imported in 2004. The importance of marine transport to Finland's trade with Sweden is underlined by the high proportion of sea-borne trade (82.1 per cent. of goods exported and 93.8 per cent of goods imported on the basis of tonnage).

Since 1995 exports and imports between Finland and Sweden have each grown at a CAGR of 6.5 per cent in value terms. This trade growth has tracked the growth of the economy in the region. Freight from Turku to Sweden has developed in line with this growth and is forecast to continue to do so as demand remains strong. Currently Silja is unable to fully exploit the gains in trade volumes due to capacity constraints on its existing vessels.

Competition

The Baltic ferry market is large and geographically diverse and as a result there is a need for a number of ferry operators to adequately satisfy the demand for ferry routes through the Baltic. The larger routes, by volume, tend to be the most competitive. On routes where competition is a factor, operators tend to compete on price and quality of service. The latter is particularly important for the recreational and cruise ferry markets, key to Silja's operations.

The principal competitors for Silja brand are considered by management to be:

- Viking Line ("Viking"), on the Helsinki—Stockholm, Turku—Stockholm/Kapellskär and Helsinki—Tallinn routes; and

Viking has been operating in the Baltic since 1959. Their first service, the Gaitby — Mariehamn — Graddo route, was operated by S/S Viking. Since then, they have increased the size of their fleet to seven vessels offering passenger and freight services on routes between Finland and Sweden and Finland and Estonia. Viking carried a total of 5.1 million passengers and 86,000 freight units in 2004. The company's fleet is predominantly comprised of cruise ferry vessels offering duty free shopping, restaurants and entertainment. They do not run fast craft on any of their routes. They have ordered one new passenger ferry to be delivered in 2008.

We believes that it has a considerably stronger position on the routes where Silja and Viking compete as a result of its higher quality tonnage and service offering. Silja is also better placed to hold its passenger volumes in the face of competition from cheaper emerging routes. It also has a solid core of loyal customers, as evidenced by its 450,000 Club Silja members, who represent c. 2 million trips each year.

Other competitors

- Other competitors include Eckerö, Birka Line and Anedinlinjen. These are smaller operations representing a small percentage of the market.

Brand strength

Underpinned by the strength of its asset base, Silja has built up a significant reputation for quality over the years. An independent survey by Radar in 2005, commissioned by Silja, illustrates the passengers' view of Silja as a superior operator and brand.

Duty Free and Travel Retail

The lower prices offered for duty free goods represent an important draw to ferry travellers, and enable operators to generate significant margins on retail sales. On routes where duty free is available, operators can generaten higher margins. Silja has significant resources available to offer duty free and other goods to their passengers who represent a captive market while onboard. On Silja's services between Sweden and Finland passengers are able to take advantage of the tax status of the Åland Islands.

The Åland Islands constitute a Swedish-speaking, autonomous province of Finland. This status was bestowed by the League of Nations in 1921, since when the Islands have had their own government. While Finland joined the EU the Åland Islands remained exempt from certain European Union laws.

A special protocol on the status of the Åland Islands was incorporated in the Act of Accession of the Treaty conceming the Accession of Austria, Finland and Sweden to the European Union. By virtue of this protocol the territory of the Åland Islands is considered to be a third territory as defined in the 6' VAT Directive (77/388EEC) and a national territory falling outside the field of application of the excise harmonization directives defined in Directive 92/127EEC. Ships calling at the Åland Islands may take on supplies and sell alcohol, tobacco and other goods free of VAT and excise duffles onboard provided that passengers may embark or disembark during the call. As a result, the Åland routes are very important for cruise and passenger ferry operators, including Silja which directs all of its Finland – Sweden services via the Islands.

The exclusion of the Åland Islands from the fiscal territory of the European Union forms part of primary Community law and is as such permanent by nature. This derogation may only be amended or reversed pursuant to the EU Treaty revision procedure requiring a unanimous vote of the European Council of Ministers. The derogation is aimed at maintaining a viable local economy in the islands and safeguarding their transport links to Finland and Sweden.

Seasonality

As with most ferry markets there is strong seasonality on the passenger side of Silja's business. The bulk of traffic occurs across the summer season when the domestic market picks up and there is an increase in tourists from overseas. The seasonal fluctuations are consistent and predictable from year to year and therefore the operators are able to manage their capacity accordingly, providing additional sailings at peak periods. There is sufficient demand throughout the year to support year-round services.

On the freight side, the market is far less seasonal as the traffic of goods occurs year round. This provides a stable earnings base for most operators, including Silja.

State Aid

The Finnish state aid system provides an exemption for employers of seafarers on passenger vessels engaged in international and intra-community trade, from the payment of:

- Income tax

Finnish ship-owners are exempt from their obligation to pay the withholding tax deducted from wages paid to seafarers generally liable to taxation in Finland for their seafarers employed on board vessels engaged in international maritime transport. This measure currently covers the period to 2009.

- Social contributions

The second measure of the regime covers the employer's social security and seafarers' pension insurance contributions and other insurance contributions. However, the amount of this aid cannot exceed the total sum of such contributions.

This therefore reduces the costs of employing Finnish seafarers. The Finnish government has initiated this scheme to ensure that national employers are able to remain competitive within the maritime industry where many operators are achieving cost savings by adopting "flags of convenience", whereby they can exploit less restrictive employment regulations. The aid for social security payments is granted retroactively at six monthly intervals. Silja is able to claim these savings on all of their Finnish seafaring staff.

The Swedish government also has a similar system, operating a "net wage" scheme which covers employees on both freight and passenger vessels, including passenger ferries. Under this system employers pay their seafarers a wage, net of assumed taxes and social security contributions, reducing the wage bill for the business and allowing them to compete on the international market.

Silja Line Marketing

Silja is a highly regarded brand in Baltic cruise ferry travel and has a recognition level of 66% in the Nordic region. Marketing spending has been directed across a wide range of media and also includes direct marketing, sales promotion and market research activities. Silja's core target audiences is divided into four major segments which include adults who are on a cruise, enjoy a city break or traveling with a car; families; business who use our conference facilities or are business travelers and groups.

Silja sells its tickets through a variety of channels including three call centers to for telephone sales. Owned and operated by Silja, tour operators and travel agents.

Silja operates a highly successful tiered loyalty program named Club Silja. Currently there are approximately 450,000 households registered to the scheme with approximately 40% of Silja's passengers registered. The scheme which was introduced in 1992 has three levels of membership: Basic, Silver and Gold; with benefits escalating at each tier. Members progress through the various tiers on the basis of number of sailings as well as money spent onboard, incentivising members to maximize their overall spend.

Trademarks

Silja has registered the following trademarks, most of them in the ownership of Silja Oy Ab: "pilarna" in Finland; "säl" (in Sweden, Norway, Denmark, Iceland, United Kingdom, Ireland, Benelux, Greece, Switzerland, Canada, USA, Estonia, Lithuania, Latvia, Germany, Portugal, Austria, Germany, Spain, France, Italy); "armada" in Sweden; "armada kompassvisare" in Estonia; "armada snedruta" in Estonia; "finn tours" in Germany; "finnjet" in Denmark and Germany; "grand cru" in Finland and Sweden; "happy days" in Finland and Sweden; "henry hj jone's" in Finland and Sweden; "hullabaloo" in Finland, Sweden and Germany; "maxim" in Finland and Germany; "noblesse" in Finland; "sally" (in Finland, Norway, Denmark, Sweden, Germany, Iceland, UK, Ireland, Benelux, Canada, USA, Greece, Estonia, Lithuania, Latvia, Austria, Switzerland, France, Italy, Madrid 2 as part of Madrid Convention and not separately in Spain, Poland, Portugal, Russian Federation); "silja" (in Finland, Norway, Sweden, Denmark, Germany, Iceland, UK, Ireland, Benelux, Canada, USA, Greece, Estonia, Lithuania, Latvia, Austria, Switzerland, France, Italy, Madrid 2, Poland, Portugal, Russian Federation); "silja happy days" in Finland and Sweden; "silja line säl" in Finland, Germany and European Union; "valv silja" (world wide); "silja svenski" in

Finland; Bali in Finland and Sweden; “bellamare” in Finland, Sweden; “bistro maxime” in Finland and Sweden; “chill” in Finland and Sweden; “just bar” in Finland and Sweden; “mundo” in Finland and Sweden; “old port pub” in Finland and Sweden; “orient café” in Finland and Sweden.

Silja does not own any patents, utility models or geographical indications, nor does Silja own, hold or use material proprietary industrial and/or intellectual property rights with respect to which we have not filed a patent, trademark or copyright application. For purposes of the business, Silja uses various types of software programs under license agreements.

Helsinki—Stockholm Route

Background & Market

The Helsinki – Stockholm service is not only Silja’s best known route but also its most profitable. Volumes and sales are broadly stable and operating margins are attractive. Linking the capital cities of Sweden and Finland, this service is able to draw upon a significant customer base of local demand in each country. Silja’s Helsinki – Stockholm service carries approximately 1.5 million passengers each year.

The passenger market between Helsinki and Stockholm is dominated by recreational travellers taking short cruises. The convenient length of the route, the outstanding scenery of the Swedish island archipelago and the longstanding tradition of cruising in Scandinavia make this route one of the best in the world. The service also calls at Mariehamn in the Åland Islands allowing passengers to benefit from the duty free status of the Islands.

In volume terms the market has been stable over the past ten years with growth averaging 0.6 per cent per annum since 1995. Management expects the market to remain stable in the coming years.

Silja operates its service in competition with Viking and has held a market leading position with a stable share of trade over recent years.

The two operators are differentiated from one another primarily on cost and quality of service. Silja is widely regarded as offering a premium product and, as a result, is able to command a higher ticket price than Viking, typically at a premium of 20 per cent to 30 per cent.

The freight segment of the Helsinki—Stockholm market is relatively small, totaling approximately 39,000 units in 2004. Most freight between Finland and Sweden moves over ports on Finland’s western coast, benefiting from the shorter sailing time. Silja shares this freight market with Viking, with each operator having approximately 50 per cent of the trade.

Key Operating Statistics

The table below shows the number of passengers and units of freight carried on the route by Silja in the years 2001 to 2005.

Table 6: Key operating statistics, Helsinki—Stockholm (2001 - 2005)

	2001	2002	2003	2004	2005
Trips	724	730	714	734	734
Passenger Volume (‘000s)	1,429	1,450	1,447	1,467	1,431
Growth	(3.3)%	1.4%	(0.1)%	1.4%	(2.5)%
Freight Volume (‘000s units)	20	20	19	20	20
Growth	(1 0)%	0.6%	(5.3)%	5.2%	(0.0)%

Silja's Service

Silja operates year round on the Helsinki—Stockholm route using its two flagship vessels, Silja Serenade and Silja Symphony. The two vessels run an overnight service once daily in either direction, stopping off at the Åland Islands port of Mariehamn, allowing Silja to offer duty free goods to those travelling on the service. The transit time for each leg is approximately 17 hours, including the stop-over in Mariehamn.

The key to Silja's premium offering is the quality of its ships and the onboard experience it can offer. This quality is exemplified by the unique "Promenade" deck at the centre of each ship, creating an environment akin to an exclusive shopping mall, where passengers can purchase a wide range of goods, including alcohol, tobacco and other duty free items, relax in cafes and enjoy a meal in one of the many individual restaurants.

Silja does not have dedicated freight vessels on the Helsinki – Stockholm service, reflecting the relatively lower demand for freight services running from Helsinki to Stockholm than from ports on the western coast of Finland. Silja is able to offer space on the car deck of Silja Symphony and Silja Serenade, to take accompanied and unaccompanied truck trailers, volumes remain steady at around 20,000 units per annum.

Turku—Stockholm/Kapellskär Route

Background & Market

Passenger Services

Silja's Turku based routes carry approximately 2 million passengers and over 80,000 units of freight per year. As with the Helsinki — Stockholm route, passenger services operating from Turku to destinations in Sweden have in the past catered predominantly for recreational cruise passengers, and those looking to purchase tax-free goods. Turku's location on the western coast of Finland offers a shorter sea crossing to Sweden and therefore the route is characterized as having a higher element of pure transport traffic than Helsinki — Stockholm. Turku is, for example, the preferred port for passengers taking their car with them.

Services on these routes are again operated by Silja and Viking, with Silja consistently holding c. 60 per cent of the market. Over the past ten years volumes have been stable, consistent with the mature nature of the market on this route.

Silja's vessels on the route, and Silja Europa in particular, offer a far superior product to those of the competitors.

Over recent years, passenger volumes have shown a marginal decline as the cruise services on this route have faced increased competition, especially from the additional capacity from Birka Line and others added to the short Stockholm—Åland route in the years since 2003. Nevertheless, it is anticipated that volumes will remain stable over the coming years as the catchment area that Silja services in Turku and its surrounding region is large enough to provide a strong base level of business.

In addition to the cruise ferry services operated between Finland and Sweden by Silja and Viking, there are a number of other operators (including Viking) providing shorter round trip services to and from the Åland Islands (primarily from Sweden), in order to exploit duty free shopping. As a result, these services compete with services running between Stockholm/Kapellskär and Turku, providing an alternative short-cruise experience.

Silja's sailing schedules are not typically suited to return trips to the Åland Islands, though passengers can go outbound on one vessel to return on another. Principal operators of Åland only services are as follows:

- Viking;

- Eckerö Line;
- Birka Line; and
- Anedinlinjen.

Freight Services

Due to Turku's position on the western coast of Finland, ferry services operating from the port provide the bulk of freight transport between Sweden and Finland, facilitating a shorter overall journey time for freight transporters than from Helsinki. Freight on the route has shown strong growth, with a CAGR of 3.8 per cent since 1995, consistent with the growth in the economies of the region in recent years.

As a result, the route as a whole is currently seeing a slight shift in emphasis from recreational passenger services to freight and passenger transport.

In freight, Silja competes predominantly with Finnlink (a subsidiary of Finnlines) and Viking. Finnlink has grown volumes strongly in recent years, primarily due to the addition of new capacity and its focus solely on freight, which has seen it capture the bulk of the growth, while eroding the volumes of Viking. Silja introduced Sky Wind (operated under the SeaWind Line brand) in 2002 to capture additional growth in this market.

Key Operating Statistics

The table below shows the number of passengers and units of freight carried on the routes by Silja in the years 2001 to 2005.

Table 8: Key operating statistics, Turku – Stockholm/Kapellskär Route (2001 - 2005)

	2001	2002	2003	2004	2005
Trips	2,940	2,902	2,659	2,780	2,740
Passenger Volume ('000s)	2,111	2,138	2,169	2,093	2,006
Growth	2.0%	1.3%	1.5%	(3.5)%	(4.2)%
Freight Volume ('000s units)	76.4	77.1	74.3	80.7	80.6
Growth	(2.1)%	1.0%	(3.7)%	8.5%	(0.1)%

The end of chapter "Silja Overview".

MANAGEMENT

Structure of Our Management

In accordance with the Estonian Commercial Code and our articles of association, corporate governance, management and administration are divided among our shareholders represented at the general meetings of shareholders, our supervisory council and our management board. See “Estonian Securities Market—Estonian Company Law Issues” for further information.

Supervisory Council

Our supervisory council is responsible for planning our business activities, organizing our management by electing members to our management board, approving our budget and supervising the activities of our management board. See “Estonian Securities Market—Estonian Company Law Issues” for further information on the tasks of the supervisory council.

According to our articles of association the supervisory council consists of five to seven members that are elected for three financial years at a time. The members of the supervisory council elect the chairman from among themselves. The rules of the Tallinn Stock Exchange (the “TSE Rules”) provide that if any shareholder holds more than 30 per cent of the votes represented by shares in the share capital of the issuer, the composition of the supervisory council of the issuer must include at least two members who are not connected with such shareholder. The current composition of our supervisory council is in compliance with this requirement.

The table below sets forth the members of our supervisory council, their positions, year of appointment and certain related information.

Name	Year of birth	Member since	Position	Current term expires
Toivo Ninnas	1940	1997	Chairman	February 5, 2008
Eve Pant	1968	1997	Member	February 5, 2008
Ain Hanschmidt	1961	2005	Member	February 5, 2008
Sunil Kumar Nair	1966	2003	Member	December 4, 2006
Lauri Kustaa Äimä	1971	2002	Member	February 5, 2008

The business address of all members of the supervisory council is: c/o Aktsiaselts Tallink Grupp, Tartu mnt. 13, 10145 Tallinn, Estonia.

Mr. Toivo Ninnas (born 1940) was elected as Chairman of the supervisory council in 1997 and was re-elected as Chairman in 2005. He graduated from the Far East Higher Sea Academy in Russia in 1966. Previously, he served at ESCO from 1972 to 1997 where he became Director General. He also acts as a supervisory council member of AS Transiidikeskus, AS HTG Invest, AS Taastusravikeskus Viiking and a member of the management boards of OÜ Sunbeam, OÜ Viiking Külalissadam and OÜ Tekali. He is the president of the non-profit association Estonian Shipowners’ Association (*Eesti Laevaomanike Liit*).

Ms. Eve Pant (born 1968) was elected as a member of the supervisory council in 1997. She graduated from the Tallinn School of Economics, Estonia, in 1992. She also acts as a member of the management boards of Infortar (since 1997), OÜ Vara HTG, OÜ Inforte, OÜ Mersok, AS Tailwind, OÜ Inf Invest, OÜ Inf Maja and OÜ Villore and a supervisory council member of AS Vaba Maa, AS H.T. Valuuta and OÜ Hera Salongid. She is the sister of Enn Pant, our CEO and Chairman of our management board.

Mr. Ain Hanschmidt (born 1961) was elected as a member of the supervisory council in 2005 (he was previously also a member of the supervisory council from 1997 to 2000). He graduated from the Tallinn Polytechnic Institute, Estonia, in 1984. He served as Chairman (CEO) of AS SEB Eesti Ühispank from 1992 to 2005, in 2005 as Chairman of the supervisory council of AS SEB Eesti Ühispank and from 2005 November he is also a member of the management board (CEO) of Infortar. He is the member of the management board of the OÜ Infor Invest, OÜ Abante and a member of the supervisory councils of AS Vaba Maa, OÜ TopSpa Kinnisvara, AS Heal, OÜ Delegatsioon, AS KS Holding and OÜ Bolton Realestate. See "Principal Shareholders—Infortar" for information regarding Ain Hanschmidt's ownership of Tallink through Infortar.

Mr. Sunil Kumar Nair (born 1966) was elected as a member of the supervisory council in 2003. He graduated from Yale University, the United States, in 1995 (MBA in finance and strategy) and the University of Madras, India, in 1988 (Master's degree in commerce). He has been a Managing Director of Citigroup Venture Capital International since 1999 and also acts as a director of Lupin Laboratories Limited (Mumbai, India), Hikma Pharmaceuticals (Jordan) and UAB Palink (Lithuania). He served as a Vice President of Salomon Smith Barney, Citigroup (New York) from 1997 to 1999 and worked as a consultant at McKinsey & Company from 1995 to 1997.

Mr. Lauri Kustaa Äimä (born 1971) was elected as a member of the supervisory council in 2002.Kustaa holds a Masters degree in Economics from the University of Helsinki, Finland. He is a Fund Manager for Danske Capital Finland Ltd and oversees several investment funds managed by DCF in addition to acting as a General Manager of Amber Trust Management SA (Luxembourg) as well as a General Manager and a member of the board of directors of Amber Trust II Management SA (Luxembourg), both joint venture private equity funds with Firebird. Before joining Danske Capital Finland in 2000, Kustaa worked at the Bank of Bruxelles Lambert Group and the ING Group's investment management operations. He also serves as a member of the supervisory councils of Salva Kindlustuse AS OÜ Vettel, AS Tallinna Kulmhoone and AS PKL as well as the Lithuanian company UAB Litagra and JSC Baltijas Apdrosinasanas Nams in Latvia.

Management Board

The management board manages our daily business operations. According to our articles of association, the powers of the management board include, among other things, the right to execute the following transactions without the approval of the supervisory council:

- Acquisition or disposal of shareholdings in other companies;
- Acquisition, disposal or winding up of businesses;
- Transfer or encumbrance of immovable property (land and buildings) or registered movable property (all other registered assets);
- Establishment or closing of foreign branches;
- Investing in excess of the budget for the respective financial year;
- Borrowing or incurring debt in excess of the amounts budgeted for the respective financial year; and
- Issuing loans and securing debt, even if this is beyond the ordinary course of our business.

According to our articles of association, the management board shall consist of five to seven members that are elected for three years at a time. The Chairman of the management board is elected by the supervisory council. Our management structure, including the areas of responsibility and reporting, has been approved by the management board as of February 1, 2004. See "Estonian Securities Market—Estonian Company Law Issues" for further information on the tasks of the management board.

The table below sets forth the members of our management board, their positions, year of appointment and certain related information.

Member Name	Year of birth	Member since	Position	Current term expires
Enn Pant	1965	1996	Chairman	June 12, 2009
Kalev Järvelill	1965	1998	Member	November 10, 2007
Keijo Erkki Mehtonen	1949	1998	Member	November 10, 2007
Andres Hunt	1966	2002	Member	February 22, 2008
Antti Pankakoski	1954	2006	Member	July 24, 2009

The business address of all members of the management board is: c/o Aktsiaselts Tallink Grupp, Tartu mnt. 13, 10145 Tallinn, Estonia.

Mr. Enn Pant (born 1965) was elected as Chairman of our management board in 1996 and was re-elected as our Chairman in 2003. He is also our CEO. He graduated from the Faculty of Economics, University of Tartu, Estonia, in 1990. Mr. Pant also acts as a member of the supervisory councils of Infortar, OÜ Linandell, OÜ Vara HTG, AS Tailwind, OÜ Fastinvest and AS H.T. Valuuta. He was also the Chancellor of the Ministry of Finance of Estonia from 1992 to 1996. He is the brother of Eve Pant, a member of Tallink's supervisory council. See also "Principal Shareholders—Infortar" for information regarding Enn Pant's ownership of Tallink through Infortar.

Mr. Kalev Järvelill (born 1965) was elected as a member of the management board in 1998. He graduated from the Faculty of Economics, University of Tartu, Estonia, in 1993. Mr. Järvelill is also a member of the supervisory councils of Infortar, OÜ Linandell, OÜ Fastinvest, AS HTG Invest and OÜ Vara HTG. He was the General Director of the Estonian Tax Board from 1995 to 1998 and the Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995. See "Principal Shareholders—Infortar" for information regarding Kalev Järvelill's ownership of Tallink through Infortar.

Mr. Keijo Erkki Mehtonen (born 1949) was elected as a member of the management board, with responsibility for sales and marketing in 1998. He has worked for Tallink Finland Oy since 1989. Mr. Mehtonen is also a member of the supervisory councils of Infortar and OÜ Fastinvest.

Mr. Andres Hunt (born 1966) was elected as a member of the management board in 2002. He has also acted as the CFO of the Tallink group since 1998. He graduated from the Faculty of Economics, Academy of Agriculture, Estonia, in 1992. Mr. Hunt is also a member of the supervisory council of AS Tailwind and a member of the management board of OÜ Kümnis Konsultatsioonid. From 1995 to 1998, he worked as the director of the Tax Policy Department at the Ministry of Finance of Estonia.

Mr. Antti Pankakoski (born 1954) acts as the member of the Management Board of AS Tallink Grupp since 24th of July 2006. Mr. Pankakoski has been the General Director of Silja Oy Ab from 2003 and remained at that position after Silja business was taken over by Tallink. Mr. Pankakoski obtained LLM degree from Helsinki University. He has worked in the shipping industry at various positions starting from 1979 and at leading positions as from 1986.

Other Key Executives

In addition to the members of our supervisory council and the management board set out above, various other key positions in our group are currently held by the following members of our corporate management team.

Name	Year of birth	Member since	Position
Lembit Kitter	1953	2006	General Director
Meelis Asi	1964	1997	Chief Accountant
Ülo Kollo	1937	1996	Technical Director
Tõnu Liik	1954	2005	Development Director
Mare Puusaag	1956	1997	Chief Legal Counsel
Janek Stalmeister	1974	2005	Finance Director
Veiko Suigussaar	1971	2005	Administrative Director
Taavi Tiivel	1977	2005	Service Director
Peter Roose	1969	2005	Sales&Marketing Director
Toomas Sosnitski	1963	2006	HR Manager

The business address of all key executives is: c/o Aktsiaselts Tallink Grupp, Tartu mnt. 13, 10145 Tallinn, Estonia.

Mr. Lembit Kitter (born 1953) working as the General Director of AS Tallink Grupp from 1st of August 2006, has graduated the Faculty of Economics in University of Tartu, Estonia. He has worked in the banking sector in Estonia since 1992 at leading positions, including in Eesti Maapank, in Tartu Maapank, in Põhja-Eesti Pank and in SEB Eesti Ühispank,

Mr. Meelis Asi (born 1964) has worked as our Chief Accountant since 1997. He graduated from the Faculty of Economics, University of Tartu, Estonia, in 1992. He is a member of the management boards of AS Meelis Asi Konsultatsioonid, OÜ Fastinvest, OÜ Trigoner and Compo Investeeringud OÜ. He also currently serves as a member of the supervisory councils of OÜ Maleva Puit, AS HTG Partner, Vivarek Transpordi AS. From 1995 to 1996, he worked as the Chief Accountant of AS Tallinna Sadam, and from 1994 to 1995, he was Assistant Head of the Tax Policy Department of the Ministry of Finance of Estonia.

Mr. Ülo Kollo (born 1937) has worked as our Technical Director since 1996. He graduated from the St. Petersburg Naval Academy, Russia, where he specialized in ship navigation, in 1972. From 1992 to 1996, he was the CEO of Aktsiaselts Hansatee and Aktsiaselts Inreko Laevad and, from 1979 to 1992, he worked as the captain of the vessel Georg Ots.

Mr. Tõnu Liik (born 1954) started in AS Tallink Grupp in 2005 as the Development Director. He has held the leading position in IT field in Eesti Hoiupank (from 1993 to 1998), in SEB Eesti Ühispank (from 1998 to 2002) and in SEB East- Europe Division (from 2002 to 2005). He graduated from Tallinn Technical University in 1978 in the specialty of computer sciences.

Ms. Mare Puusaag (born 1956) has worked as our Chief Legal Counsel since 1997. She graduated from the Faculty of Law, University of Tartu, Estonia, in 1982. From 1995 to 1997, she served as the Head of the Legal Department of the Ministry of Finance of Estonia and, from 1982 to 1995, she worked in the Department of Business Law in the Ministry of Justice of Estonia.

Mr. Janek Stalmeister (born 1974) has worked as our Finance Director since 2005. He graduated from the International University of Social Sciences "LEX," Estonia, in 1999. From 1999 to 2004, he worked at Tallink as a Financial Advisor/Controller and Deputy Finance Director, from 1997 to 1999, he worked as a stock broker, Deputy CEO and CEO at AS HT Finants and, from 1994 to 1997, he was the Head of the External Debt Division at the Estonian Ministry of Finance. He is also a member of the supervisory council of AS Tailwind.

Mr. Veiko Suigussaar (born 1971) has worked as our Administrative Director since 2005. From 1991 to 1993, he was an Inspector in the Labour Inspectorate Board. Since 1995, he has also been a member of the management board of OÜ Revehold and a member of the supervisory council of AS Gastrolink.

Mr. Taavi Tiivel (born 1977) has worked as a Service Director since 2005. He graduated from the Faculty of Law of the University Nord, Estonia, in 2001 and is currently continuing his studies at the University of Audentes. Before joining us in 2004, he worked as a Specialist in the State Chancellery from 2001 to 2003.

Mr. Peter Roose (born 1969) joined AS Tallink Grupp in 2005. He holds the position of Sales and Marketing Director with us. Peter Roose's previous employers were TBWA/GUVATRAK and DDB where he worked as the Managing Director. Mr. Roose has graduated from the Wilfrid Laurier University in Canada, in 1991.

Mr. Toomas Sosnitski (born 1963) joined AS Tallink Grupp in 2006. He holds the position of HR Manager. Before joining us, his previous employer was OÜ Laulasmaa Hotellid. From 2003 to 2005, he worked as a Human Resources and Administration Director in AS Estonian Air. Mr. Sosnitski has graduated from the University of Tartu in 1987.

Management Holdings

Prior to the Offering, the members of our supervisory council own, directly or indirectly, a total of 20,692,733 Shares, corresponding to approximately 14.6 per cent of the Shares and the votes attached to the Shares.

Prior to the Offering, the members of our management board own, directly or indirectly, a total of 41,013,955 Shares, corresponding to approximately 29.9 per cent of the Shares and the votes attached to the Shares.

The table below sets forth the shareholdings of the members of our supervisory council, the members of our management board and other key executives prior to the Offering:

		Direct shareholding (number of shares)	Direct shareholding (%)	Indirect shareholding (%)	Total shareholding (%)
Toivo Ninnas	Chairman of the Supervisory Council	4,000	0.00 %	3.00 %	3.00 %
Eve Pant	Member of the Supervisory Council	125,000	0.09 %	0.05 %	0.14 %
Ain Hanschmitd	Member of the Supervisory Board	320,920	0.23 %	10.82 %	11.05 %
Enn Pant	Chairman of the Management Board	612,000	0.43 %	12.92 %	13.35 %
Keijo E. Mehtonen	Member of the Management Board	1,003,600	0.71 %	3.36 %	4.07 %
Kalev Järvelill	Member of the Management Board	319,200	0.23 %	10.97 %	11.20 %
Andres Hunt	Member of the Management Board, CFO	131,000	0.09 %	0.19 %	0.28 %
Lembit Kitter	General Director	—	—	0.00 %	0.00 %

Meelis Asi	Accounting Director	32,700	0.02 %	0.81 %	0.83 %
Ûlo Kollo	Technical Director	284,000	0.20 %	—	0.20%
Mare Puusaag	Chief Lawyer	18,000	0.01 %	—	0.01%
Taavi Tiivel	Service Director	7,000	0.00 %	—	0.00%
Janek Stalmeister	Finance Director	4,250	0.00 %	—	0.00%
Veiko Suigussaar	Administration Director	11,000	0.01 %	—	0.01%
Peter Roose	Sales and Marketing Director	5,435	0.00 %	—	0.00%
Tõnu Liik	Development Director	510	0.00 %	—	0.00%

As of the date of this offering memorandum, the members of our supervisory council and management board and our key executives do not have shareholdings, either direct or indirect, in any of our group companies other than Tallink (except for Mr. Peter Roose who holds 30% of TLG Media shares).

Management Remuneration and Benefits

Supervisory Council

Pursuant to the decision of our general meeting of shareholders held on February 5, 2005 the Chairman of our supervisory council shall receive EEK 15,000 per month and members of our supervisory council shall each receive EEK 12,000 per month. The salaries and other remuneration paid by our group companies to the members of our supervisory council for the financial year ended August 31, 2005, totaled EEK 1,053,000.

We provide Mr. Ninnas with car and mobile phone benefits. No service agreements have been concluded by us with the members of our supervisory council providing for benefits upon termination of appointment as a member of the supervisory council.

Management Board

The salaries and other remuneration paid by our group companies to the members of our management board for the financial year ended August 31, 2005 totaled EEK 8.2 million. We provide car and mobile phone benefits for the members of our management board. We further undertake to provide the members of the management board with social benefits similar to those of employees working under employment contracts.

Upon termination of the service agreement of a member of the management board, we shall pay compensation to such member in an amount corresponding to the member's 12-month salary. In the event that the agreement is terminated prematurely by us without a significant reason, we shall pay additional compensation to such member in an amount corresponding to the member's six-month salary. No compensation shall be paid in the event that such member resigns, except due to health reasons (in which case compensation in an amount corresponding to the member's 12-month salary shall be paid). A member who has breached his duties by showing gross negligence and has thereby caused damage to us is entitled to compensation in an amount corresponding to the member's three-month salary. The above terms and benefits are applied to all members, except for Mr. Mehtonen who will receive compensation according to his agreement as a member of the management board of Tallink Finland Oy.

In the event that the agreement is terminated prematurely by Tallink Finland Oy, Mr. Mehtonen will receive compensation in an amount equal to his 24-month salary. No compensation shall be paid in case he resigns or in the event that the agreement is terminated due to breach of his duties.

Other Key Executives

The salaries and other remuneration paid by our group companies to our key executives for the financial year ended August 31, 2005 totaled EEK 5.3 million.

Incentive Schemes, Loans, Transactions with Tallink, Legal Issues

On January 11, 2005, our supervisory council approved in principle a bonus scheme, including a share participation scheme, for our key management, pursuant to which our key management may be rewarded with Shares based on the approved net profit for the financial years ending August 31, 2005 and 2006. Other than based on their rights as shareholders, no member of our supervisory council or our management board has any options to purchase or sell Shares, or rights to subscribe for new shares or shares in any other company within our group.

We have not issued any loans or guarantees or provided any collateral for the benefit of any member of our supervisory council or management board.

No member of our supervisory council or management board has had any interest in transactions effected by us, which are unusual in their nature or which contain unusual terms or conditions (such as purchases other than in the ordinary course, acquisition or disposal of fixed assets), during the financial year ended August 31, 2004 and 2005 or the current financial year. See also "Business—Related Party Transactions."

We are not aware of any convictions in relation to fraudulent offences, bankruptcies, receiverships or liquidations or any official public incrimination and/or sanctions with respect to our supervisory council members, our management board members or other key executives. We are further not aware of any potential conflicts of interest between ourselves and their personal interests or other duties.

PRINCIPAL SHAREHOLDERS

Ownership Structure

According to our shareholder register kept by the operator of the Estonian Central Registry of Securities ("ECRS"), we had 14,283 shareholders as of August 7, 2006. The table below sets forth details of our ten largest shareholders and their respective holdings prior to the Offering. Our current shareholders are permitted to acquire Offer Shares in the Offering.

Shareholder	Number of Shares prior to the Offering	%
AS Infortar[1]	59,235,485	41.8625
ING Luxembourg S.A	11,993,690	8.4761
Skandinaviska Enskilda Banken AB Clients	7,314,771	5.1694
Citibank Hong Kong/Citicorp International Finance Corporation	5,467,640	3.8641
J.P.Morgan Bank Luxembourg S.A.	5,289,600	3.7382
SC Finland Limited	5,000,000	3.5336
Morgan Stanley + Co International Equity Client Account	4,206,296	2.9726
Nordea Bank Finland Plc Clients Account Trading	3,366,648	2.3793
Firebird Republics Fund Ltd.	2,703,604	1.9107
Deutsche bank AG Londin Prime Brokerage/Clients Full Tax Account	2,156,209	1.5238
Total ten largest	106,733,943	75.4303
Remaining shareholders	34,766,057	24.5697
Total	141,500,000	100.0000

1 Enn Pant (Chairman of our management board and our CEO), Kalev Järvelill (a member of our management board) and Ain Hanschmidt (a member of our supervisory council) beneficially own, directly or indirectly, 29.42 per cent, 25.62 per cent and 25.15 per cent, respectively, of the shares in Infortar.

For information regarding all direct and indirect holdings of Shares by our management, see "Management—Management Holdings" and "—Infortar".

Our major shareholders do not have any preferential voting rights compared to our remaining shareholders.

Infortar

As of the date of this offering memorandum, Infortar owned approximately 41.86 per cent of our outstanding Shares. Infortar is an Estonian investment company with interests in the shipping, real estate and printing industries. Infortar was originally formed as an investment company to acquire a significant portion of our shares in 1997 in connection with the restructuring of our company involving a management buy-out. The members of the new management team that were retained in connection with the restructuring, certain companies related to SEB Eesti Ühispank and a number of other entities and individuals became shareholders of Infortar.

Today, the principal shareholder of Infortar is an Estonian holding company, Linandell OÜ, which, as of the date of this offering memorandum, held approximately 75 per cent of Infortar's shares according to the ECRS. Thus, Linandell is Tallink's ultimate parent company. The remaining shares in Infortar are held by a number of smaller investors, none of which holds more than ten per cent of such shares. Linandell is ultimately, directly or indirectly, controlled by Enn Pant, Chairman of our management board and our CEO, Kalev Järvelill, a member of our management board, and Ain Hanschmidt, a member of our supervisory council, each of whom also owns shares directly in Infortar. See also "Management—Management Holdings."

Originally, Mr. Pant owned, directly or indirectly, approximately two-thirds of the shares in Linandell and Mr. Järvelill owned, directly or indirectly, the remaining shares. We have been informed that, in April 2004, a holding company, OÜ Abante, became the owner of approximately one-third of the total shares in Linandell. In August 2005, Mr. Hanschmidt became the Chairman of the management board of Infortar, a position which was previously held by Eve Pant, the sister of Mr. Pant and a member of our supervisory council. In connection therewith, the entire shareholding in Abante was transferred to Mr. Hanschmidt. The terms of the transaction have not been disclosed by the parties.

As Mr. Hanschmidt was from 1992 to 2005 the Chairman of the management board (CEO) and, from January to August 2005, the Chairman of the supervisory council, of one of our lenders, SEB Eesti Ühispank, at least two investigations were initiated in Estonia: one by SEB Eesti Ühispank and one by the EFSA (Financial Supervision Authority). In September 2005, SEB Eesti Ühispank published a summary of the findings of its internal investigation. There were no findings of any wrongdoing by either Mr. Hanschmidt or SEB Eesti Ühispank in respect of the loans granted to us. The EFSA's investigation focused on clarifying circumstances pertaining to the internal investigation by SEB Eesti Ühispank as well as other circumstances not forming part of such investigation. The EFSA stated following its investigation that it had not found any evidence of wrongdoing as of the date of the EFSA's statement of September 23, 2005.

Dilution

The Offer Shares represent approximately 20.0 per cent of our share capital immediately prior to the Offering and approximately 16.7 per cent of our share capital following the completion of the Offering assuming that the Offer is fully subscribed to. In case a shareholder or any other investor has Subscription Rights as of 8a.m. on the 29-th of August, 2006 and has not given instructions for the submission of a Subscription Undertaking according to the Terms and Condtions of the Offering, the shareholder or investor shall suffer approximately 16.7% dilution of their holding in case all other shareholders have submitted Subscription Undertakings according to their respective number of Rights.

Shareholders' Agreements

We have been informed that our major shareholders Infortar, CVCI and Amber and/or any of their respective affiliates or promoters are in the process of negotiating a shareholders' agreement broadly setting out the following terms and conditions:

- agreement by the parties to subscribe to a total of EUR 60 million of the rights issue currently being carried out by Tallink;
- imposition of restrictions on Infortar to dispose of their shares in Tallink such that as a result their holding in Tallink would drop below 35%;
- any strategic decision on the level of the supervisory board or shareholders' meeting of Tallink be discussed between the parties in advance to reach consensus. Notwithstanding, the parties shall be independent to the extent that any voting carried out thereof is in a manner which best complies with Estonian laws, any Tallinn Stock Exchange Rules or the Corporate Governance Recommendations.

As we have been informed such shareholders' agreement has not yet been concluded, might not be concluded or might be concluded on terms different from those listed above. However, upon conclusion of such agreement the shareholders will, as we have been informed, disclose the terms of such agreement in the extent and manner required by the Stock Exhange Rules.

DESCRIPTION OF SHARE CAPITAL

General Information

Our legal name is Aktsiaselts Tallink Grupp. We are a public limited company (*aktsiaselts*) registered in the Estonian Commercial Register (*Äriregister*) under registration code 10238429. The ISIN code of the Shares is EE3100004466. Our registered office is in the city of Tallinn, Estonia, at the address Tartu mnt 13, 10145 Tallinn. Our telephone number is +372 6 409 800.

Tallink was registered in the Estonian Registry of Enterprises under the name Hansatee Aktsiaselts on September 21, 1994, which is the date of our incorporation. On August 21, 1997, Tallink was re-registered in the Estonian Commercial Register under the name Aktsiaselts Hansatee Grupp. The re-registration was made in order to comply with requirements of the Commercial Code of Estonia. On January 23, 2002, the name of Tallink was changed and, since that date, we have operated under the name Aktsiaselts Tallink Grupp.

Our financial year runs from September 1 to August 31. Pursuant to Article 1.5 of our articles of association, Tallink has been created for an indefinite term.

Pursuant to Article 1.3 of our articles of association, our business activities are as follows: (i) the arrangement of maritime transport and acting as ships' agent; (ii) the transportation of passengers, vehicles and goods by sea and the arrangement of related services; (iii) the arrangement of transit operations; (iv) the arrangement of storehouse services; and (v) carrying out representing and agent functions and trading activities, including the retail sale of alcohol and tobacco products on the ships.

Share Capital Information

General

Pursuant to our articles of association, our issued share capital cannot be less than EEK 1,365,000,000 or more than EEK 5,465,000,000. At the date of this offering memorandum, our registered share capital amounted to EEK 1,415,000,000 consisting of 141,500,000 fully paid Shares with a nominal value of EEK 10 per Share. Each Share entitles its holder to one vote at our general meetings of shareholders. We have one class of shares and all Shares rank *pari passu* in all respects, except that the 5,000,000 shares issued to Silja Holdings Limited, a subsidiary of Sea Containers Limited, as part of the Silja acquisition entitle the shareholder to dividends for the financial year starting from 1st of September, 2006.

Our shares have been registered in the ECRS since 1997. Our shares are listed on the main list of the Tallinn Securities Exchange and an application has been made to also list the new Shares. The Shares may be freely transferred according to our articles of association.

According to the articles of association, our supervisory council has, within two years from June 22, 2006, the right to increase our share capital by EEK 210,000,000. At the date of this offering memorandum, there are no other valid authorizations granted to the management board or the supervisory council to increase our share capital or to issue any instruments convertible into Shares.

Option Rights, Bond Loans with Warrants, Convertible Bonds and Capital Loans

The general meeting of shareholders shall pass any decisions which would alter the share capital or number of shares in an Estonian company. According to Estonian law, convertible bonds are the only debt instruments granting a conversion right into a company's shares. For conditional increase of share capital the general meeting of shareholders is entitled to decide on the issuance of any convertible bonds, if such right has been provided for in the articles of association. Our articles of association do not provide for the right to issue convertible bonds.

We have not issued any option rights, convertible bonds, bonds with warrants, capital loans or other instruments convertible into our Shares.

In April 2005, Hansapank arranged the private offering of bonds of Tallink maturing April 28, 2006 and October 27, 2006 pursuant to which bonds with a total nominal value of EEK 200,000,000 were issued. The bonds were issued at a discount and do not provide their holders any rights to convert the bond loan into our Shares. On April 28, 2006 bonds in the total value of EEK 60,000,000 were redeemed, therefore the current outstanding amount is EEK 140,000,000.

Changes in the Share Capital

The table below shows all changes in our issued share capital since August 21, 1997.

Date[1]	Description of the measure	Change in the number of Shares	Total number of Shares	Share capital (EEK)
September 5, 1997	Share capital increase	2,600,000	4,600,000	46,000,000
January 21, 1998	Share capital increase	1,000,000	5,600,000	56,000,000
June 10, 1998	Share capital increase	16,800,000	22,400,000	224,000,000
October 8, 2003	Share capital increase — Directed issue	5,100,000	27,500,000	275,000,000
February 18, 2005	Share capital increase — bonus issue	82,500,000	110,000,000	1,100,000,000
December 13, 2005	Share capital increase — Directed issue	26,500,000	136,500,000	1,365,000,000
July 26, 2006	Share capital increase — Private placement to Silja Holdings Limited	5,000,000	141,500,000	1,415,000,000

1 Date refers to date of registration in the Estonian Commercial Register.

As of the date of this offering memorandum, we do not own any of our own Shares.

Shareholder Rights

General Meetings of Shareholders

Under the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. The general meeting of shareholders shall consider, among other things, the annual report, the auditors' report and the distribution of profits. Resolutions may be adopted at either annual or extraordinary general meetings of shareholders.

In accordance with the Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year. An extraordinary general meeting of shareholders shall be convened by the management board when it is required by the Articles of Association of the company or by the Commercial Code. Our Articles of Association does not currently specify the events which require an extraordinary meeting to be held. Under the Commercial Code an extraordinary meeting shall be convened in the event that the equity capital decreases below the legally required minimum equity, or if the supervisory council, shareholders representing at least one-tenth of the share capital of the company or the auditor of the company make such request to the management board, or if such extraordinary meeting is clearly necessary in the interests of the company. If the management board does not convene an extraordinary general meeting within one month following receipt of such a request, the shareholders, the supervisory council or the auditor are entitled to convene an extraordinary general meeting themselves.

Notices to annual general meetings of shareholders must be given at least three weeks prior to the meeting, and notices to extraordinary general meetings of shareholders must be given at least one week in advance. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the share register of the company as maintained by the ECRS). Alternatively, notices to convene a general meeting may be sent via regular mail or fax provided that to such letter or fax is attached a notice to the shareholder of his obligation to immediately return a confirmation of receipt to the management board. If the company is aware or should be aware that the shareholder's address differs from that contained in the company's share register, a notice to convene a general meeting shall also be sent to such other actual address. However, if the company has more than 50 shareholders, notices need not be sent by registered mail, but may be published in at least one national daily newspaper in Estonia.

The supervisory council of the company usually determines the agenda of the general meeting of shareholders. If, however, the shareholders or the auditor convene a general meeting, they must also determine the agenda of that meeting. The management board or one or more shareholders holding at least one-tenth of the share capital of the company may require that other items be included on the agenda of a general meeting. If, upon convening a general meeting, the requirements of law or the articles of association have been breached, no decision may be adopted at the meeting unless all the votes represented by the company's shares are represented at the meeting. Any resolution passed at such meeting is void unless the shareholders with regard to whom the procedure of convening had been breached approve such resolution.

In the case of listed companies, in order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the share register kept by the operator of the ECRS at 8:00 a.m. on the day that is determined for that purpose by the company. The company must publish such a day at least nine trading days in advance. Voting rights may not be exercised by a shareholder if such shareholder's shares are registered in the name of a nominee unless a power of attorney has been executed by the nominee account holder.

A general meeting of shareholders is capable of passing resolutions if more than one-half of the votes represented by shares held by shareholders are present at the general meeting of shareholders. If the quorum requirement has not been fulfilled, the management board shall call a new general meeting of shareholders for a date not more than three weeks but not less than seven days after the date of the prior meeting. There are no quorum requirements for the newly called general meetings of shareholders.

Voting Rights

We have one class of shares of EEK 10 nominal value each. Each share entitles the holder to one vote. A shareholder may attend and vote at a meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the general meeting of shareholders. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganization or liquidation of the company, require a majority of two-thirds of the votes represented at the general meeting of shareholders. Any issuance of new shares on terms other than in accordance with the existing shareholders' pre-emptive subscription rights requires a majority of at least three-quarters of the votes represented at the general meeting of shareholders. Issuing a different class of shares requires amendment of the articles of association (by a two-thirds majority of votes represented at the general meeting of shareholders). According to Estonian law, rights attached to a class of shares may be amended by the general meeting through a decision supported by a qualified majority of four-fifths of all votes and nine-tenths of the votes of the shareholders whose rights are proposed to be amended.

Dividends and Other Distributions

Pursuant to the Estonian Commercial Code, a general meeting of shareholders may authorize the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the management board. The supervisory council has the right to make changes to the proposal of the management board before submission to the general meeting of shareholders.

Dividends, if any, should be paid in cash or, with the consent of the shareholders, in kind. The dividends can be paid on the basis of the annual report. The dividend amount and the procedure of payment are decided by the shareholders. The procedure of payment may also be set out in the articles of association. The shareholders may decide to pay out dividends in several installments. Generally, under Estonian law, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting of shareholders. However, in the articles of association the management board can be granted the right to make, after the end of the financial year but before the approval of the annual report and with the consent of the supervisory council, advance payments on account of the estimated profit, provided that such payments do not exceed one-half of the funds available for distribution among shareholders. Our articles of association do not provide such right. Dividends may only be paid out from net profit or undistributed profit for previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid if the net assets of the company, as recorded in the annual report approved at the end of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law or articles of association, shall not be paid out to shareholders.

Dividends of companies listed on the Tallinn Stock Exchange are paid only to those shareholders (or their nominees) who have been entered in the share register (such register is maintained by the ECRS through the relevant book-entry registrar) as finalized in accordance with the TSE Rules. The TSE Rules provide that a listed company is required to disclose details of the list of shareholders at least nine trading days before the date of finalizing the list. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (e.g., the declaration of payment of dividends), the list of shareholders may not be finalized at an earlier date than the tenth trading day after the date of the relevant general meeting of shareholders.

All our Shares rank *pari passu* with regard to dividends and other distributions of Tallink (including distribution of our assets in the event of dissolution), except that the Offer Shares and the 5,000,000 shares issued to Silja Holdings Limited, a subsidiary of Sea Containers Limited, as part of the Silja acquisition entitle the shareholder to dividends for the financial year starting from 1st of September, 2006.

For a description of restrictions on payment of dividends, see “Dividends and Dividend Policy,” and for taxation of dividends, see “Taxation—Estonian Tax Considerations—Dividends.”

Pre-emptive Subscription Rights

Under Estonian law, existing shareholders of Estonian companies have pre-emptive rights to subscribe for new shares in the company, in proportion to their existing shareholding. Under the Commercial Code, a resolution waiving pre-emptive rights must be approved by at least 75 per cent of all votes represented at the general meeting of shareholders.

Right to Acquire Own Shares

A public limited company is entitled to acquire its own shares only if the following conditions are met:

(i) the acquisition occurs within one year after the adoption of a resolution of the general meeting which specifies the conditions and term for the acquisition and the price to be paid for the shares; (ii) the sum of the nominal value of the shares held by the company does not exceed one-tenth of its share capital; and (iii) the shares are paid for from assets excluding the share capital, reserve capital and premium. However, a public limited company may acquire its shares by inheritance or by a resolution of the supervisory council without requiring a resolution of the general meeting if the acquisition of the shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances of the acquisition of the company's own shares at the next general meeting of shareholders. In any event, a public limited company, which has acquired its own shares, must transfer those shares within one year from the date on which they were acquired. In the event that the public limited company acquires its own shares in violation of the law, such shares must be disposed of or cancelled (by decreasing the share capital) within three months of acquisition. In the event that the shares acquired contribute to more than one-tenth of the share capital, such excess shares must be disposed of within six months of their acquisition.

The rules regarding acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In the event that a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

Disclosure of Shareholdings

Pursuant to the Estonian Commercial Code, the management board is required to submit to the Estonian Commercial Register, together with the approved annual report and auditors' report, a list of shareholders holding ten per cent or more of the votes as of the date of the approval of the annual report by the general meeting of shareholders. See "Estonian Securities Market—Estonian Company Law Issues—Introduction" for a description of other instances when information concerning the shareholders is accessible to the public.

ESTONIAN SECURITIES MARKET

Estonian Company Law Issues

The following describes certain of the provisions of Estonian legislation regulating the legal status and management of public limited companies. The following description does not constitute an exhaustive description of the subject matter, is based on the laws of Estonia as in force on the date of this offering memorandum, and is subject to changes as a result of any future amendments to Estonian legislation.

Introduction

Under Estonian law, limited liability companies are divided into two categories—private limited companies (*osaühing*, abbreviated as OÜ) and public limited companies (*aktsiaselts*, abbreviated as AS). Public limited companies are characterized by greater capital requirements and the ability to issue more numerous classes of shares than private limited companies, and are required to register with the ECRS. See "—The Tallinn Stock Exchange and the Estonian Securities Market" below for details regarding the activities of the ECRS. Pursuant to Estonian law, the legal capacity of a company is effective upon its entry in the Commercial Register. Therefore, a public limited company organized under Estonian law must be registered with the Commercial Register. The Commercial Register is a record maintained by the registration departments of the various courts of first instance.

Public limited companies must have a minimum share capital of EEK 400,000. A public limited company's share capital must be fully paid-up as a condition of registration in the Commercial Register.

The shares of public limited companies must have a nominal value of EEK 10 each or a full multiple thereof. Shares are freely transferable, but the company's articles of association may confer a pre-emptive right on other shareholders. Dividends must be distributed to shareholders pro rata, based upon the nominal value of the shares held by each shareholder. Where a public limited company has different classes of shares, owners may enjoy different rights, such as the right of preferred shareholders to receive dividends in a pre-determined amount.

Corporate Governance

The general meeting of shareholders is the highest decision-making forum of a public limited company. See "Description of Share Capital—Shareholder Rights—General Meetings of Shareholders" for further information on the tasks and procedures related to the general meeting of shareholders. A public limited company incorporated in Estonia must also have a two-tier management structure, comprising a management board and a supervisory council.

The management board is an executive body charged with the day-to-day management of the relevant company, as well as with representing the company in its relations with third parties, for example, by entering into contracts on behalf of the company. The management board must adhere to the lawful orders of the supervisory council. At least one-half of the management board members of a public limited company must be residents of member states of the European Economic Area or Switzerland. Members of the management board may not simultaneously serve on the supervisory council.

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

Members of the management board and supervisory council must fulfill various general duties to the company, including upholding a fiduciary duty of loyalty, acting with due diligence, performing their duties with sufficient skill and in a manner commensurate with their knowledge and abilities, and acting to maximize benefits to the company and to prevent any losses.

The TSE Rules provide that should any shareholder hold more than 30 per cent of the votes represented by shares in the share capital of an issuer, there shall be at least two members of the supervisory council that are not connected with such shareholder. The current composition of our supervisory council is in compliance with the above independency requirements.

Members of governing bodies must also keep the company informed of all material facts related to the performance of their obligations, such as any conflicts of interest which may arise. A strict confidentiality requirement also applies where members of governing bodies learn of facts that the company has a legitimate interest in keeping confidential. For example, the company is presumed to have a legitimate interest in maintaining the confidentiality of its production and business secrets. The confidentiality obligation continues after the board or council member's term of service expires, to the extent necessary to protect the company's interests. Exceptions to the confidentiality obligation arise where the company authorizes disclosure, or where the law requires disclosure. Unauthorized disclosure of business secrets may result in criminal sanctions.

Pursuant to the Commercial Code, a public limited company is required to engage an auditor who must be appointed by the general meeting of shareholders. The general meeting of shareholders shall also determine the principles of remuneration of the company's auditors. The auditors may be appointed for a specified term or for a single audit.

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90 per cent of the share capital of a public limited company, is entitled to acquire the remaining outstanding shares of the company for fair monetary compensation. A resolution on the acquisition of these shares shall be adopted, and shall bind all shareholders, if at least 95 per cent of the votes represented by shares are in favor. For a general description about the regulations regarding mandatory takeover rules, see "Estonian Securities Market – The Tallinn Stock Exchange and the Estonian Securities Market - Mandatory Takeover Bid".

Various additional restrictions and limitations on the activities of Tallink and its managing bodies are imposed by the TSE Rules.

Furthermore, the EFSA has approved the Corporate Governance Recommendations, which entered into force as of January 1, 2006. According to these Recommendations all companies whose shares are admitted to trading on the Tallinn Stock Exchange are required to either comply with the Recommendations or explain reasons for their non-compliance (comply or explain). The recommendations regulate, among other matters, the calling and procedure of general meetings of shareholders, requirements for the composition, duties and activities of the management board and supervisory board, requirements for the disclosure of information and financial reporting. As regards the composition of the supervisory council, the recommendations provide stricter requirements than TSE Rules requiring that at least one-half of the members of the supervisory council must be independent. Tallink is in compliance with most requirements of these Recommendations. However, as these Recommendations came into effect as from January 1, 2006, we have not been able to meet all requirements set out in the Corporate Governance Recommendations, mainly the ones concerning the publishing of some documentations and information on the Tallink's homepage since the current fiscal year has been very eventful period for Tallink. Still we apply our best efforts to meet all of the requirements as soon as possible.

The Tallinn Stock Exchange and the Estonian Securities Market

Set out below is a summary of certain information concerning the Estonian regulated securities market and certain provisions of Estonian law and Estonian securities market regulations in effect on the date of this offering memorandum. The summary is based on Estonian laws and securities market regulations and publicly available information on OMX AB group, the principal shareholder of the company operating the Tallinn Stock Exchange, and on NOREX.

The Tallinn Stock Exchange

The Tallinn Stock Exchange is the only stock exchange operating in Estonia. It is operated by AS Tallinna Börs, a public limited company whose principal shareholder is the Swedish company OMX AB, through its Finnish subsidiary. OMX AB group companies also operate the Copenhagen Stock Exchange, the Stockholm Stock Exchange, the Helsinki Stock Exchange, the Riga Stock Exchange and the Vilnius Stock Exchange. The Tallinn Stock Exchange is also a member of NOREX, an alliance of Nordic and Baltic stock exchanges.

The activities of, and trading on, the Tallinn Stock Exchange are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is supplemented by the TSE Rules. The principal laws governing the activities of, and trading on, the Tallinn Stock Exchange are the Estonian Securities Market Act and the Estonian Central Registry of Securities Act. The TSE Rules are established by the operator of the Tallinn Stock Exchange (AS Tallinna Börs) to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the TSE Rules, though the EFSA must approve such amendments. The TSE Rules are binding on the members of the Tallinn Stock Exchange and the issuers whose securities are listed on the Tallinn Stock Exchange or admitted to trading on the separate Free Market regulated by the Tallinn Stock Exchange.

The Estonian Central Registry of Securities and Registration of Shares

The ECRS is a public register established, among other matters, for the registration of shares and other securities stipulated in the Estonian Central Registry of Securities Act (*Eesti väärtpaberite keskregistri seadus*) and transactions executed with such securities (including pledges). The ECRS is administered by the Estonian Central Securities Depository (*AS Eesti Väärtpaberikeskus*, the "ECSD"). The ECSD is organized as a public limited company, and its shares are fully owned by AS Tallinna Börs. The ECSD's primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors.

All shares listed and traded on the Tallinn Stock Exchange must be registered in the ECRS. No share certificates are issued with respect to shares registered in the ECRS. Shares are registered in the ECRS in book-entry form and are held in dematerialized form in the respective shareholders' securities accounts opened in the ECRS. Consequently, all transactions involving shares listed on the Tallinn Stock Exchange must be recorded on the ECRS' electronic database by account operators and are cleared and settled through the ECSD. The rights attached to the shares belong to the persons who are registered as the shareholders in the share register of the issuer maintained by the ECSD.

The public has access to certain information, and has the right to obtain extracts and transcripts of documents from the ECRS, concerning the issuer (its name, seat and registry code) and the securities (the type, nominal value and amount of securities) registered with the ECRS. If shares are quoted on the stock exchange, the information concerning the shareholders is also accessible to the public. The Estonian Central Registry of Securities Act stipulates further circumstances when additional information registered with the ECRS is accessible to third parties.

A securities account can be opened in the ECRS by any Estonian or foreign person. The opening of the account takes place through an account operator (custodian). Account operators are institutions that qualify under Estonian law as professional participants in the securities market, such as investment firms, credit institutions and other persons specified by law. In certain cases, foreign persons may act as account operators. Under certain conditions, a nominee account can be opened in the ECRS, in which case a notation is made in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client's shares, and not the shares of the account owner. The person who is entitled to exercise the rights arising from shares held in the nominee account is the account owner. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorization in the required format to the client for the client to represent the owner in the exercise of rights arising from the shares.

Listing on the Tallinn Stock Exchange

There are two different lists available for trading of shares on the Tallinn Stock Exchange: (i) the main list and (ii) the investor list. In addition to securities listed on the Tallinn Stock Exchange, securities admitted to the Free Market of the Tallinn Stock Exchange can be traded through the exchange's trading system. The principal differences between admission to the main list and the investor list are the minimum required length of operating history of an issuer (three and two years, respectively) and the minimum required market value of the issuer's shares (EUR 4 million and EUR 1 million, respectively). Currently, the shares of 16 companies are listed for trading on the Tallinn Stock Exchange, of which ten companies (including Tallink) are listed on the main list. Application has been made to also list the Offer Shares on the main list.

Trading on the Tallinn Stock Exchange

The trading system of the Tallinn Stock Exchange is open for trading to its members. Stock exchange membership is open to investment firms and credit institutions. Foreign investment firms and branches of foreign credit institutions are also eligible for membership, provided that they have fulfilled the necessary legal requirements for operating in Estonia. Membership by NOREX exchange members is subject to certain limited documentary requirements of the TSE Rules. Trading on the Tallinn Stock Exchange takes place on each business day from 10:00 a.m. to 2:00 p.m. (Estonian time). The Tallinn Stock Exchange uses the Nordic-Baltic trading system SAXESS, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Norway, Iceland, Latvia and Lithuania. The official trading currency of the Tallinn Stock Exchange trading system is the euro. Transactions can be concluded on the Tallinn Stock Exchange either through automatic matching or through negotiated deals. In the case of automatic matching, the buy and sell orders are matched by the trading system automatically according to price and time priorities. Automatically matched transactions are settled on the third day after the transaction (T+3), unless agreed otherwise. Negotiated trades can be concluded during the Tallinn Stock Exchange trading period at a price between the best bid and offer prices quoted at the time of concluding the transaction. Negotiated deals concluded after the Tallinn Stock Exchange's trading period must be concluded at a price at or between the best bid and offer prices quoted during trading on that day. Negotiated deals are negotiated between stock exchange members outside the system and brokers must enter the deal in the trading system as soon as possible, and in any event not later than five minutes, after its conclusion. Negotiated deals may have a settlement day between T+1 (inclusive) and T+6 (inclusive) if agreed between the relevant stock exchange members. The operator of the Tallinn Stock Exchange is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. The Tallinn Stock Exchange operates an electronic trading system that provides real-time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data.

The operator of the Tallinn Stock Exchange must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the TSE Rules, the operator of the Tallinn Stock Exchange has the right to request additional information regarding a transaction for the purposes of recording the transaction. The Listing and Supervisory Committee of the Tallinn Stock Exchange has the right, for the purpose of ensuring sufficient liquidity of a security, to demand from the issuer applying for listing the conclusion of a market-making agreement with a member of the Tallinn Stock Exchange in respect of the securities to be listed. Tallink and AS Hansapank have entered into a market-making agreement for one year in connection with the listing of the Offer Shares and the Subscription Rights on the Tallinn Stock Exchange.

Supervision over the Tallinn Stock Exchange and Trading on the Tallinn Stock Exchange

Activities of the Tallinn Stock Exchange are supervised by the EFSA. Compliance with the TSE Rules by its members is monitored by the Listing and Surveillance Committee of the Tallinn Stock Exchange. The operator of the Tallinn Stock Exchange exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conducting and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of law. The operator is under an obligation to notify the EFSA immediately of any violation of law. The EFSA also has specific supervisory obligations for monitoring transactions concluded on the exchange

Disclosure of Transactions and Ownership

A person who has acquired in an issuer, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding and in connection therewith or thereafter acquired or increased the number of votes owned by such person over ten per cent, 20 per cent, one-third, 50 per cent or two-thirds of all votes represented by the shares of the issuer, must immediately, and in any event by no later than four business days thereafter, notify the issuer and the EFSA of the number of votes owned by such person. The same notification requirements also apply in case the holding falls below the prescribed levels. The EFSA has the right to make exemptions from such notification requirements in certain circumstances. In the case of a company whose shares are listed on the Tallinn Stock Exchange, the disclosure obligations described above also apply in the case of the acquisition or reduction of a holding by five per cent. The issuer is also required to ensure that shareholders holding more than five per cent of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares. In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, among other requirements, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain the permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities). The TSE Rules also regulate the disclosure of the issuer's dealings in its own shares

Market Abuse

Estonian law prohibits market abuse, which (within the meaning of the Estonian Securities Market Act) is misuse of inside information and market manipulation. Restrictions established for the misuse of inside information also apply to financial instruments that are not admitted to trading in Estonia or in a member state of the European Economic Area (the "EEA") but the value of which depends on a financial instrument that is admitted to trading in Estonia or in an EEA member state.

Inside information is information the precise nature of which has not been made public, relating, directly or indirectly, to the financial instrument or its issuer and which, if it were made public, would be likely to have a significant effect on the price of the financial instrument or on the price of related derivative financial instruments. The law establishes additional conditions under which information may qualify as inside information.

An insider is a person who possesses inside information by virtue of being a partner in the issuer, or by virtue of his membership of the management or supervisory bodies of the issuer, or by virtue of his shareholding in the issuer, or by virtue of having access to the information through the exercise of his employment, profession or duties, or by virtue of his criminal activities. If that person is a legal person or institution, the natural person who participates in making the decision for the account of that legal person or institution upon conducting a transaction is also deemed to be an insider. Third parties who possess inside information are also treated as insiders if they knew or should have known that the information is inside information. The TSE Rules stipulate that, among other persons, persons who hold or control at least ten per cent of shares in an issuer, the subsidiaries of the issuer and certain officials of such shareholders and subsidiaries and persons associated with them are deemed to be insiders for the purpose of the TSE Rules.

Misuse of inside information comprises, among other actions, the trading on the basis of inside information, unauthorized disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates.

Misuse of inside information is a criminal offence, and may result in fines or imprisonment. Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to prevent the disclosure of such information. The Estonian Securities Market Act contains a non-exhaustive list of actions that are deemed to constitute market manipulation. Under the Estonian Securities Market Act, market manipulation may be punishable by a fine. In order to monitor compliance with the prohibition on insider trading, the operator of the Tallinn Stock Exchange has the right to receive from the ECSD information on transactions involving an issuer's securities. In addition, the EFSA is obliged to monitor transactions involving an issuer's shares.

The TSE Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Supervisory Committee of the Tallinn Stock Exchange has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

Mandatory Takeover Bid

A person who has gained, either directly or together with other persons acting in concert, a dominant influence over a company whose shares (of all or some classes) are listed on the Tallinn Stock Exchange, is required to make within 20 days a takeover bid for all the outstanding shares of such issuer. Exemptions from the obligation to make the mandatory takeover bid may be granted by the EFSA in case of certain specific circumstances provided by law. For these purposes, a "dominant influence" is a situation where a person:

(i) owns the majority of votes represented by the issuer's shares; or (ii) being a shareholder of the company, has the right to appoint or remove a majority of the members of the supervisory council or management board of the company; or (iii) being a shareholder of the company, controls a simple majority of the votes represented by the company's shares on the basis of an agreement entered into with other shareholders.

Enforcement of Civil Liabilities in Estonia

European Council Regulation (EC) No 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters sets forth a requirement that judgments of the courts of the member states of the European Union (except for Denmark) should be recognized and enforced in Estonia.

Recognition and enforcement of judgments of all other foreign courts in Estonia is regulated by the Code of Civil Procedure. Pursuant to Article 620 of the Code of Civil Procedure, judgments of foreign courts (i.e. the courts other than those of the member states of the European Union) are generally recognized in Estonia. However, a number of exception to this rule apply, one of the main being that the recognition of the judgment would be in conflict with important principles of Estonian law (public policy).

Estonia is a party to the 1958 New York Convention on recognition and enforcement of foreign arbitral awards. Therefore, Estonian courts are legally bound to enforce decisions of foreign arbitration courts notwithstanding in which country such award has been adopted (i.e., whether a convention member state or not).

TAXATION

The following summary is based on the tax laws of Estonia as in effect on the date of this offering memorandum, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any country other than Estonia. You are advised to consult your own professional tax advisors as to the Estonian, or other tax consequences of the Offering and the purchase, ownership and disposition of Offer Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Estonian Tax Considerations

The statements relating to Estonian tax issues set out below are based upon the laws and regulations as in effect on the date of this offering memorandum. There can be no assurance that there will be no changes to the applicable laws and regulations in the future, including changes that could have a retroactive effect.

Corporate Income Tax

The Estonian Income Tax Act (*Tulumaksuseadus*) provides that the accrued profit of a legal entity resident in Estonia, such as Tallink, is not subject to tax, but that an equivalent tax, payable by such legal entity, is charged on dividend distributions or other profit distributions and other payments considered as not related to the business of the legal entity by law.

In particular, pursuant to the Income Tax Act, corporate income tax is charged on:

- dividends and other profit distributions;
- expenses and payments not related to the business of Tallink;
- fringe benefits granted to employees;
- loans and advances to natural persons related to Tallink, exceeding 50 per cent of the expenses of Tallink which are subject to Estonian social tax;
- costs of entertaining, catering, accommodation and transportation of guests of Tallink, which exceed two per cent of the expenses of Tallink which are subject to Estonian social tax; and
- gifts and donations.

The rate of income tax is 23 per cent of the gross amount distributed, although the income tax is calculated on the amount of the distributed dividends or other profit distributions by applying the tax rate of 23/77 meaning that the effective rate is approximately 29.9 per cent of the net amount of the distribution. The relevant amount of income tax due is required to be paid by the tenth day of the month following the month in which the payment was made. Estonian taxation regulations provide that this currently applicable rate of income tax will be reduced to 22 per cent (22/78) on January 1, 2007, to 21 per cent (21/79) on January 1, 2008 and to 20 per cent (20/80) on January 1, 2009.

The Income Tax Act provides exemptions from the corporate income tax. An Estonian resident company receiving dividends does not have to pay corporate income tax upon redistributing the part of dividends from which the tax has been paid either in Estonia or abroad, if it owned at least 20 per cent of the shares of the distributing company at the time of distribution. Further exemptions apply to the taxation of Estonian resident companies upon the distribution of profits earned from interest payments, license fees and royalties received from resident companies of certain European Union member states, if the payer and the recipient are associated companies, i.e., at the time of payment and during the period of at least two years immediately preceding the payment one company has a holding of at least 25 per cent in the capital of the other company or a company resident in a member state of the European Union owns at least 25 per cent of the share capital of both the payer company and the recipient company.

Dividends

No Estonian dividend withholding tax is imposed on dividends paid to Estonian residents (whether legal persons or individuals) or to non-resident individuals.

However, an Estonian dividend withholding tax of 23 per cent is currently imposed on dividends paid by Tallink to non-resident legal persons. A limited exemption from this dividend withholding tax applies where the non-resident legal person owns at least 20 per cent of the share capital or votes of Tallink. However, the exemption does not apply where the relevant non-resident legal person is located in a "low tax rate territory" for the purposes of Estonian taxation regulations. Additional exemptions or more favorable tax rates available to non-resident legal persons may be enjoyed under international treaties in effect between Estonia and certain other states, including European Union member states. For applying the more favorable tax rates under the treaties, the non-resident legal person subject to Estonian withholding tax has to provide Tallink with a document claiming the benefits of the applicable tax treaty from the non-resident's competent taxing authority confirming that the non-resident is a resident of the applicable jurisdiction for treaty purposes. Such document should correspond to the form provided by the Estonian Ministry of Finance.

Estonian taxation regulations provide that the currently applicable rate of dividend withholding tax of 23 per cent referred to above will be reduced to 22 per cent on January 1, 2007, to 21 per cent on January 1, 2008 and to 20 per cent on January 1, 2009.

Capital Gains

Income tax is not charged on gains realized by non-residents (whether legal persons or individuals) from the sale or exchange of shares of Estonian companies, except in the case of a sale or exchange of more than ten per cent of the shares of an Estonian "real estate company." A real estate company is a company with more than 75 per cent of its property comprising immovables or structures as movables located in Estonia (calculated by reference to the company's balance sheet on the last day of the financial year preceding the relevant sale or exchange). Tallink is currently not a real estate company for this purpose.

In addition, as the current income tax system applicable in Estonia provides that the profits of Estonian legal persons are not taxed upon their generation but are only taxed upon their distribution to shareholders, income tax is not charged on capital gains realized by Estonian legal persons from the sale or exchange of Shares.

Income tax is, however, charged on gains realized by Estonian individuals from the sale or exchange of Shares.

If income tax is due to be paid as described in the previous paragraphs, it is charged on the gains realized from the sale or exchange of a shareholding, with the gains being deemed to be equal to the difference between the acquisition costs and the sale/exchange price of the relevant shareholding. Capital gains realized are currently subject to income tax of 23 per cent, and are required to be declared annually by the relevant person by March 31 in each year.

Payments made by Tallink as a result of any redemption of its Shares or any repurchase of its Shares or the proceeds of any liquidations of Tallink which are paid to Estonian individuals or non-residents (whether legal persons or individuals) are also treated as capital gains which are chargeable as described above (even if such non-residents' capital gains are not chargeable upon a sale or exchange of the Shares).

Estonian taxation regulations provide that the currently applicable income tax rate of 23 per cent chargeable on capital gains and referred to above will be reduced to to 22 per cent on January 1, 2007, to 21 per cent on January 1, 2008 and to 20 per cent on January 1, 2009.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS on transactions in the Shares which are cleared and settled through the ECSD.

PLAN OF DISTRIBUTION

AS Hansapank is acting as a manager (the "Manager") of the Offering in accordance with the separate mandate agreement between AS Tallink Grupp and AS Hansapank. According to the decisions and respective approvals of the Extraordinary General Meeting of shareholders, which took place on the 2nd of August 2006, we have agreed to issue Offer Shares to all investors in Estonia provided they have sufficient number of Subscription Rights on their securities account at 8 a.m. on the 29th of August 2006.

We estimate that our portion of the total expenses of this Offering will be approximately EEK 13 million. In addition, we have agreed to pay to the Manager a commission equal to 1 per cent of the Offer Price for each Offer Share not subscribed by Infortar, CVCI or Amber Trust. We have also agreed to pay the Manager a settlement charge which is a fixed cost applied to all subscriptions. Therefore, in connection with this Offering, the Manager may receive in total commissions of approximately EEK 6 million based on the Offer Price and assuming that Infortar, CVCI and Amber Trust will use all subscription rights they will receive and will not purchase additional subscription rights from the market.

The Offer Shares will be marketed in a public offering in Estonia. No action has been or will be taken in any jurisdiction by AS Tallink Grupp that would permit the public offering of Rights or the Offer Shares other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Rights or the Offer Shares. See also "Offering and Transfer Restrictions".

The board members and all other employees of the company or their relatives may choose to subscribe for the Offer Shares. Infortar AS, Citigroup Venture Capital International, Amber Trust II SCA, have indicated that, based on the information available to us, they are likely to subscribe directly or through their respective affiliates, for a total of approximately EEK 938.8 million.

In connection with this Offering, the Manager may purchase and sell Shares, Subscription Rights or the Offer Shares on the TSE or on over the counter market through its ordinary course of business or relying on the market-making agreement signed between the manager and AS Tallink Grupp.

The Manager has performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. Hansapank is a lender to Tallink through a bond issue, while certain affiliates of Hansapank are shareholders of Tallink. The Manager may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

The sellers of the Offer Shares have not authorized and do not authorize the making of any offer of the Offer Shares through any financial intermediary on their behalf, other than offers made by the Manager with a view to the final placement of the Offer Shares as contemplated in this offering memorandum. Accordingly, no purchaser of the Offer Shares, other than the Manager, is authorized to make any further offer of the Offer Shares on behalf of the sellers or the Manager.

OFFERING AND TRANSFER RESTRICTIONS

General Offering and Transfer Restrictions

This Offering is being made only in Estonia. This Offering is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. No action has been or will be taken in any jurisdiction other than Estonia where action for that purpose is required, which would permit a public offering of the Rights or the Offer Shares or the possession, circulation or distribution of this prospectus or any material relating to the Rights or the Offer Shares offered hereby. Accordingly, the Rights may not be offered or delivered and the Offer Shares may not be offered, sold, resold, allotted or subscribed to, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published, in or from any other country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Subject to certain exceptions:

- the Rights and the Offer Shares may not be offered, sold, resold, granted, delivered, subscribed to, allotted, taken up, transferred or renounced, directly or indirectly, in or into any jurisdiction in which it would not be permissible to offer the Rights or the Offer Shares (referred to as the "Ineligible Jurisdictions");
- this offering memorandum may not be sent to any person in the Ineligible Jurisdictions;
- the Rights may be exercised only outside the Ineligible Jurisdictions; and
- the crediting of Rights to an account of a shareholder or other persons in the Ineligible Jurisdictions does not constitute an offer of, or an invitation to subscribe for, the Offer Shares to such persons.

Investors should consult their professional advisors as to whether they require any governmental or other consents or need to observe any formalities to enable them to exercise their Rights. Persons in Ineligible Jurisdictions ("Ineligible Persons") may not exercise any Rights. Subject to certain exemptions, custodians are not permitted to send this prospectus or any other information about the Offering into any Ineligible Jurisdiction. The crediting of Rights to the account of an Ineligible Person does not constitute an offer of, or an invitation to subscribe for, the Offer Shares to such person.

Subject to certain exemptions, Subscription Undertakings or exercise instructions or certifications sent from or postmarked in any Ineligible Jurisdiction may be deemed to be invalid. We reserve the right to reject any exercise (or renunciation thereof) in the name of any person who provides an address in an Ineligible Jurisdiction for acceptance, renunciation, subscription to or delivery of Offer Shares, who is unable to represent or warrant that such person is not in an Ineligible Jurisdiction, who is not acting on a discretionary basis for Ineligible Persons, or who appears to us or our agents to have executed its exercise instructions or certifications in, or dispatched them from, an Ineligible Jurisdiction.

For Shareholders in the United States

The Offer Shares have not been and will not be registered under the Securities Act of 1933 (the "Securities Act") or under the securities laws of any state of the United States and, accordingly, may only be offered, sold or allotted in the United States (pursuant to the exercise of Rights or otherwise) only pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Holders of Rights in the United States will not be able to exercise their Rights in the United States, but such investors may sell their rights pursuant to an exemption from, or in a transaction not subject to, registration under the Securities Act, including in a sale of the Rights outside the United States pursuant to the exemption provided under Regulation S of the Securities Act.

Any person in the United States who obtains a copy of this prospectus is requested to disregard the contents of this prospectus.

In addition, until the expiration of 40 days after the later of commencement of the Offering or the closing date, any offer or sale of the Rights or the Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to an exemption from, in a transaction not subject to, such requirements.

For Shareholders Outside the United States

Each purchaser of, or the subscriber to, the Offer Shares offered, sold or allotted in reliance on Regulation S will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

(a) the purchaser or the subscriber (i) is, and the person, if any, for whose account it is acquiring such Offer Shares is, outside the United States, and (ii) is acquiring the Offer Shares in an offshore transaction meeting the requirements of Regulation S;

(b) the purchaser or the subscriber is aware that the Offer Shares have not been and will not be registered under the Securities Act and are being distributed and offered outside the United States in reliance on Regulation S;

(c) Tallink shall not recognize any offer, subscription to, sale, pledge, or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions;

(d) the Offer Shares have not been offered to it by means of any “directed selling efforts” as defined in Regulation S under the Securities Act; and

(e) the purchaser or the subscriber acknowledges that Tallink and its affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements

LEGAL MATTERS

With respect to Estonian law, certain legal matters in connection with the Offering will be passed upon for us by Aare Raigi Advokaadibüroo.

INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, our general meeting of shareholders shall approve the number of auditors and elect our auditors. Pursuant to a resolution dated February 5, 2005, the general meeting of shareholders elected Marju Põldniit and Hanno Lindpere, certified auditors from Ernst & Young Baltic Aktsiaselts, as our auditors for the financial year ended August 31, 2005. Ernst & Young Baltic Aktsiaselts have acted as our auditors since 2002. Ernst & Young Baltic Aktsiaselts is located in Rävala Str. 4, Tallinn.

The statutory audited consolidated financial statements of Tallink Group for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004, as well as the statutory audited unconsolidated financial statements of Tallink for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004, have been audited by Ernst & Young Baltic Aktsiaselts. Certain financial information presented by us in this offering memorandum has been obtained directly from our audited financial statements, while certain other financial information presented herein has been recomputed by us from amounts contained in the audited financial statements. This financial information is presented in the following sections: Summary, Capitalization, Selected Financial Information, Operating and Financial Review and Prospects, Business and Management. All remaining financial information presented herein, including certain information in the aforementioned sections, has been derived by us from our unaudited records.

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FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

INCOME STATEMENT
for the financial year ended August 31, in thousands of EEK

	The Group		The Parent		
	2005	**2004**	**2005**	**2004**	**Notes**
Revenue	4,062,961	3,406,255	2,543,015	2,210,754	3
Cost of sales	(2,979,506)	(2,478,745)	(2,426,289)	(1,971,368)	4
Gross profit	**1,083,455**	**927,510**	**116,726**	**239,386**	
Marketing expenses	(336,203)	(351,427)	(191,337)	(170,996)	4
Administrative expenses	(119,944)	(128,283)	(83,596)	(71,265)	4
Other operating income	2,039	799	1,303	242	
Other operating expenses	(573)	(2,331)	(278)	(1,398)	
Operating profit	**628,774**	**446,268**	**(157,182)**	**(4,031)**	3
Net financial items	(158,706)	(134,300)	(152,425)	(133,257)	4
Share of profit of subsidiaries	0	0	779,135	448,951	10
Share of profit of associates	3,643	1,360	3,643	1,360	11
Profit before income tax and minority interests	**473,711**	**313,328**	**473,171**	**313,023**	3
Income tax	(356)	(305)	0	0	5
Profit before minority interests	**473,355**	**313,023**	**473,171**	**313,023**	
Minority interests	(184)	0	0	0	
Net profit for the financial year	**473,171**	**313,023**	**473,171**	**313,023**	3
Basic and diluted earnings per share (in EEK per share)	4.30	2.87			6

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

BALANCE SHEET
as of August 31, in thousands of EEK

	The Group		The Parent		
	2005	**2004**	**2005**	**2004**	**Notes**
ASSETS					
Current assets					
Cash and cash equivalents	326,786	366,668	148,340	171,220	7
Receivables and prepayments	198,028	219,141	438,919	312,841	8
Tax assets	4,512	5,512	51	4,099	5
Inventories	84,900	84,553	40,103	39,287	9
	614,226	**675,874**	**627,413**	**527,447**	
Non-current assets					
Investments in subsidiaries	0	0	3,104,308	2,072,910	10
Investments in associates	0	2,557	0	2,557	11
Other financial assets and prepayments	72	2,113	734,354	619,668	12
Property, plant and equipment	6,136,720	6,050,938	2,316,118	2,656,290	13
Intangible assets	176,153	176,443	1,692	2,517	14
	6,312,945	**6,232,051**	**6,156,472**	**5,353,942**	
TOTAL ASSETS	**6,927,171**	**6,907,925**	**6,783,885**	**5,881,389**	3
LIABILITIES AND EQUITY					
Current liabilities					
Interest-bearing loans and borrowings	690,473	750,717	668,373	617,725	15
Payables and deferred income	363,878	420,402	1,105,420	754,805	16
Tax liabilities	70,805	70,779	22,794	21,048	5
	1,125,156	**1,241,898**	**1,796,587**	**1,393,578**	
Non-current liabilities					
Interest-bearing loans and borrowings	3,145,864	3,483,375	2,281,309	2,254,993	15
Other non-current liabilities	0	0	50,441	50,441	16
Deferred income tax liability	329	275	0	0	5
	3,146,193	**3,483,650**	**2,331,750**	**2,305,434**	
Total liabilities	**4,271,349**	**4,725,548**	**4,128,337**	**3,699,012**	3
Minority interests	**274**	**0**	**0**	**0**	
Equity					
Share capital	1,100,000	275,000	1,100,000	275,000	17
Share premium	0	414,870	0	414,870	17
Reserves	27,500	27,500	27,500	27,500	2
Retained earnings	1,528,048	1,465,007	1,528,048	1,465,007	
	2,655,548	**2,182,377**	**2,655,548**	**2,182,377**	
TOTAL LIABILITIES AND EQUITY	**6,927,171**	**6,907,925**	**6,783,885**	**5,881,389**	

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

CASH FLOW STATEMENT
for the year ended August 31, in thousands of EEK

	The Group		The Parent		
	2005	**2004**	**2005**	**2004**	**Notes**
Cash flow from operating activities					
Profit before minority interests	473,355	313,023	473,171	313,023	
Adjustments	427,213	404,604	66,434	123,536	18
Changes in assets related to operating activities	38,154	(99,933)	(51,803)	(100,173)	
Changes in liabilities related to operating activities	(47,803)	187,071	352,368	174,992	
Income tax paid	(117)	(338)	0	0	
	890,802	**804,427**	**840,170**	**511,378**	
Cash flow (used for) investing activities					
Purchase of property, plant, equipment and intangible assets	(357,238)	(2,396,561)	(4,589)	(20,316)	13, 14,18
Proceeds from disposals of property, plant, equipment	1,372	382	0	0	
Repayments of granted loans	0	0	138,766	395,779	
Loans granted	0	0	(266,357)	(457,596)	12
Acquisition of subsidiaries	90	(46)	(300,666)	(105)	10
Dividends received	1,200	800	1,200	800	11
Interest received	2,974	9,269	4,202	30,021	
	(351,602)	**(2,386,156)**	**(427,444)**	**(51,417)**	
Cash flow from (used for) financing activities					
Proceeds from loans and bonds	458,028	2,251,129	458,028	97,046	
Redemption of loans and bonds	(884,685)	(820,022)	(209,792)	(310,411)	
Change in overdraft	18,249	0	18,249	0	15
Repayment of finance lease liabilities	(967)	(597)	(544,696)	(459,610)	
Interest paid	(169,707)	(110,584)	(157,395)	(154,853)	
Proceeds from issue of shares	0	396,647	0	396,647	17
	(579,082)	**1,716,573**	**(435,606)**	**(431,181)**	
TOTAL NET CASH FLOW	**(39,882)**	**134,844**	**(22,880)**	**28,780**	
Cash and cash equivalents:					
—at the beginning of period	366,668	231,824	171,220	142,440	
—increase (decrease)	(39,882)	134,844	(22,880)	28,780	
—at the end of period	**326,786**	**366,668**	**148,340**	**171,220**	7

STATEMENT OF CHANGES IN EQUITY
for the year ended August 31, in thousands of EEK

	Share capital	Share premium	Reserves	Retained earnings	Total Equity
As of August 31, 2003	**224,000**	**69,223**	**22,400**	**1,157,084**	**1,472,707**
Issue of shares	51,000	345,647	0	0	396,647
Transfer from retained earnings to reserves	0	0	5,100	(5,100)	0
Net profit for the financial year 2003/2004	0	0	0	313,023	313,023
As of August 31, 2004	**275,000**	**414,870**	**27,500**	**1,465,007**	**2,182,377**
Issue of shares	825,000	(414,870)	0	(410,130)	0
Net profit for the financial year 2004/2005	0	0	0	473,171	473,171
As of August 31, 2005	**1,100,000**	**0**	**27,500**	**1,528,048**	**2,655,548**

There are no differences in the Group's and the Parent's statements of changes in equity. For additional information on the equity see Note 17.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

NOTES TO THE FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The financial statements of Tallink Grupp AS (both as the Group and the Parent) for the year ended August 31, 2005 were authorized for issue in accordance with a resolution of the Management Board on October 10, 2005. According to the Estonian Business Code, the annual report, including the financial statements, is authorized by the shareholders' general meeting. The shareholders hold the power not to approve the annual report prepared and presented by the management and the right to request a new annual report to be prepared.

Tallink Grupp AS is a limited company incorporated and domiciled in Estonia that employed 2,694 people at August 31, 2005 (2,820 at August 31, 2004). The principal activities of the Group are described in Note 3 Segment Information. Tallink Grupp AS is controlled by Infortar AS, which owns 55.53% of the shares of Tallink Grupp AS as of October 10, 2005. The ultimate parent of the Group is Linandell OÜ.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of Tallink Grupp AS have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect as of August 31, 2005, except for IAS 16 (revised 2004), which was adopted before its effective date, i.e., financial years beginning on or after January 1, 2005. IAS 16 (revised 2004) was adopted already in the financial year ended August 31, 2004.

The financial statements have been prepared in thousands of Estonian kroons (EEK) and based on a historical cost basis, unless indicated otherwise in the accounting principles below (e.g., derivative financial instruments have been measured at fair value).

Basis of consolidation

The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries drawn up to August 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent, using consistent accounting policies. Subsidiaries are consolidated from the date on which control has been transferred to the Group and cease to be consolidated from the date on which control has been transferred out of the Group.

All intra-group transactions, balances and unrealized profits on transactions between Group companies have been eliminated in the consolidated financial statements. Unrealized losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and balance sheet.

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

In the Parent's financial statements, investments in its subsidiaries are accounted for under the equity method of accounting. Investment in subsidiaries is carried in the balance sheet at cost plus post-acquisition changes in the Parent's share of net assets of the subsidiaries, less any impairment in value.

Changes in accounting polices

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those standards designed to form the "stable platform" to be mandatory for the financial years beginning on or after March 31, 2004.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 3 "Business combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible assets"

Standards IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004), were applied to business combinations for which the agreement date was on or after March 31, 2004 and goodwill and other intangible assets, which arose from such business combinations, already in the previous financial year.

In the current financial year, these standards were also applied to goodwill arising from business combinations, the agreement date of which was before March 31, 2004, and to other intangible assets.

The adoption of IFRS 3 and IAS 36 (revised 2004) has resulted in the Group ceasing annual goodwill amortization and to test for impairments annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) from September 1, 2004. The transitional provisions of IFRS 3 have required the Group to eliminate the amount of the accumulated amortization by EEK 30,558,000 with a corresponding entry to gross carrying amount of goodwill.

Moreover, the useful life of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortized over its useful life, which together with the amortization method are reviewed at the earlier of annually or where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure that their carrying value does not exceed the recoverable amount irrespective of whether an indicator of impairment is present.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence, but which is not a subsidiary of the Group. The investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The income statement reflects the shares of the results of operations of the associate. Where there has been a change recognized directly in the associate's equity, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

Foreign exchange transactions

The financial statements of the Group companies have been prepared using the currency (measurement currency), which reflects the company's economic environment the best. The consolidated financial statements of the Group and the separate financial statements of the Parent have been prepared in Estonian kroon, which is the measurement currency of the Parent.

Transactions in foreign currencies are recorded at the exchange rate of the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate of the balance sheet date. All differences are recognized in the income statement as financial items.

The foreign subsidiaries are considered as "foreign operations that are integral to the operations of the Parent", which means that the individual items in the financial statements of the foreign subsidiaries are translated as if all its transactions had been entered into by the Parent itself. The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the date of the balance sheet. All differences are taken to the income statement.

Goodwill and fair value adjustments arising out of the acquisition of a foreign entity are treated as assets of the acquiring company and are recorded at the exchange rate as of the acquisition date.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any impairment in value.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized (e.g. replacements of part of some items) are added to the carrying amount of the assets, if the recognition criteria are met, i.e., (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognized. All other expenditures are recognized as an expense in the period in which it is incurred.

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

Buildings	20 years;
Plant and equipment	5 years;
Ships	5 to 55 years;
Other equipment	3 to 5 years.

Land is not depreciated.

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

—Hull	11 to 55 years;
—Machinery	11 to 43 years;
—On-board equipment (short-term usage)	5 to 10 years;
—On-board equipment (long-term usage)	10 to 25 years.

Depreciation is stopped when the carrying value of an asset equals its residual value. The residual value of hull is based on the current prices of relevant metals and the probable quantity of scrap metals realizable at the end of ships' useful life. The Group estimates that the residual value of other items of property, plant and equipment is nil.

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

The carrying value of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds the estimated recoverable amount, which is specified as the higher of an asset's fair value less cost to sell and value in use, the individual assets or group of assets comprising cash-generating units are written down to their recoverable amount. At least two independent brokers are used annually to determine market value of the ships and identify impairment indicators, if any.

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

Dry-docking costs

The ships are dry-docked in intervals of two or five years. The major expenditures related to the dry-docking are capitalized and recorded in the same line of the balance sheet as the ships. The depreciation period applied to capitalized dry-docking costs coincides with the frequency of dry-docking (2-5 years).

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, which equals the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

After initial recognition, the goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses of goodwill are recorded as "administrative expenses" in the income statement.

Intangible assets

Intangible assets acquired separately from a business are initially recognized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized at fair value as at the date of acquisition. Following initial recognition, other intangible assets are stated at cost less accumulated amortization and any accumulated impairment in losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred.

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

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

Research and development costs

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

Following the initial recognition of the development expenditure, the cost model is applied which require the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Financial assets

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

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

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Non-current receivables are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account a discount or a premium on acquisition over the period to maturity. If there is objective evidence that an impairment loss on non-current receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account.

Increases/decreases in the carrying amount of investments and any gains and losses on the disposal of investments are charged or credited to the income statement within "net financial items".

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

Derivative financial instruments

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

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

The fair value of interest rate swap contracts is determined using the discounted net cash flow method based on estimation on the 3-month EURIBOR (from Bloomberg system).

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of both raw materials, consisting mostly of fuel, and merchandise purchased for resale is assigned by using the weighted average cost method.

Trade and other current receivables

Trade receivables, which generally have payment terms of 7-30 days, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off from the balance sheet when identified.

Cash and cash equivalents

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

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

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

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

Leases

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

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

Group as a lessor. Leases, where the Group retains substantially all the risks and benefits of ownership of the assets, are classified as operating leases. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. The Group presents the lease income and lease expense arising from the same ship on a net basis if the leases are different type charters (i.e., bare-boat charter and time charter).

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the Group's management the probability of an outflow to settle these liabilities is lower than 50%, are disclosed in the notes to the financial statements as contingent liabilities.

Reserves in equity

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

Segment reporting

The primary segments of the Group are geographical segments (by the routes and mainland) and the secondary segments are operational segments (tickets sales, sales of cargo transport, restaurant and shops sales onboard and on mainland, hotel (accommodation) sales and other). Expenses not related to a specific segment are recorded as unallocated expenses of the Group.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All assets directly related to the segments are recorded as assets of the segments and all liabilities directly related to the segments are recorded as liabilities of the segments. Unallocated assets and liabilities are recorded as assets and liabilities of the Group.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Ticket sale and sale of cargo transport

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

Sales of hotel rooms

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

Revenue from package deals

The Group also sells packages, which consist of the ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognizes the sales of package in its revenue in full instead of recognizing only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of package; (2) has discretion in selecting the suppliers for the service offer; and (3) bears any credit risks.

Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Dividends

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

Income tax

Income tax contains current income tax and deferred income tax.

The Parent and its Estonian subsidiaries:

According to the Estonian Income Tax Law, the company's net profit is not subject to income tax but all dividends paid by the company are subject to income tax (26/74 of net dividend paid out before December 31, 2004; 24/76 of net dividend paid out during the calendar year 2005 and after that the rate will decrease every year by one point until 20/80 of net dividends paid out after January 1, 2009). Therefore, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Swedish, Finnish and Russian subsidiaries:

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in Finland, Sweden and Russia (in Finland the tax rate was 29% until December 31, 2004 and currently is 26%, in Sweden 28% and in Russia 22%).

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only when it is probable that profit will be available against which the deferred tax assets can be utilized.

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

Other subsidiaries:

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

Note 3 SEGMENT INFORMATION

The Group's operating businesses are organized and managed separately according to the nature of the different markets. The Group operates (1) seven ships between Estonia and Finland, (2) four ships between Estonia and Sweden, (3) one ship first between Estonia and Russia until the end of year 2004, after which the vessel was leased under a time charter agreement and (4) one hotel and one shop in Estonia, which represent different business segments.

The Group's market share on the Estonia—Finland route is approximately 43% in passenger transportation and approximately 45% in cargo transportation, while the market share on the Estonia—Sweden route is approximately 100% in passenger transportation and approximately 100% in cargo transportation (according to the Port of Tallinn).

In previous years financial statements there was separate segment of the Estonia—Russia route. As this route was closed (the total operating period was nine months: five in the previous financial year and four months this financial year) and its revenue was below 1.5% of the Group's total revenue in each of these financial years, then in the current year financial statements the revenue and result of Estonia—Russia route have been presented under "Other". Comparative information has also been restated in the current financial year.

In financial statements of previous years, the ship leases were reported as inter-segment sales. This year the management re-considered the classification of the lease of ships and decided that it is more appropriate to report the revenue from lease of ships as a revenue within one segment, which is eliminated already at a segment level. Comparative information has been also restated in the current financial year. As the result of lease of ships amounted to zero, there is no effect of the restatement on the result of reported segments.

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

Note 3 SEGMENT INFORMATION (Continued)

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding business segments for the years ended August 31, 2005 and 2004.

Geographical segments—assets' location

for the year ended August 31, and as of August 31, respectively

2005	Estonia-Finland routes	Estonia-Sweden route	Estonia mainland business	Other	Elimination of inter-segment sales	Total
Revenue						
Sales to external customers	2,442,325	1,391,979	87,808	140,849		4,062,961
Inter-segment sales	0	21,905	59,206	0	(81,111)	0
	2,442,325	**1,413,884**	**147,014**	**140,849**	**(81,111)**	**4,062,961**
Result						
Segment result	371,780	327,386	50,401	(2,315)	0	747,252
Unallocated expenses						(118,478)
Operating profit						**628,774**
Net financial items						(158,706)
Share of profit of associates						3,643
Profit before income tax and minority interests						**473,711**
Income tax						(356)
Minority interests						(184)
Net profit						**473,171**
Assets and liabilities						
Segment assets	3,047,100	2,982,700	17,662	281,129	(4,129)	6,324,462
Unallocated assets						602,709
						6,927,171
Segment liabilities	224,475	139,491	15,440	4,827	(4,129)	380,104
Unallocated liabilities						3,891,245
						4,271,349
Other segment information						
Capital expenditures:						
—segment's property, plant and equipment ("PP&E")	69,802	14,246	1,708	1,259	0	87,015
—unallocated PP&E						270,254
—segment's intangible assets ("IA")	1,076	0	0	0	0	1,076
Depreciation	131,777	106,473	1,935	24,197	0	264,382
Unallocated depreciation						6,130
Amortization	1,015	351	0	0	0	1,366

Note 3 SEGMENT INFORMATION (Continued)

2004	Estonia-Finland routes	Estonia-Sweden route	Estonia mainland business	Other	Elimination of inter-segment sales	Total
Revenue						
Sales to external customers	2,083,346	1,231,690	40,277	50,942	0	3,406,255
Inter-segment sales	0	6,999	22,007	0	(29,006)	0
	2,083,346	**1,238,689**	**62,284**	**50,942**	**(29,006)**	**3,406,255**
Result						
Segment result	414,783	203,895	9,488	(52,083)	0	576,083
Unallocated expenses						(129,815)
Operating profit						**446,268**
Net financial items						(134,300)
Share of profit of associates						1,360
Profit before income tax						**313,328**
Income tax						(305)
Net profit						**313,023**
Assets and liabilities						
Segment assets	3,151,563	3,083,467	18,233	319,283	(8,774)	6,563,772
Unallocated assets						344,153
						6,907,925
Segment liabilities	265,323	143,163	18,876	10,525	(8,774)	429,113
Unallocated liabilities						4,296,435
						4,725,548
Other segment information						
Capital expenditures:						
—segment's property, plant and equipment ("PP&E")	218,490	2,146,280	4,141	9,306	0	2,378,217
—unallocated PP&E						16,247
—segment's intangible assets ("IA")	620	437	0	109	0	1,166
—unallocated IA						2,036
Depreciation	131,102	90,198	433	13,565	0	235,298
Unallocated depreciation						9,681
Amortization	20,622	7,929	0	3	0	28,554
Unallocated amortization						227

As of August 31, 2005 unallocated liabilities include the loans for financing the ships operating between Estonia and Finland in the amount of EEK 1,636,978,000 (2004: EEK 2,002,310,000) and for financing the ships operating between Estonia and Sweden in the amount of EEK 1,677,645,000 (2004: EEK 1,979,972,000). Corresponding interest expenses amounted to EEK 68,714,000 and EEK 74,655,000 (2004: EEK 67,987,000 and EEK 49,073,000).

Net sales by geographical segments—customers' location

As it is not possible to record revenue by customer group (especially regarding onboard sales) this information has not been disclosed in the notes to the financial statements.

Note 3 SEGMENT INFORMATION (Continued)

Information by operational segments

for the year ended August 31

	2005	2004
Ticket sales	1,018,683	879,684
Revenue from packages	163,175	169,197
Sales of cargo transport	721,690	609,383
Accommodation sales[1]	86,876	31,546
Restaurant and shops sales onboard and on mainland	1,912,232	1,664,566
Income from leases of vessels	95,416	0
Other	64,889	51,879
Total revenue of the Group	**4,062,961**	**3,406,255**

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

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

Note 4 INCOME AND EXPENSES

for the year ended August 31

	The Group		The Parent	
Cost of sales	**2005**	**2004**	**2005**	**2004**
Cost of goods	(878,311)	(746,858)	(593,996)	(526,086)
Port charges	(530,175)	(494,274)	(335,883)	(303,996)
Bunker cost	(401,593)	(274,429)	(234,199)	(145,649)
Charter hire (operating leases of ships)	0	0	(92,739)	(100,150)
Staff costs	(413,369)	(368,293)	(243,669)	(277,085)
Depreciation and amortization	(260,281)	(236,540)	(694,674)	(441,425)
Spare parts and maintenance expenses	(146,618)	(89,635)	(126,053)	(74,423)
Cost of package sales, excluding ship tickets	(134,862)	(104,284)	(7,563)	(3,148)
Other costs	(214,297)	(164,432)	(97,513)	(99,406)
Total cost of sales	**(2,979,506)**	**(2,478,745)**	**(2,426,289)**	**(1,971,368)**

	The Group		The Parent	
Marketing expenses	**2005**	**2004**	**2005**	**2004**
Advertising expenses	(97,104)	(122,121)	(13,016)	(20,394)
Agency fees paid to subsidiaries	0	0	(138,908)	(118,257)
Staff costs	(152,469)	(131,135)	(24,968)	(19,225)
Depreciation and amortization	(5,267)	(4,622)	(679)	(226)
Other costs	(81,363)	(93,549)	(13,766)	(12,894)
Total marketing expenses	**(336,203)**	**(351,427)**	**(191,337)**	**(170,996)**

	The Group		The Parent	
Administrative expenses	**2005**	**2004**	**2005**	**2004**
Staff costs	(44,029)	(44,594)	(30,530)	(34,236)
Depreciation and amortization	(6,330)	(32,598)	(2,130)	(1,205)
Other costs	(69,585)	(51,091)	(50,936)	(35,824)
Total administrative expenses	**(119,944)**	**(128,283)**	**(83,596)**	**(71,265)**

Note 4 INCOME AND EXPENSES (Continued)

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

	The Group		The Parent	
	2005	2004	2005	2004
Wages and salaries	(447,845)	(399,015)	(40,690)	(46,013)
Social security costs	(147,521)	(128,648)	(14,244)	(16,279)
Cost of training of staff	(4,969)	(4,042)	(1,676)	(692)
Other staff costs	(9,532)	(12,317)	(242,557)	(267,562)
Total staff costs	**(609,867)**	**(544,022)**	**(299,167)**	**(330,546)**

The other staff costs of the Parent include personnel services purchased from its subsidiaries.

Finance income and finance expenses

	The Group		The Parent	
	2005	2004	2005	2004
Financial income				
Net foreign exchange gains	454	0	0	0
Other interest and financial income	2,963	9,475	8,935	29,239
	3,417	**9,475**	**8,935**	**29,239**
Financial expenses				
Net foreign exchange losses	0	(2,528)	(693)	(2,283)
Interest expenses	(161,983)	(141,108)	(160,665)	(160,212)
Other financial expenses	(140)	(139)	(2)	(1)
	(162,123)	**(143,775)**	**(161,360)**	**(162,496)**
Total net financial items	**(158,706)**	**(134,300)**	**(152,425)**	**(133,257)**

Note 5 TAXES

Income tax

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

	2005	2004
Income tax on profit of Swedish subsidiary	(365)	(296)
Income tax on profit of Russian subsidiary	9	(9)
Total income tax expense	**(356)**	**(305)**

According to Russian, Finnish and Swedish law it is permissible for accounting and taxation purposes to charge the profit and loss account with depreciation in excess of plan and thereby accomplish a postponement of tax payments. These postponements are shown as deferred tax liability. The Finnish subsidiary also has carry-forwards of tax losses, which are considered in calculation of the deferred tax assets.

As of August 31, 2005 and 2004 the Swedish subsidiary Tallink Sverige AB has a deferred tax liability, the Finnish subsidiary Tallink Finland OY has an unrecorded deferred tax asset (it is not probable that future taxable profit will be available against which the unused tax losses can be utilized) and the Russian subsidiary Tallink-Ru OOO does not have a significant deferred tax liability or asset.

	August 31, 2005	August 31, 2004
Deferred tax liability (non-current liability)	329	275
Unrecorded deferred tax asset (related to Finnish subsidiary)	2,430	2,313

Note 5 TAXES (Continued)

Tax balances

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

	The Group		The Parent	
	2005	2004	2005	2004
Tax assets				
VAT	4,360	5,179	24	4,099
Income tax	125	319	0	0
Other taxes	27	14	27	0
	4,512	**5,512**	**51**	**4,099**
Tax liabilities				
Salary related taxes	37,244	39,038	3,797	3,401
Excise duties	5,724	2,496	0	0
VAT	27,828	29,203	18,997	17,626
Other taxes	9	42	0	21
	70,805	**70,779**	**22,794**	**21,048**

Note 6 EARNINGS PER SHARE

for the year ended August 31

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

	2005	2004 adjusted	2004 reported before
Weighted average number of ordinary shares (thousands pcs)	110,000	109,050	27,262
Net profit attributable to ordinary shareholders	473,171	313,023	313,023
Earnings per share (in EEK per share)	4.30	2.87	11.5

On September 18, 2003 Tallink Grupp issued 5,100,000 new shares for cash. The total number of ordinary shares after this share issue amounted to 27,500,000. The calculation of weighted average number of ordinary shares for the year ended August 31, 2004 was as follows:

- period from September 1 to September 17 (17 days): 22,400,000 shares;
- period from September 18 to August 31 (348 days): 27,500,000 shares.

On February 5, 2005, the share capital was increased from 27,500,000 to 110,000,000 shares. Since the second increase of share capital was a bonus issue, the average number of ordinary shares for comparative period has been adjusted (multiplied by four) and 110,000,000 has been used as the number for the average number of ordinary shares for the calculation of earning per share for the current period.

For additional information on issues of shares see also Note 17.

Note 7 CASH AND CASH EQUIVALENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Cash at bank and in hand	82,048	226,135	31,903	162,616
Short-term deposits	244,738	140,533	116,437	8,604
Total cash and cash equivalents	**326,786**	**366,668**	**148,340**	**171,220**

Note 7 CASH AND CASH EQUIVALENTS (Continued)

Cash at bank and in hand earns interest at floating rates based on the daily bank deposit rates (rates in 2004/2005 were in the range of 0.25-2.37% and in 2003/2004 in the range of 0.25-2.95%).

Short-term deposits are made for periods that can range from over-night to three months depending on bank loan repayments. As of August 31, 2005 short-term deposits in a total amount of EEK 128,301,000 (2004: EEK 131,929,000) can be used for bank loan repayments only.

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

Note 8 RECEIVABLES AND PREPAYMENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Trade receivables	117,510	141,535	55,636	52,896
Allowance for trade receivables	(3,337)	(1,911)	(394)	(340)
Receivables from subsidiaries	0	0	344,625	260,500
Allowance for receivables from subsidiaries	0	0	(77)	(48,481)
Receivables from associates (Note 20)	0	1,846	0	1,538
Other receivables	34,275	37,921	24,231	28,053
Accrued interest income	413	413	0	0
Prepaid expenses	49,167	39,337	14,898	18,675
Total receivables and prepayments	**198,028**	**219,141**	**438,919**	**312,841**

During the reporting period EEK 15,514,000 was expensed as doubtful and uncollectible trade receivables (2004: EEK 4,808,000).

As of August 31, 2005 the amounts owned by subsidiaries consist of EEK 168,888,000 (2004: EEK 89,893,000) of prepayments for services, EEK 10,108,000 (2004: EEK 20,586,000) of receivables for services, EEK 158,685,000 (2004: EEK 147,821,000) of loans (see Note 12) and EEK 6,944,000 (2004: EEK 2,200,000) of interests receivable.

As of August 31, 2005 and 2004 the balance of Other receivables of the Group includes the sold goods' commission receivable for the last eight (2004: five) months in the amount of EEK 18,502,000 and EEK 17,224,000, respectively, (for the Parent: EEK 10,989,000 and EEK 10,761,000) and the receivable from the Port of Tallinn for a landing-stage organized by the Parent in the amount of EEK 7,972,000 and EEK 15,636,000, respectively.

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

Note 9 INVENTORIES

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Raw materials (primarily fuel)	14,135	13,118	6,384	6,191
Goods for sale	70,575	70,996	33,550	32,689
Prepayments for inventories	190	439	169	407
Total inventories	**84,900**	**84,553**	**40,103**	**39,287**

Note 10 INVESTMENTS IN SUBSIDIARIES

as of August 31

Name of subsidiary	Country of incorporation	Acquisition cost		Equity[3]	
		2005	2004	2005	2004
Hansaliin OÜ	Estonia	40	40	91	88
Hansatee Kinnisvara OÜ	Estonia	400	400	3,811	2,270
Tallink Duty Free AS	Estonia	400	400	5,707	3,155
HT Laevateenindus OÜ	Estonia	400	400	4,122	2,545
HT Meelelahutus OÜ	Estonia	400	400	4,662	4,585
Tallink AS	Estonia	96,401	400	377	(50,728)
Hansatee Cargo AS	Estonia	204,401	400	61,088	1,637
TLG Hotell OÜ	Estonia	40	40	50,908	9,147
Tallink Travel Club OÜ	Estonia	800	800	560	766
V.S&I AS	Estonia	400	0	399	0
TLG Meedia OÜ	Estonia	210	0	912	0
Tallink Finland OY	Finland	24,010	24,010	8,870	9,270
Kapella Shipping Ltd	Bahamas	66	66	46,334	40,979
Tallink Line Ltd	Cyprus	48,014	48,014	385,813	316,915
Tallinn-Helsinki Line Ltd	Cyprus	12,000	12,000	68,247	45,850
Vana Tallinn Line Ltd	Cyprus	46,014	46,014	407,231	345,866
Tallink Fast Ltd	Cyprus	26	26	346,495	297,005
Tallink Ltd	Cyprus	28	28	375,294	280,929
Tallinn Swedish Line Ltd	Cyprus	27	27	258,028	120,929
Tallinn Stockholm Line Ltd	Cyprus	27	27	167,432	111,006
Tallink Victory Line Ltd	Cyprus	27	27	271,169	81,445
Hansalink Ltd	Cyprus	367,636	367,636	165,660	144,087
Tallink Autoexpress Ltd	Cyprus	27	27	92,408	22,384
Tallink High Speed Ltd	Cyprus	27	27	16,096	(731)
Tallink Sea Line Ltd	Cyprus	27	0	(22)	0
Tallink Superfast Ltd	Cyprus	27	0	(6)	0
Tallink-Ru OOO	Russia	5	5	(49)	37
		801,880	**501,214**		
HT Hulgi Tolliladu OÜ[1]	Estonia	400	400	312	317
TDF Kommerts OÜ[1]	Estonia	40	0	(11)	0
Tallink Sverige AB[2]	Sweden	184	184	3,337	2,542
		624	**584**		

1 HT Hulgi Tolliladu OÜ and TDF Kommerts OÜ are subsidiaries of Tallink Duty Free AS
2 Tallink Sverige AB is a subsidiary of Hansatee Cargo AS
3 The Parent wholly owns all its subsidiaries, with the exception of TLG Meedia OÜ, of which the Parent owns 70%.

The following changes have been made to the Parent's investments in subsidiaries:

	Year ended August 31, 2005	Year ended August 31, 2004
Investments at the beginning of financial year	2,072,910	1,574,646
New investments in subsidiaries	664	859
Increase of share capital of subsidiaries	300,002	0
Share of profit of subsidiaries accounted for under equity method	779,135	448,951
including change in allowance for receivables from subsidiaries (Note 8)	(48,404)	48,454
Investments at the end of year	**3,104,308**	**2,072,910**

Some of subsidiaries have a negative equity. Due to negative equity of certain subsidiaries the Parent has considered the receivables from these subsidiaries to be doubtful receivables and has expensed them in the total amount of EEK 77,000 as of August 31, 2005 (2004: EEK 48,481,000). These allowances and their reversals are also treated as an equity method gain/loss.

Note 10 INVESTMENTS IN SUBSIDIARIES (Continued)

During the reporting period, the Group established five new subsidiaries (four with 100% ownership and one with 70% ownership). The payments into the share capital of these subsidiaries in the total amount of EEK 794,000 including EEK 90,000 paid in by minority interests and EEK 40,000 paid in by a subsidiary of the Parent were made in cash.

In August 2005 the Parent increased the share capital of Hansatee Cargo AS and Tallink AS both by EEK 1,000 and share premiums of EEK 204,000,000 and EEK 96,000,000, respectively. The investments into share capital of the subsidiaries were made in cash.

During the previous reporting period the Group established three new subsidiaries (all with 100% ownership). The payments into the share capital of the subsidiaries in the total amount of EEK 59,000 were made in cash. Additionally, in December 2003 the Group acquired 100% of the shares of Downtown Travel Club OÜ (renamed to Tallink Travel Club OÜ) from Infortar AS (the parent company of the Group) for EEK 800,000, EEK 754,000 of the purchase price was offset between the Parent, Infortar and Downtown Travel Club OÜ and the remaining (EEK 46,000) was paid in cash. The new subsidiary operates as a travel agent company.

The fair value of the identifiable assets and liabilities of Tallink Travel Club OÜ at the date of acquisition are as follows:

Current receivables	754
Equipments	13
Payables to the Parent	(14)
Other current payables	(2)
Fair value of net assets	**751**
Goodwill[1]	49
Consideration	**800**

1 Goodwill arising from the purchase of the new subsidiary was immediately expensed as an immaterial item.

Assets and liabilities of Tallink Travel Club OÜ as of August 31, 2004 and its income and expenses for the period of January 2004 to August 2004 do neither affect the financial position of the Group at the reporting date nor the results of the Group for the reporting period significantly.

Note 11 INVESTMENTS IN ASSOCIATES

The Group had one associate HT Valuuta AS with 25% ownership and EEK 100,000 of acquisition cost during 2004/2005. HT Valuuta has been registered in Estonia. On August 30, 2005 HT Valuuta was sold to Infortar AS. The receivable from the sale of the shares of HT Valuuta was settled in September 2005. The following changes have been made in the Group's investments into associates:

	Year ended August 31, 2005	Year ended August 31, 2004
Investments at the beginning of financial year	2,557	1,997
Dividends received	(1,200)	(800)
Share of profit of associates accounted for under equity method	645	1,360
Sales price of shares	(5,000)	0
Gain from sale of shares	2,998	0
Investments at the end of year	**0**	**2,557**

Note 12 OTHER FINANCIAL ASSETS AND PREPAYMENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Receivables from subsidiaries	0	0	467,997	617,627
Other receivables and prepaid expenses	72	2,113	266,357	2,041
Total other financial assets and prepayments	**72**	**2,113**	**734,354**	**619,668**

Note 12 OTHER FINANCIAL ASSETS AND PREPAYMENTS (Continued)

As of August 31, 2005 *the receivables from subsidiaries* consists of the following loans granted to subsidiaries:

(1) to Tallink Ltd in the amount of EEK 120,997,000 (2004: EEK 120,997,000) with 2014 as the maturity date and interest rate of 6%;

(2) to Victory Line Ltd in the amount of EEK 347,000,000 (2004: EEK 496,630,000) with a non-agreed maturity date and an interest rate of 0%. In the opinion of the Parent's management there is not a material impact on the financial statements from not using the effective interest rate, as Victory Line Ltd is a fully-owned subsidiary of the Parent. Therefore, the specified loan carrying amount has not been adjusted with the effective interest rate in either company's financial statements. The split between current and non-current assets has been made based on the estimate of the Parent's management of the actual payments in the next financial year.

The short-term portion of the loans specified above in the total amount of EEK 158,685,000 (2004: EEK 147,821,000) has been recorded under current receivables (see Note 8).

As of August 31,2005 and 2004 *other receivables and prepaid expenses* of the Group included long-term prepayment (term-less).

As of August 31,2005 the balance of *other receivables and prepaid expenses* of the Parent includes the additional prepayments made for the new ships of Tallink Sea Line Ltd and Tallink Hansaway Ltd (subsidiaries). The specified prepayments have been recorded as a prepayment for property, plant and equipment in the balance sheet of the Group—see also Note 13.

Note 13 PROPERTY, PLANT AND EQUIPMENT

for the year ended August 31

The Group	Land and buildings	Ships	Plant and equipment	Construction in progress & prepayments	Total
Book value as of August 31, 2003	**8,291**	**3,523,802**	**24,246**	**345,745**	**3,902,084**
Additions	4,333	2,626,260	27,268	(263,397)[1]	2,394,464
Disposals	0	0	(631)	0	(631)
Depreciation for the year	(1,246)	(230,040)	(13,693)	0	(244,979)
Book value as of August 31, 2004	**11,378**	**5,920,022**	**37,190**	**82,348**	**6,050,938**
Additions	1,667	149,244	12,954	193,404[1]	357,269
Disposals	0	0	(975)	0	(975)
Depreciation for the year	(1,458)	(251,184)	(17,870)	0	(270,512)
Book value as of August 31, 2005	**11,587**	**5,818,082**	**31,299**	**275,752**	**6,136,720**
As of August 31, 2004					
—cost	17,516	6,801,988	91,558	82,348	6,993,410
—accumulated depreciation	(6,138)	(881,966)	(54,368)	0	(942,472)
As of August 31, 2005					
—cost	19,183	6,933,884	95,764	275,752	7,324,583
—accumulated depreciation	(7,596)	(1,115,802)	(64,465)	0	(1,187,863)

1 The amount of additions of construction in process and prepayments includes also transfers from construction in process and prepayments to ships in the total amount of EEK 345,745,000 and EEK 82,128,000 in the financial year ended August 31, 2005 and 2004, respectively.

For more information about the leased assets see also Note 15.

During the financial year the Group has capitalised borrowing costs as a part of the ship cost in the amount of EEK 0 (2004: EEK 672,000)—100% of borrowing expenses related to the loans received to finance the building of ships.

Note 13 PROPERTY, PLANT AND EQUIPMENT (Continued)

As of August 31, 2005 the Group's ships with book value of EEK 5,808,722,000 (2004: EEK 5,991,839,000) and market value of EEK 6,563,749,000 (2004: EEK 6,626,352,000) are subject to a first or second mortgage to secure the Group's bank loans (see also Note 15). Market value of pledged ships is an average of values quoted by two shipbrokers as of August 31, 2005 and August 31, 2004.

In the current financial year the Group has changed its estimates of the useful lives of the components of two new cruise ships. The new estimate is based on the experiences received from the first year of operations with totally new cruise ships. In the opinion of the management of the Group, these new useful lives are effective as of the beginning of the current financial year. In the interim reports for the 3-, 6- and 9-month periods ended on November 30, 2004, February 28, 2005 and May 31, 2005, respectively, the previous estimates of useful lives were used for calculating and recording depreciation charge. The total annual effect of the change amounts to EEK 26,051,000 (including the effect of correction of error made in the prior interim financial statements in the amount of EEK 19,538,000).

The Parent	Land and buildings	Ships	Plant and machinery	Other equipment	Total
Book value as of August 31, 2003	**2,883**	**2,832,210**	**10,073**	**2,405**	**2,847,571**
Additions	4,234	235,995	1,108	9,991	251,328
Depreciation for the year	(284)	(436,285)	(4,074)	(1,966)	(442,609)
Book value as of August 31, 2004	**6,833**	**2,631,920**	**7,107**	**10,430**	**2,656,290**
Additions	0	351,896	353	4,236	356,485
Depreciation for the year	(415)	(688,064)	(4,359)	(3,820)	(696,658)
Book value as of August 31, 2005	**6,418**	**2,295,752**	**3,101**	**10,846**	**2,316,118**
As of August 31, 2004					
—cost	7,868	4,067,236	29,048	16,443	4,120,595
—accumulated depreciation	(1,035)	(1,435,316)	(21,941)	(6,013)	(1,464,305)
As of August 31, 2005					
—cost	7,868	4,409,800	29,247	20,060	4,466,975
—accumulated depreciation	(1,450)	(2,114,048)	(26,146)	(9,214)	(2,150,858)

The Parent has only leased ships from its subsidiaries. For more information about the leased assets see also Note 15.

Note 14 INTANGIBLE ASSETS

for the year ended August 31,

The Group	Goodwill[1]	Patents and licenses[2]	Development costs	Total
Book value as of August 31, 2003	**194,056**	**587**	**7,379**	**202,022**
Additions	0	3,202	0	3,202
Amortization for the year	(20,908)	(811)	(7,062)	(28,781)
Book value as of August 31, 2004	**173,148**	**2,978**	**317**	**176,443**
Additions	0	1,076	0	1,076
Amortization for the year	0	(1,049)	(317)	(1,366)
Book value as of August 31, 2005	**173,148**	**3,005**	**0**	**176,153**

1 Goodwill is entirely related to the segment of Estonia—Finland routes. For the impairment test the value in use is used for determining the recoverable amount. Management has calculated the value in use based on the discounted 5-years cash flow projections using the average gross margins achieved in the current year, the growth rate in revenue of 1-2% per annum and the discount rate of 12% (the group's weighted average cost of capital).

2 The useful life of patents and licenses is finite with a maximum of five years.

Note 14 INTANGIBLE ASSETS (Continued)

	Goodwill	Patents and licenses	Development costs	Total
As of August 31, 2004				
—cost	203,706	5,314	7,379	216,399
—accumulated amortization	(30,558)	(2,336)	(7,062)	(39,956)
As of August 31, 2005				
—cost	173,148	6,390	0	179,538
—accumulated amortization	0	(3,385)	0	(3,385)

The Parent—patents and licenses

	Year ended 31 August 2005	Year ended 31 August 2004
Book value at the beginning of period	**2,517**	**0**
Additions	0	2,768
Amortization for the year	(825)	(251)
Book value at the end of period, incl.:	**1,692**	**2,517**
—costs	2,768	2,768
—accumulated amortization	(1,076)	(251)

Note 15 INTEREST BEARING LOANS AND BORROWINGS

as of August 31

The Group

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

2004	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2008	380	1,397	1,777
Long-term bank loans	2004-2014	602,261	3,432,214	4,034,475
Other long-term loans	2007	48,766	49,764	98,530
Bonds	2004	99,310	0	99,310
Total borrowings		**750,717**	**3,483,375**	**4,234,092**

The Parent

2005	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2005-2014	456,680	1,973,205	2,429,885
Bank overdraft	2007	18,249	0	18,249
Long-term bank loans	2005-2009	134,697	173,546	308,243
Bonds	2006	58,747	134,559	193,306
Total borrowings		**668,373**	**2,281,309**	**2,949,682**

Note 15 INTEREST BEARING LOANS AND BORROWINGS (Continued)

2004	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2005-2014	448,991	2,173,694	2,622,685
Long-term bank loans	2006-2008	69,424	81,299	150,723
Bonds	2004	99,310	0	99,310
Total borrowings		**617,725**	**2,254,993**	**2,872,718**

As of August 31, 2005 the Group is allowed to use *bank overdrafts* up to an amount of EEK 200,000,000 (including EEK 150,000,000 granted to the Parent) and EUR 7,000,000 (2004: EEK 200,000,000, EEK 150,000,000 and EUR 1,009,000, respectively). Bank overdrafts are secured with commercial pledges in the total amount of EEK 183,250,000 (2004: EEK 151,250,000) and ship mortgages (see Note 13). In the year ended August 31, 2005 the average effective interest rate of the bank overdrafts is EURIBOR+1.85% (2004: +2.17%) for overdrafts from Estonian commercial banks and EURIBOR+1.25% (2004: +1.25%) from the Finnish commercial bank. As of August 31, 2005 the balance of overdraft in use amounted to EEK 18,249,000. As of August 31 2004 there were no outstanding overdraft balances.

In the year ended August 31, 2005 the weighted average interest rate of *bank loans* of the Group and the Parent were EURIBOR+1.38% and EURIBOR+1.14% (2004: +1.44% and +1.34%).

Interest rate of *other loans,* which is a loan from the parent company of the Group—Infortar, is a fixed interest rate of 7%.

Bonds with the book value of EEK 193,306,000 as of August 31, 2005 (2004: EEK 99,310,000) are zero-coupon bonds. The total nominal value of these bonds is EEK 200,000,000 (2004: EEK 100,000,000). The difference between the nominal value and the received amount is expensed during the loan period which means that the average effective interest rate is approximately 3.4% (2004: 3.0%).

Lease liability of the Group as of August 31, 2005 is related to the office equipment in Sweden. Lease liability of the Parent is related to the ship leases from its subsidiaries. The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments have been presented below.

For additional information about the currency structure of the borrowings see Note 21.

	August 31, 2005		August 31, 2004	
The Group	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	1,040	981	406	380
After 1 year, but not more than 5 years	1,051	935	1,492	1,397
Total minimum lease payments	**2,091**		**1,898**	
Future financial charges	(175)		(121)	
PV of minimum lease payments	**1,916**	**1,916**	**1,777**	**1,777**

	August 31, 2005		August 31, 2004	
The Parent	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	573,075	456,680	569,870	448,991
After 1 year, but not more than 5 years	1,383,961	1,108,188	1,392,513	1,069,585
More than 5 years	949,125	865,017	1,237,805	1,104,109
Total minimum lease payments	**2,906,161**		**3,200,188**	
Future financial charges	(476,276)		(577,503)	
PV of minimum lease payments	**2,429,885**	**2,429,885**	**2,622,685**	**2,622,685**

Note 15 INTEREST BEARING LOANS AND BORROWINGS (Continued)

Movements in assets purchased under finance lease terms are as follows for the year ended August 31:

	The Group		The Parent	
	2005	2004	2005	2004
Book value at the beginning of the year	**1,678**	**1,909**	**2,628,276**	**2,815,303**
Additions	1,107	451	351,896	233,794
Depreciation for the year	(955)	(682)	(685,439)	(420,821)
Book value at the end of the year, incl.	**1,830**	**1,678**	**2,294,734**	**2,628,276**
—cost	4,078	3,024	4,406,349	4,054,452
—accumulated depreciation	(2,248)	(1,346)	(2,111,615)	(1,426,176)

Note 16 PAYABLES AND DEFERRED INCOME

as of August 31

	The Group		The Parent	
Current payables	2005	2004	2005	2004
Trade payables	229,729	280,431	115,674	163,736
Payables to subsidiaries	0	0	972,032	579,063
Payables to associates (Note 20)	0	147	0	147
Other payables	2,955	2,865	919	843
Payables to employees	54,857	53,848	8,170	7,210
Interests payable	41,542	50,228	596	726
Other accruals	2,978	7,298	16	0
Deferred income	31,817	25,585	8,013	3,080
Total current payables and deferred income	**363,878**	**420,402**	**1,105,420**	**754,805**

As of August 31, 2005 *other non-current payables* of the Parent include a loan in the amount of EEK 50,441,000 (2004: EEK 50,441,000) granted by its subsidiary—Vana Tallinn Line Ltd. The loan has an interest rate of 0% and a maturity date of 2010. In the opinion of the Parent's management there is not a material impact on the financial statements from not using the effective interest rate, as Vana Tallinn Line Ltd is a fully-owned subsidiary of the Parent. Therefore, the specified loan carrying amount has not been adjusted with the effective interest rate in both companies' financial statements.

Note 17 SHARE CAPITAL

As of August 31

	2005	2004
Ordinary shares of EEK 10 each (thousand pcs.)	110,000	27,500
The number of shares issued and fully paid (thousand pcs.)	110,000	27,500
Share capital	1,100,000	275,000
Share premium per share in EEK	0	15.09
Total share premium	0	414,870

According to the Parent's Articles of Association effective as of August 31, 2005 the maximum number of authorized common shares is 160,000,000 (2004: 89,600,000).

At AS Tallink Grupp Shareholders' Extraordinary General Meeting on September 15, 2003 AS Tallink Grupp increased the share capital from EEK 224,000,000 to EEK 275,000,000 by issuing 5,100,000 new shares with a par value of EEK 10 each. The new shares were issued at a premium of EEK 72.14 per share. The payment for the new shares was made on 18 September 2003. The share premium has been reduced by the expenses related to the issue of shares in the total amount of EEK 22,267,000.

Note 17 SHARE CAPITAL (Continued)

At AS Tallink Grupp Shareholders' General Meeting on February 5, 2005 AS Tallink Grupp increased the share capital from EEK 275,000,000 to EEK 1,100,000,000 by issuing 82,500,000 new shares with a par value of EEK 10 each. This increase was a bonus issue, i.e. new shares were issued on account of share premium in the amount of EEK 414,870,000 and retained earnings in the amount of EEK 410,130,000. Therefore, the Parent's shareholders received three new shares for each share they owned before the issue.

Note 18 NOTE TO CASH FLOW STATEMENT

for the year ended August 31

	The Group		The Parent	
	2005	2004	2005	2004
Depreciation and amortization	271,878	273,760	697,483	442,856
Net (gain) / loss on disposals of property, plant and equipment	(354)	249	0	18
Net interest expenses	159,020	131,633	151,730	130,973
Share of profit of subsidiaries and associates	(3,643)	(1,360)	(782,779)	(450,311)
Net foreign exchange (gain) / loss related to investing and financing activities	(44)	17	0	0
Income tax expense	356	305	0	0
Total adjustments of profit	**427,213**	**404,604**	**66,434**	**123,536**

Non-monetary transactions:

(1) Property, plant and equipment purchased under finance lease terms—see movements in lease assets disclosed in Note 15;

(2) Bonus issue of shares—see Note 17.

Note 19 CONTINGENCIES AND COMMITMENTS

Legal claim

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

Previously the invoices for these disputed icebreaker and lighthouse fees were recorded as expenses and accounts payable in the total amount of EEK 33,554,000. According to the submitted complaint and considering the results of similar court cases and the decision of the Ministry of Economic Affairs and Communications to expense the receivables from the Group, the management of the Group has changed its estimate on the probability of outflow of resources regarding these fees and reversed the related expense. The effect of the reversal has been recorded as a reduction of current year (in the fourth quarter, i.e. the effect of the changes in estimate has not been recorded and disclosed in the prior interim consolidated condensed financial statements of the Group) port expenses under cost of sales.

Income tax on dividends

The Group's retained earnings as of August 31, 2005 were EEK 1,528,048,000 (2004: EEK 1,465,007,000). The maximum possible income tax liability as of August 31, 2005, which would become payable if retained earnings were fully distributed is EEK 366,732,000 (2004: EEK 351,602,000). Income tax rate effective for dividends paid out before January 1, 2006 was used for the calculation of the maximum income tax liability and on the assumption of distributable dividends and related income tax together cannot exceed the amount of retained earnings as of August 31, 2005 and 2004, respectively.

Note 19 CONTINGENCIES AND COMMITMENTS (Continued)

Off-balance sheet guarantees

- Tallink Grupp AS has given a guarantee in the maximum amount of SEK 10,010,000 to SEB Eesti Ühispank related to its Swedish subsidiary with a due date of October 14, 2005.
- Tallink Grupp AS has given guarantees to HSH Nordbank AG (formerly Hamburgische Landesbank) and Skandinaviska Enskilda Banken AB for the loans granted to its ship-owning subsidiaries amounting to EEK 3,216,093,000. The primary securities for these loans are the pledge of shares of the ship-owning subsidiaries and mortgages on the ships belonging to these subsidiaries.
- Tallink Grupp AS has given guarantees in the amount of SIT 119,920 and EUR 5,000 to SEB Eesti Ühispank related to Vaba Maa AS with dates are June 30, 2006 and November 01, 2005, respectively.
- Tallink Grupp AS has given guarantees in the amount of EEK 2,200,000 to SEB Eesti Ühispank related to TDF Kommerts OÜ with a due date of September 24, 2006.
- Tallink Grupp AS has given a guarantee in the amount of EEK 260,000 to SEB Eesti Ühispank related to Tallink Travel Club OÜ with a due date of May 26, 2006.

Non-cancellable operating leases

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

Capital investment commitments

On October 27, 2004 Aker Finnyard and Tallink Grupp AS signed a shipbuilding contract to construct a new passenger cruise ship. The new ship will be delivered in May 2006. The construction value of the new ship is EUR 165,000,000. 20% will be paid during construction and 80% at, its delivery of the ship. By August 31, 2005 the Group has made the prepayments for the ship in the total amounts of EUR 15,000,000. On August 1, 2005 Aker Finnyard and Tallink Grupp AS signed another shipbuilding contract to construct a new fast passenger ship. The construction value of this new ship is EUR 110,000,000, of which 20% will be paid during construction and 80% at delivery. By August 31, 2005 the Group has made the prepayments for the ship in the total amounts of EUR 2,000,000.

Note 20 RELATED PARTY DISCLOSURES

The Group has entered into the following transactions with related parties and has the following balances with related parties (for the year ended August 31, and as of August 31, respectively). Prices used in sales to and purchases from related parties of the Group do not significantly differ from normal market prices.

2005	Sales to related parties	Purchase from related parties	Receivables from related parties	Payables to related parties
Infortar AS—services	99	6,430	0	0
Infortar AS—loans	0	0	0	98,530
Infortar AS—guarantee fee	0	537	0	0
Infortar AS—interests	0	6,993	0	0
Infortar AS—sale of HT Valuuta AS	5,000	0	5,000	0
HT Valuuta—services	2,247	0	3	0
HTG Vara AS—leases	0	30,000	0	0
Mersok OÜ—leases	0	144	0	14
Vaba Maa AS—services	0	2,916	0	75
2004				
Infortar AS—services	37	6,424	0	1,475
Infortar AS—loans	0	0	0	98,530
Infortar AS—guarantee fee	0	1,159	0	0
Infortar AS—interests	0	7,422	0	1,188
Vaba Maa AS—services	0	1,620	0	565
HTG Vara AS—leases	0	9,274	0	0
Mersok OÜ—leases	0	144	0	14
HT Valuuta—services	12,186	0	1,835	147
HT Valuuta—interests *	57	0	11	0

* a loan in the amount of EEK 4,000,000 was granted and received back during the financial year ended August 31, 2004.

Related parties are:

The ultimate parent

Linandell OÜ—there are no transactions between the Group and Linandell OÜ during the financial year (2004: zero).

The parent

Infotar AS has 55.53% interest in Tallink Grupp AS.

The companies controlled by the parent or ultimate parent

See above for transactions with Vaba Maa AS, HT Valuuta and HTG Vara AS. There are no transactions with other companies controlled by the parent or ultimate parent, i.e. Tailwind AS, Fastinvest OÜ, Sunbeam OÜ, Inforte OÜ, Inf Invest OÜ, Inf Maja OÜ and Infor Invest.

The management and companies controlled by them

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

Directors' remuneration and termination benefits

The executive members of the Management Board received a remuneration totalling EEK 13,017,000 (2004: EEK 16,131,000). The executive members of the Management Board do not receive pension entitlements from the Group. Some members of Management Board have a right to termination benefits. The maximum amount of such benefits as of August 31, 2005 is EEK 6,480,000 (2004: EEK 6,480,000).

Note 21 FINANCIAL RISK MANAGEMENT

The management of financial risks is centralized in the Group's financial department, which is responsible for all borrowings within the Group as well as all exposure linked to currency, interest, liquidity and bunker price risks.

Currency risk

Approximately 15% of the Group's total revenues are in SEK. The Group seeks to minimize its currency transactions risk through matching foreign currency inflows with outflows. The Group's other transactional currency exposure is related to the US dollar for the purchase of ship fuel and insurance. The net position in the currency exposure is not hedged by derivative financial instruments at the end of this financial year.

The following tables present the Group's net currency exposure as of 31 August.

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

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

2004	EEK, EUR	USD	SEK	Total
Cash and cash equivalents	336,713	0	29,955	366,668
Trade receivables	100,455	0	39,169	139,624
Other financial assets	29,574	0	18,231	47,805
	466,742	**0**	**87,355**	**554,097**
Current portion of borrowings	(750,337)	0	(380)	(750,717)
Trade payables	(260,090)	(2,313)	(18,028)	(280,431)
Other current payables	(171,723)	0	(13,442)	(185,165)
Non-current portion of borrowings	(3,481,978)	0	(1,397)	(3,483,375)
	(4,664,128)	**(2,313)**	**(33,247)**	**(4,699,688)**
Currency net position	**(4,197,386)**	**(2,313)**	**54,108**	**(4,145,591)**

Interest rate risk

In its operations, the Group uses a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases, bonds as well as cash. The Group borrows in desired currencies at both fixed and floating interest rates depending on its assessment of current market rates and future trends. At year-end, loans with fixed interest rate represented close to 7.7% of the Group's total interest-bearing liabilities. The Group uses an interest rate swap to modify its exposure to interest rate movements and to manage its interest expense. As of August 31, 2005 the Group has an agreement in effect, which exchanges floating interest rate for fixed interest rate and which has a notional amount of EUR 5,938,000 (2004: EUR 9,331,000) and matures in 2007. As of August 31, 2005 the fair value of this derivative amounts to EEK 913,000 (2004: EEK 793,000) which is recorded as an other payable in the balance sheet.

Note 21 FINANCIAL RISK MANAGEMENT (Continued)

The following tables present the analysis of the Group's borrowings as of August 31, 2005 and 2004 by fixed and floating interest rates. The division of interest-bearing liabilities between the groups of up to 1 year, 1-5 years and longer than five years is based on the maturity date in the case of liabilities with fixed interest rates and the repricing date in the case of floating interest rate.

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

2004	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Finance lease liability	380	1,397	0	1,777
Other loans	48,766	49,764	0	98,530
Bonds	99,310	0	0	99,310
Floating rate				
Secured bank loans	4,034,475	0	0	4,034,475

Credit risk

The maximum credit risk exposure of unsecured receivables of the Group at the balance sheet date is EEK 153,373,000 (2004: EEK 185,316,000). There is no significant concentration of credit risk within the Group.

Bunker price risk

The total bunker cost for the fleet represents approximately 12% of the total operating expenses. Changes in the bunker prices follow the changes in the oil price and the USD price. In order to fix the cost of gasoil between June 1 and August 31, 2005 the Group executed a fuel-related agreement with fuel supplier NT Marine in May 2005. There is no active hedge at the end of the financial year.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and other debentures. Excess liquidity is invested in short-term money market instruments.

Fair values

In the opinion of the Group's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities of the Group as of August 31, 2005 and 2004.

Note 22 EVENTS AFTER THE BALANCE SHEET DATE

In September 2005 Tallink Grupp AS established its subsidiary Tallink Hansaway Limited in which it holds 100% of the shares. The payment into the share capital in the amount of EEK 27,000 has not been made by October 10, 2005. The new subsidiary has been registered in Cyprus and was established and its purpose is to own ships.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

MANAGEMENT BOARD'S APPROVAL OF THE FINANCIAL STATEMENTS

We hereby take responsibility for the preparation of the consolidated financial statements of Tallink Grupp AS (referred to as "the Parent") and its subsidiaries (together referred to as "the Group) and the financial statements of the Parent set out on pages F-2 to F-32 and confirm that:

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

Chairman of the Board Enn Pant	Member of the Board Kalev Järvelill
Member of the Board Andres Hunt	Member of the Board Keijo Mehtonen

Tallinn
October 10, 2005

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

AUDITORS' REPORT TO THE AS TALLINK GRUPP SHAREHOLDERS

We have audited the financial statements of AS Tallink Grupp (hereafter "the Company") and the consolidated financial statements of AS Tallink Grupp and its subsidiaries (hereafter "the Group") for the financial year ended August 31, 2005, which are set out on pages F-2 through F-32 of the Offering Memorandum. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of August 31, 2005, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

The audit of the financial statements for the financial year ended August 31, 2005 was completed on October 25, 2005, except for the minor financial statements style presentation amendments, as to which the date is November 18, 2005.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

INCOME STATEMENT
for the financial year ended August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	2004	2003	2004	2003	Notes
Net sales	3,406,255	2,995,598	2,210,754	2,200,187	3
Cost of sales	(2,478,745)	(2,132,865)	(1,971,368)	(1,863,094)	4
Gross profit	**927,510**	**862,733**	**239,386**	**337,093**	
Marketing expenses	(351,427)	(260,951)	(170,996)	(127,762)	4
Administrative and general expenses	(128,283)	(118,061)	(71,265)	(67,311)	4
Other operating income	799	2,663	242	1,862	4
Other operating expenses	(2,331)	(5,609)	(1,398)	(5,117)	4
Operating profit	**446,268**	**480,775**	**(4,031)**	**138,765**	3
Net financial (expense) income	(134,300)	(99,542)	(133,257)	(89,219)	4
Income from subsidiaries	0	0	448,951	331,494	11
Income from associates	1,360	891	1,360	891	12
Profit from normal operation before income tax	**313,328**	**382,124**	**313,023**	**381,931**	3
Income tax	(305)	(193)	0	0	5
Net profit for the financial year	**313,023**	**381,931**	**313,023**	**381,931**	3
Earnings per share (in EEK per share)					6
—basic	11.5	17.1	11.5	17.1	
—diluted	11.5	17.1	11.5	17.1	

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

BALANCE SHEET
As of August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	31.8.2004	31.8.2003	31.8.2004	31.8.2003	Notes
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	366,668	231,824	171,220	142,440	7
Trade receivables	139,624	107,649	52,556	43,554	8
Tax assets	5,512	7,405	4,099	941	5
Other receivables and prepaid expenses	79,517	44,307	260,285	195,695	9
Inventories	84,553	51,468	39,287	28,992	10
TOTAL CURRENT ASSETS	**675,874**	**442,653**	**527,447**	**411,622**	
NON-CURRENT ASSETS					
Investments in subsidiaries	0	0	2,072,910	1,574,646	11
Investments in associates	2,557	1,997	2,557	1,997	12
Other financial assets	2,113	412	619,668	594,713	13
Property, plant and equipment	6,050,938	3,902,084	2,656,290	2,847,571	14
Intangible assets	176,443	202,022	2,517	0	15
TOTAL NON-CURRENT ASSETS	**6,232,051**	**4,106,515**	**5,353,942**	**5,018,927**	
TOTAL ASSETS	**6,907,925**	**4,549,168**	**5,881,389**	**5,430,549**	
LIABILITIES AND OWNERS' EQUITY					
CURRENT LIABILITIES					
Current portion of interest-bearing liabilities	750,717	670,711	617,725	573,667	16
Trade payables	280,431	176,113	163,736	58,181	
Tax liabilities	70,779	25,846	21,048	2,326	5
Other payables and deferred income	139,971	80,294	591,069	541,163	17
TOTAL CURRENT LIABILITIES	**1,241,898**	**952,964**	**1,393,578**	**1,175,337**	
NON-CURRENT LIABILITIES					
Interest bearing loans and borrowings	3,483,375	2,123,300	2,254,993	2,727,933	16
Other noncurrent liabilities	0	0	50,441	54,572	16
Deferred income tax	275	197	0	0	5
TOTAL NON-CURRENT LIABILITIES	**3,483,650**	**2,123,497**	**2,305,434**	**2,782,505**	
TOTAL LIABILITIES	**4,725,548**	**3,076,461**	**3,699,012**	**3,957,842**	
OWNERS' EQUITY					
Issued capital	275,000	224,000	275,000	224,000	18
Share premium	414,870	69,223	414,870	69,223	18
Reserves	27,500	22,400	27,500	22,400	2
Retained earnings	1,151,984	775,153	1,151,984	775,153	
Net profit for the financial year	313,023	381,931	313,023	381,931	
TOTAL OWNERS' EQUITY	**2,182,377**	**1,472,707**	**2,182,377**	**1,472,707**	
TOTAL OWNERS' EQUITY AND LIABILITIES	**6,907,925**	**4,549,168**	**5,881,389**	**5,430,549**	

CASH FLOW STATEMENT
for the financial year ended August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	2004	2003	2004	2003	Notes
Cash flows from operating activities					
Net profit	313,023	381,931	313,023	381,931	
Adjustments of profit	404,604	418,241	123,536	203,009	
Depreciation and amortisation	*273,760*	*322,116*	*442,860*	*436,014*	*14, 15*
Net (gains) / losses on disposals of tangible and intangible assets	*249*	*(54)*	*14*	*(17)*	*4*
Net interest expenses	*131,633*	*136,438*	*130,973*	*137,520*	*4*
Income from subsidiaries	*0*	*0*	*(448,951)*	*(331,494)*	*11*
Income from associates	*(1,360)*	*(891)*	*(1,360)*	*(891)*	*12*
Net foreign exchange gain related to investing and financing activities	*17*	*(39,561)*	*0*	*(38,123)*	
Income tax	*305*	*193*	*0*	*0*	*5*
Income tax paid / refunded	(338)	(19)	0	0	
Change in receivables related to operating activities	(66,848)	83,858	(89,878)	161,664	
Change in inventories	(33,085)	8,062	(10,295)	7,947	
Change in liabilities related to operating activities	187,071	(49,825)	174,992	75,029	
Net cash from operating activities	**804,427**	**842,248**	**511,378**	**829,580**	
Cash flows from investing activities					
Purchase of tangible and intangible assets	(2,396,561)	(382,844)	(20,316)	(10,549)	14, 15, 16
Proceeds from disposals of tangible and intangible assets	382	57	0	17	4, 14
Repayments of granted loans	0	5,120	395,779	54,269	
Loans granted	0	0	(457,597)	(186,828)	
Acquisition of subsidiary	(46)	(248,140)	(104)	(249,690)	11
Proceeds from disposals of shares of associates	0	1,564	0	1,564	
Dividends received	800	1,400	800	1,400	12
Interest received	9,269	3,236	30,021	45,734	
Net cash from investing activities	**(2,386,156)**	**(619,607)**	**(51,417)**	**(344,083)**	
Cash flows from financing activities					
Loans received	2,251,129	550,025	97,046	363,974	
Loans repaid	(820,022)	(515,298)	(310,411)	(162,506)	
Interest paid	(110,584)	(139,898)	(154,853)	(167,551)	
Purchases of treasury shares	0	(4,599)	0	(4,599)	18
Proceeds from disposal of treasury shares	0	4,599	0	4,599	18
Issue of shares	396,647	0	396,647	0	18
Payments of finance lease liability	(597)	(38,367)	(459,610)	(420,882)	
Net cash from financing activities	**1,716,573**	**(143,538)**	**(431,181)**	**(386,965)**	
Total net cash flow	**134,844**	**79,103**	**28,780**	**98,532**	
Cash and cash equivalents at beginning of period	**231,824**	**152,721**	**142,440**	**43,908**	
Total net cash flow	134,844	79,103	28,780	98,532	
Cash and cash equivalents at end of period	**366,668**	**231,824**	**171,220**	**142,440**	7

STATEMENT OF CHANGES IN EQUITY
for the financial year ended August 31, in thousands of EEK

	Issued capital	Share premium	Treasury shares	Reserves	Retained earnings	Total
At September 1, 2002	**224,000**	**69,223**	**0**	**22,400**	**775,153**	**1,090,776**
Purchase of treasury shares	0	0	(4,599)	0	0	(4,599)
Sale of treasury shares	0	0	4,599	0	0	4,599
Net profit	0	0	0	0	381,931	381,931
At August 31, 2003	**224,000**	**69,223**	**0**	**22,400**	**1,157,084**	**1,472,707**
Share issue	51,000	345,647	0	0	0	396,647
Transfer from retained earnings to reserves	0	0	0	5,100	(5,100)	0
Net profit	0	0	0	0	313,023	313,023
At August 31, 2004	**275,000**	**414,870**	**0**	**27,500**	**1,465,007**	**2,182,377**

For additional information about shares and movements in equity see Note 18.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

NOTES TO THE FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The financial statements of Tallink Grupp AS (both as a group and a parent company) for the year ended August 31, 2004 were authorised for issue in accordance with a resolution of the Management Board on December 17, 2004. Tallink Grupp AS is a limited company incorporated in Estonia that employed 2,820 people at August 31, 2004 (2,040 at August 31, 2003). The principal activities of the group are described in Note 3. Tallink Grupp AS is controlled by Infortar AS, which owned 55.53% of the shares of Tallink Grupp AS as of December 17, 2004.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of Tallink Grupp AS have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect as of August 31, 2004, except IAS 16 (revised 2004), which was adopted before its effective date, i.e., financial years beginning on or after January 1, 2005.

The financial statements have been prepared in thousand Estonian kroons (EEK) and based on historical cost, unless indicated otherwise in the accounting principles below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries drawn up to August 31 each year. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. All inter-company transactions, balances and unrealized profits and losses on transactions between group companies have been eliminated in the financial statements.

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

In the parent company’s financial statements investments in its subsidiaries are accounted for under the equity method of accounting. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the parent company’s share of net assets of the subsidiary, less any impairment in value.

Investment in associates

The group’s investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence, but which is not a subsidiary of the group. The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the group’s share of net assets of the associate, less any impairment in value.

Foreign exchange transactions

Transactions in foreign currencies are recorded at the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement as financial items.

The overseas subsidiaries are considered as “foreign operations that are integral to the operations of the parent company”. It means that the individual items in the financial statements of the overseas subsidiaries are translated as if all its transactions had been entered into by the parent company itself. The cost and depreciation of tangible fixed assets is translated using the exchange rate at the date of purchase of the asset. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the acquiring company and are recorded at the exchange rate as of the date of the acquisition.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings—	over 20 years
Plant and equipment—	over 5 years
Ships—	over 6 to 50 years
Other equipment—	over 3 to 5 years.

From September 1, 2003 according to the revised IAS 16 depreciation charge is calculated separately for each significant part of ships on a straight-line basis over estimated useful life of each part as follows:

Hull*—	over 11 to 50 years
Machinery—	over 11 to 40 years
On-board equipment (short-term)—	over 5 to 6 years
On-board equipment (long-term)—	over 10 to 21 years

* From September 1, 2003 the residual value other than zero is used for hull, i.e. depreciation is stopped when the carrying value of the hull equals with its residual value. The residual value is based on the current prices of relevant metals and the probable quantity of scrap metals realizable at the end of ships' useful life.

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

Due to changes in useful lifes and residual value of hull the depreciation charge decreased by EEK 63,480 thousands during the year 2003/2004 (compared with previous year). In the interim consolidated condensed financial statements for the 3- and 6-months periods ended respectively November 30, 2003 and February 29, 2004 the previous estimates were used in calculation of depreciation charges.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the individual assets or group of assets comprising cash-generating units are written down to their recoverable amount, which is specified as the higher of an asset's market value and value in use. At least two independent brokers are used annually to determine the market value of ships and identify impairment indicators, if any.

The costs related to the building of ships are capitalized. Capitalized costs are as follows:

- payments to the ship builder;
- payments for organising the survey related to the building of new ships;
- borrowing costs (up to the delivery date) related to loans set up for the building of new ships;
- equipment purchased for new ships;
- start-up costs for new ships.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized (e.g., replacements of part of some items) are added to the carrying amount of the assets, if the recognition criteria are met, i.e., (a) it is probable that future economic benefits associated with the item will flow to the enterprise, and (b) the cost of the item can be measured reliably. The replaced items are derecognized. All other expenditures are recognised as an expense in the period in which it is incurred.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dry-docking costs

The ships are dry-docked in intervals of two or three years. The major expenditures related to the dry-docking are capitalized and recorded in the same line of balance sheet as ships. The depreciation period applied to capitalized dry-docking costs coincides with the frequency of dry-docking (2-5 years).

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition.

Goodwill arising from business combinations for which the agreement date is before March 31, 2004

Goodwill is amortized on a straight-line basis maximum of 10 years. The amortization period is based on the best estimate of the period during which future economic benefits are expected to flow to the company. Goodwill is stated at cost less accumulated amortization and any impairment in value. Amortization of goodwill is recorded as "administrative and general expenses" in the income statement.

Goodwill arising from business combinations for which the agreement date is on or after March 31, 2004

After initial recognition, the goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses of goodwill are recorded as "administrative and general expenses" in the income statement".

Research and development costs

Research and development expenditure is expensed except that costs incurred on development projects are recognized as development assets to the extent that such expenditure is reasonably expected to have future economic benefits. However, development costs initially recognized as an expense are not recognized as an asset in a subsequent period if an economic benefit becomes probable.

Other intangible assets

Intangible assets acquired separately from a business are initially recognized at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are amortized on a straight-line basis maximum of 5 years. Amortization of intangible assets is recorded as "administrative and general expenses" in the income statement.

Financial instruments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading (including derivatives) and available-for-sale, are measured at fair value. Other long-term receivables are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account a discount or a premium on acquisition, over the period to maturity. Increases/decreases in the carrying amount of investments and any gains and losses on the disposal of investments are charged or credited to the income statement within "Net financial expense / income".

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Both raw materials and merchandise purchased for resale are written off using the weighted average cost method.

Trade and other receivables

Trade receivables, which generally have 7-30 day payment terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off from the balance sheet when identified.

Cash and cash equivalents

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

Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Borrowing costs related to the building of new ships are capitalised as a part of the acquisition cost of an asset (incurred up to the delivery date).

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to the ownership of the leased items, are capitalised at the present value of the minimum lease payments. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases, where the lesser retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and lease payments are recognised as operating expenses.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the group’s management the probability of an outflow to settle these liabilities is lower than 50%, are disclosed in the Notes to the financial statements as contingent liabilities.

Contingent assets are never recognised. They are disclosed in the Note if their realisability is probable.

Reserves in owners’ equity

Reserves in owners’ equity include a mandatory legal reserve formed according to the Commercial Code amounting to 10% of the share capital. This is transferred from the net profit upon a resolution of the general meeting of shareholders. The mandatory legal reserve cannot be distributed to shareholders as dividends, but it can be used to cover losses.

Segment reporting

All assets directly related to the segments are recorded as the assets of the segment and all liabilities directly related to the segments are recorded as the liabilities of the segments. Unallocated assets and liabilities are

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recorded as the assets and liabilities of the group. The primary segments of the group are geographical segments (by the routes and mainland) and the secondary segments are operational segments (tickets sales, sales of cargo transport, restaurant and shops sales onboard and on mainland, hotel (accommodation) sales and others). Expenses not related to a specific segment are recorded as unallocated expenses of the group.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Ticket sale and sale of cargo transport

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

Sales of hotel rooms

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

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset).

Income tax

Income tax contains current income tax and deferred income tax.

The parent company and its Estonian subsidiaries:

According to the Estonian Income Tax Law, the company's net profit is not subject to income tax but all dividends paid by the company are subject to income tax (26/74 of net dividend paid out before December 31, 2004 and 24/76 of net dividend paid out after December 31, 2004). Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

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

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

Swedish, Finnish and Russian subsidiaries:

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in Finland, Sweden and Russia (the tax rate is 29% in Finland, 28% in Sweden and 22% in Russia).

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised only when it is probable that profit will be available against which the deferred tax assets can be utilised.

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

Other subsidiaries:

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

Note 3 SEGMENT INFORMATION

(in thousand EEK)

The Group

The group's operating businesses are organised and managed separately according to the nature of the different markets. The group operates six ships between Estonia-Finland, four ships between Estonia-Sweden, one ship between Estonia-Russia and one hotel in Estonia, which represent different business segments. The group's market share on Estonia-Finland route is about 41% passenger transportation and about 45 cargo transportation, Estonia-Sweden route is about 100% passenger transportation and about 100% cargo transportation and Estonia-Russia route is about 60% passenger transportation and about 80% cargo transportation (according to the Port of Tallinn).

The following tables present revenue and profit as well as certain asset and liability information regarding business segments for the years ended August 31, 2004 and 2003.

Geographical segments—assets' location

2003/2004	Estonia-Finland routes	Estonia-Sweden routes	Estonia-Russia routes	Estonia mainland business	Elimination of inter-segment sales	Total
Revenue						
Ticket sales	*533,600*	*349,080*	*26,877*	*171*		*909,728*
Accomodation sales	*0*	*0*	*0*	*31,486*		*31,486*
Sales of cargo transport	*227,433*	*378,893*	*3,057*	*0*		*609,383*
Restaurant and shops sales onboard and on mainland	*1,173,249*	*463,516*	*20,175*	*8,620*		*1,665,560*
Other	*149,064*	*40,201*	*833*	*0*		*190,098*
Total external sales	2,083,346	1,231,690	50,942	40,277	0	3,406,255
Inter-segment sales	285,100	6,999	106	60	(292,265)	0
Total revenue	**2,368,446**	**1,238,689**	**51,048**	**40,337**	**(292,265)**	**3,406,255**
Result						
Segment result	414,783	203,895	(52,083)	9,488		576,083
Unallocated expenses						(129,815)
Operating profit						**446,268**
Net financial expenses*						(134,300)
Income from associate						1,360
Profit before income tax						**313,328**
Income tax						(305)
Net profit						**313,023**

Note 3 SEGMENT INFORMATION (Continued)

31.08.2004	Estonia-Finland routes	Estonia-Sweden routes	Estonia-Russia routes	Estonia mainland business	Elimination of inter-segment sales	Total
Assets and liabilities						
Segment assets	3,225,470	3,243,915	328,280	10,961	(106,957)	6,701,669
Unallocated assets						206,256
Total assets						**6,907,925**
Segment liabilities	233,209	143,032	66,931	11,089	(106,957)	347,304
Unallocated liabilities*						4,378,244
Total liabilities						**4,725,548**
Other segment information						
Tangible assets capital expenditure	218,490	2,146,280	9,306	4,141		2,378,217
Unallocated tangible assets capital expenditure						16,247
Intangible assets capital expenditure	620	437	109	0		1,166
Unallocated intangible assets capital expenditure						2,036
Depreciation	131,102	90,198	13,565	433		235,298
Unallocated depreciation						9,681
Amortisation	20,622	7,929	3	0		28,554
Unallocated amortisation						226

* Unallocated liabilities include the loans received to finance the ships operating between Estonia and Finland in the amount of EEK 2,002,310 thousands and to finance the ships operating between Estonia and Sweden in the amount of EEK 1,979,972 thousands. Corresponding interest expenses amounted to EEK 67,987 thousands and EEK 49,073 thousands.

2002/2003	Estonia Finland	Estonia Sweden	Elimination of inter-segment sales	Total
Revenue				
Ticket sales	566,773	260,318		827,091
Sales of cargo transport	226,683	352,331		579,014
On-board sales	1,192,438	301,884		1,494,322
Other	66,961	28,210		95,171
Total external sales	2,052,855	942,743	0	2,995,598
Inter-segment sales	280,639	715	(281,354)	0
Total revenue	**2,333,494**	**943,458**	**(281,354)**	**2,995,598**
Result				
Segment result	524,002	77,780		601,782
Unallocated expenses				(121,007)
Operating profit				**480,775**
Net financial expenses*				(99,542)
Income from associate				891
Profit before income tax				**382,124**
Income tax				(193)
Net profit				**381,931**

Note 3 SEGMENT INFORMATION (Continued)

31.08.2003	Estonia Finland	Estonia Sweden	Inter-segment	Total
Assets and liabilities				
Segment assets	3,135,695	1,411,920	(144,091)	4,403,524
Unallocated assets				145,644
Total assets				**4,549,168**
Segment liabilities	292,794	82,128	(144,091)	230,831
Unallocated liabilities*				2,845,630
Total liabilities				**3,076,461**
Other segment information				
Tangible assets capital expenditure	15,705	368,210		383,915
Unallocated tangible assets capital expenditure				3,993
Intangible assets capital expenditure	203,987	0		203,987
Depreciation	191,168	103,200		294,368
Unallocated depreciation				3,134
Amortisation	10,413	12,787		23,200
Unallocated amortisation				1,414

* Unallocated liabilities include the loans received to finance the ships operating between Estonia and Finland in the amount of EEK 1,955,673 thousands and to finance the ships operating between Estonia and Sweden in the amount of EKK 539,780 thousands. Corresponding interest expenses amounted to EEK 92,340 thousands and EEK 24,024 thousands.

Net sales by geographical segments—customers' location

As it is not possible to record revenue by customer group (especially onboard sales), this information has not been disclosed in the notes to the financial statements.

Information by operational segments

As most of the group's and company's assets (incl. tangible fixed assets) are related to sea transportation, then the information about assets and purchases of tangible non-current assets by operational segments has not been additionally disclosed.

Note 4 INCOME AND EXPENSES

(in thousand EEK)

Cost of sales

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Cost of inventories	746,858	616,718	526,086	483,456
Port charges	494,274	409,605	303,996	278,836
Bunker cost	274,429	240,210	145,649	111,325
Charter hire	0	3,095	100,150	134,481
Staff costs	368,293	286,548	277,085	252,118
Depreciation	236,540	293,176	441,425	434,987
Other costs	358,351	283,513	176,977	167,891
TOTAL	**2,478,745**	**2,132,865**	**1,971,368**	**1,863,094**

Note 4 INCOME AND EXPENSES (Continued)

Marketing expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Advertising expenses	122,121	82,887	20,394	10,847
Agency fees paid to subsidiaries	0	0	118,257	93,880
Depreciation	4,622	5,078	226	0
Staff costs	131,135	109,686	19,225	12,345
Other costs	93,549	63,300	12,894	10,690
TOTAL	**351,427**	**260,951**	**170,996**	**127,762**

Administrative and general expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Depreciation	32,598	23,862	1,205	1,027
Staff costs	44,594	42,288	34,236	34,186
Other costs	51,091	51,911	35,824	32,098
TOTAL	**128,283**	**118,061**	**71,265**	**67,311**

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

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Wages and salaries	399,015	323,405	46,013	42,242
Social security costs	128,648	106,533	16,279	13,384
Cost of training of staff	4,042	2,802	692	506
Other staff costs	12,322	5,782	267,562	242,517
TOTAL	**544,027**	**438,522**	**330,546**	**298,649**

Other operating income

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Gain on disposal of property, plant and equipment	116	57	0	17
Insurance benefits	117	317	4	199
Other	566	2,289	238	1,646
TOTAL	**799**	**2,663**	**242**	**1,862**

Other operating expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Loss on disposal of property, plant and equipment	365	3	14	0
Other	1,966	5,606	1,384	5,117
TOTAL	**2,331**	**5,609**	**1,398**	**5,117**

Note 4 INCOME AND EXPENSES (Continued)

Finance income and finance expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Net foreign exchange gains	0	37,054	0	48,306
Other interest and financial income	9,475	3,047	29,239	38,816
Total financial income	**9,475**	**40,101**	**29,239**	**87,122**
Net foreign exchange losses	(2,528)	0	(2,283)	0
Interest expenses	(141,108)	(139,485)	(160,212)	(176,336)
Other financial expenses	(139)	(158)	(1)	(5)
Total financial expenses	**(143,775)**	**(139,643)**	**(162,496)**	**(176,341)**
Net financial (expenses) income	**(134,300)**	**(99,542)**	**(133,257)**	**(89,219)**

Note 5 TAXES

(in thousand EEK)

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

	The Group	
	2003/2004	2002/2003
Income tax from profit of Swedish subsidiary	296	193
Income tax from profit of Russian subsidiary	9	0
Total	**305**	**193**

According to Russian, Finnish and Swedish legislation it is permissible for accounting and taxation purposes to charge the profit and loss account with depreciation in excess of plan and thereby accomplish a postponement of tax payments. These postponements are shown as deferred tax liability. The Finnish subsidiary has also carry-forwards of tax losses, which are considered in calculation of the deferred tax asset.

As of August 31, 2004 and 2003 the Swedish subsidiary—Tallink Sverige AB—has a deferred tax liability, the Finnish subsidiary—Tallink Finland OY—has an unrecorded deferred tax asset (it is not probable that future taxable profit will be available against which the unused tax losses can be utilized) and the Russian subsidiary—Tallink-Ru OOO—has no significant deferred tax liability or asset:

	31.08.04	31.08.03
Deferred tax liability (non-current liability)	275	197
Unrecorded deferred tax asset	2,313	3,699

Refundable taxes and tax liabilities recorded as current assets and liabilities are divided as follows:

	The Group		Parent Company	
Tax assets	31.08.2004	31.08.2003	31.08.2004	31.08.2003
VAT	5,179	7,017	4,099	941
Income tax	319	381	0	0
Other taxes	14	7	0	0
Total	**5,512**	**7,405**	**4,099**	**941**

	The Group		Parent Company	
Tax liabilities	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Salary related taxes	39,038	25,734	3,401	2,300
Excise duties	2,496	0	0	0
VAT	29,203	0	17,626	0
Income tax	9	86	0	0
Other taxes	33	26	21	26
Total	**70,779**	**25,846**	**21,048**	**2,326**

Note 6 EARNINGS PER SHARE

(in thousand EEK)

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

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Weighted average number of ordinary shares (pcs)[1]	27,262,466	22,400,000	27,262,466	22,400,000
Net profit attributable to ordinary shareholders	313,023	381,931	313,023	381,931
Earnings per share (in EEK per share)	11.5	17.1	11.5	17.1

AS Tallink Grupp issued 5,100,000 new shares for cash on September 18, 2003. The total number of ordinary shares after the share issue is 27,500,000. See also Note 18.

[1] As a result of the new share issue, the share capital increased from 22,400,000 shares to 27,500,000 shares on September 18, 2003 (see also Note 18). The calculation of weighted average number of ordinary shares is as follows:

—period from September 1 to September 17 (17 days) —22,400,000 shares;
—period from September 18 to August 31 (348 days) —27,500,000 shares.

Note 7 CASH AND CASH EQUIVALENTS

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Cash at bank and in hand	226,135	73,076	162,616	47,751
Short-term deposits	140,533	158,748	8,604	94,689
TOTAL	**366,668**	**231,824**	**171,220**	**142,440**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates (rates in 2003/2004 were in the range of 0.25-2.95% and in 2002/2003 in the range of 0.25-4.10%). Short-term deposits are made for varying periods of between one month and six months depending on bank loan repayments.

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

Note 8 TRADE RECEIVABLES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Trade receivable	141,535	108,356	52,896	44,119
Allowance for uncollectible receivables	(1,911)	(707)	(340)	(565)
TOTAL	**139,624**	**107,649**	**52,556**	**43,554**

Note 9 OTHER RECEIVABLES AND PREPAID EXPENSES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Amount owed by subsidiaries	0	0	212,019	161,996
Amount owed by associate	1,846	112	1,538	95
Other receivables	37,921	18,078	28,053	12,479
Accrued interest income	413	218	0	0
Prepaid expenses	39,337	25,899	18,675	21,125
TOTAL	**79,517**	**44,307**	**260,285**	**195,695**

See information about the amounts owed by subsidiaries and associates in Note 20.

As of August 31, 2004 and 2003 the balance of other receivables consists mostly of sold goods' commission receivable for last 5 months and the balance of prepaid expenses mostly includes prepayments for insurance and port fees.

As of August 31, 2004 the balance of other receivables includes also a receivable from the Port of Tallinn for a landing-stage organised by the Group in the amount of EEK 15,636 thousands.

As of August 31, 2003 the balance of prepaid expenses includes also expenses related to issuing new shares in the amount of EEK 7,184 thousands, which were recorded as a reduction of share premium in September 2003. See more information about issuing new shares in Note 18.

Note 10 INVENTORIES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Raw materials (at cost)	13,118	4,653	6,191	2,293
Goods for sale (at cost)	70,996	45,845	32,689	25,994
Prepayments to suppliers	439	970	407	705
TOTAL	**84,553**	**51,468**	**39,287**	**28,992**

Note 11 INVESTMENTS IN SUBSIDIARIES

(in thousand EEK)

Name of subsidiary	Country of incorporation	% equity interest		Equity in thousands EEK	
		Aug 31, 2004	Aug 31, 2003	Aug 31, 2004	Aug 31, 2003
Hansaliin OÜ	Estonia	100	100	88	42
HT Kinnisvara OÜ	Estonia	100	100	2,270	1,237
Tallink Duty Free AS	Estonia	100	100	3,155	2,830
HT Hulgi Tolliladu AS<1>	Estonia	100	100	317	322
HT Laevateenindus OÜ	Estonia	100	100	2,545	1,563
HT Meelelahutus OÜ	Estonia	100	100	4,585	1,586
Tallink AS	Estonia	100	100	(50,728)	410
Hansatee Cargo AS	Estonia	100	100	1,637	49,997
TLG Hotell OÜ	Estonia	100	100	9,147	40
Tallink Sverige AB<2>	Sweden	100	100	2,542	1,763
Tallink Finland OY	Finland	100	100	9,270	8,439
Kapella Shipping Ltd.	Bahama	100	100	40,979	35,593
Tallink Line Ltd.	Cyprus	100	100	316,915	250,270
Tallinn—Helsinki Line Ltd.	Cyprus	100	100	45,850	34,579
Vana Tallinn Line Ltd.	Cyprus	100	100	345,866	288,378
Tallink Fast Ltd.	Cyprus	100	100	297,005	242,975
Tallink Ltd.	Cyprus	100	100	280,929	154,946
Tallinn Swedish Line Ltd.	Cyprus	100	100	120,929	69,525
Tallinn Stockholm Line Ltd.	Cyprus	100	100	111,006	58,113
Tallink Victory Line Ltd.	Cyprus	100	100	81,445	(28)
Hansalink Ltd	Cyprus	100	100	144,087	111,482
Tallink-Ru OOO<3>	Russia	100	0	37	0
Tallink Autoexpress Ltd.<4>	Cyprus	100	0	22,384	0
Tallink High Speed Ltd<5>	Cyprus	100	0	(731)	0
Tallink Travel Club OÜ<6>	Estonia	100	0	766	0

<1> HT Hulgi Tolliladu AS is a subsidiary of Tallink Duty Free AS
<2> Tallink Sverige AB is a subsidiary of Hansatee Cargo AS

Acquisitions of subsidiaries

<3> In April 2004 Tallink Grupp AS established a new subsidiary OOO Tallink-Ru with 100% of the ownership. The payment into the share capital in the amount of EEK 5 thousand was made in May 2004. The new subsidiary has been registered in Russia and was established as a ticket sales agent.

<4> In January 2004 Tallink Grupp AS established a new subsidiary Tallink Autoexpress Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made in August 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

<5> In February 2004 Tallink Grupp AS established a new subsidiary Tallink High Speed Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made in August 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

<6> In December 2003 Tallink Grupp AS purchased 100% of shares of Downtown Travel Club OÜ (renamed to Tallink Travel Club OÜ on March 1, 2004) from Infortar AS (the parent company of the group). The purchase price was EEK 800 thousand . EEK 754 thousand of the purchase price was offset between Tallink Grupp, Infortar and Downtown Travel Club OÜ and the remaining part (EEK 46 thousand) was paid in cash. The new subsidiary operates as a travel agent company.

The fair values of the identifiable assets and liabilities of Tallink Travel Club OÜ at the date of acquisition are as follows:

Short-term receivables	754	Payables to Tallink Grupp	(14)
Equipment	13	Short-term payables	(2)
	767		(16)
Fair value of net assets	**751**		
Goodwill[1]	49		
Consideration	**800**		

1 Goodwill arising from the purchase of the new subsidiary was expensed immediately as an immaterial item.

Assets and liabilities of Tallink Travel Club OÜ as of August 31, 2004 and its income and expenses for the period of January 2004 to August 2004 do not influence the financial position of the group at the reporting date and results of the group for the reporting period significantly.

Note 11 INVESTMENTS IN SUBSIDIARIES (Continued)

Subsidiary	Number of shares 31.08.2003	Additions during 2003/2004	Number of shares 31.08.2004	Acquisition cost 31.08.2003	Book value 31.08.2003	Additions during 2003/2004	Gain/loss under equity method	Book value 31.08.2004
Hansaliin OÜ	1	0	1	40	42	0	46	88
HT Kinnisvara OÜ	1	0	1	400	1,237	0	1,033	2,270
Tallink Duty Free AS*	400	0	400	400	2,830	0	(1,016)	1,814
HT Laevateenindus OÜ	1	0	1	400	1,563	0	982	2,545
HT Meelelahutus OÜ	1	0	1	400	1,586	0	2,999	4,585
Tallink AS*	400	0	400	400	410	0	(48,160)	0
Hansatee Cargo AS*	400	0	400	400	49,997	0	(49,997)	0
Tallink Finland OY	1,500	0	1,500	24,010	8,439	0	831	9,270
Kapella Shipping Ltd	5,000	0	5,000	66	35,593	0	5,386	40,979
Tallink Line Ltd	1,000	0	1,000	48,014	250,270	0	66,645	316,915
Tallinn Helsinki Line Ltd	1,000	0	1,000	12,000	34,579	0	11,271	45,850
Vana Tallinn Line Ltd	1,000	0	1,000	46,014	288,378	0	57,488	345,866
Tallink Fast Ltd	1,000	0	1,000	26	242,975	0	54,030	297,005
Tallink Ltd	1,000	0	1,000	28	154,946	0	125,983	280,929
Tallinn Swedish Line Ltd	1,000	0	1,000	27	69,525	0	51,404	120,929
Tallinn Stockholm Line Ltd	1,000	0	1,000	27	58,113	0	52,893	111,006
TLG Hotell OÜ	1	0	1	40	40	0	9,107	9,147
Tallink Victory Line Ltd. **	1,000	0	1,000	27	0	0	81,473	81,445
Hansalink Ltd	1,000	0	1,000	367,636	374,123	0	4,957	379,080
Tallink-Ru OOO	0	1	1	0	0	5	32	37
Tallink Autoexpress Ltd	0	1,000	1,000	0	0	27	22,357	22,384
Tallink High Speed Ltd ***	0	1,000	1,000	0	0	27	(759)	0
Tallink Travel Club OÜ	0	1	1	0	0	800	(34)	766
Total				**500,355**	**1,574,646**	**859**	**448,951**	**2,072,910**

* In the parent company's financial statements receivables from Tallink AS in the amount of EEK 47,750 thousands, investment to Tallink Duty Free AS (owns a receivable from Tallink AS) in the amount of EEK 1,341 thousands and investment to Hansatee Cargo AS (owns receivables from Tallink AS) in the amount of EEK 1,637 thousands have been reduced by the negative equity of Tallink AS (totalling EEK 50,728 thousands).

** Gain under equity method includes also the reversal of allowance for receivables from Tallink Victory Line Ltd in the amount of EEK 28 thousands (negative equity of Tallink Victory Line Ltd as of August 31, 2003).

*** The receivable from Tallink High Speed Ltd has been reduced by the negative equity of the subsidiary in the amount of EEK 731 thousands.

Note 12 INVESTMENT IN ASSOCIATE

(in thousand EEK)

	HT Valuuta AS
% equity interest at the beginning of the financial year	25
% equity interest at the end of the financial year	25
Acquisition cost—Aug 31, 2003	100
Book value—Aug 31, 2003	**1,997**
Dividends received	(800)
Income under the equity method	1,360
Acquisition value—Aug 31, 2004	100
Book value—Aug 31, 2004	**2,557**

HT Valuuta AS has been registered in Estonia and its shares are not listed.

Note 13 OTHER LONG TERM FINANCIAL ASSETS

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Amounts owed by subsidiaries	0	0	617,627	428,181
Other receivables and prepaid expenses	2,113	412	2,041	166,532
TOTAL	**2,113**	**412**	**619,668**	**594,713**

As of August 31, 2004 and 2003 other receivables and prepaid expenses of the group included long-term prepayment (term-less).

For additional information regarding the amounts owed by subsidiaries see Note 20.

As of August 31, 2003 the balance of other receivables and prepaid expenses of the parent company consists of prepayment made for a new vessel of Tallink Victory Line Ltd (subsidiary). In the balance sheet of the group the specified prepayment has been recorded as a prepayment for tangible fixed assets—see also Note 14.

Note 14 PROPERTY, PLANT AND EQUIPMENT

(in thousand EEK)

The Group

	Land and building	Ships	Plant and equipment	Construction in progress	Pre-payments	Total
Book value at Aug 31, 2003	**8,291**	**3,523,802**	**24,246**	**0**	**345,745**	**3,902,084**
Additions	4,333	2,626,260	27,268	82,128	(345,525)	2,394,464
Disposals	0	0	(631)	0	0	(631)
Depreciation for the year	(1,246)	(230,040)	(13,693)	0	0	(244,979)
Book value at Aug 31, 2004	**11,378**	**5,920,022**	**37,190**	**82,128**	**220**	**6,050,938**
At August 31, 2003						
—Cost	13,453	4,195,115	73,143	0	345,745	4,627,456
—Accumulated depreciation	(5,162)	(671,313)	(48,897)	0	0	(725,372)
At August 31, 2004						
—Cost	17,516	6,801,988	91,558	82,128	220	6,993,410
—Accumulated depreciation	(6,138)	(881,966)	(54,368)	0	0	(942,472)

Note 14 PROPERTY, PLANT AND EQUIPMENT—(Continued)

For more information about the leased assets see also Note 16.

During the financial year the company has capitalised borrowing costs as a part of the cost of ships in the amount of EEK 672 thousands (2002/2003: EEK 12,194 thousands)—100% of interest related to the loans received to finance the building of vessels (up to the delivery date).

From September 1, 2003 Tallink Grupp AS changed the accounting estimates related to the depreciation calculation for each significant part of ships in terms of the estimated useful lives as well as the residual values of ships' hulls (Note 2).

Due to changes in useful life and residual value of hull the depreciation charge decreased by EEK 63,480 thousands during the year 2003/2004 (compared with previous year). In the interim consolidated condensed financial statements for the 3- and 6-months periods ended respectively November 30, 2003 and February 29, 2004 the previous estimates were used in calculation of depreciation charges.

Pledged property, plant and equipment

Most of group's ships are subject to a first or second mortgage to secure group's bank loans.

As of August 31, 2004	Loan balance	Book value of collateral**	Market value* of collateral
Ships	4,034,475	5,991,839	6,626,352

* Average of 2 shipbrokers quotes as of August 31, 2004

Parent Company

	Land and building	Plant and equipment	Other equipment	Ships	Total
Book value at Aug 31, 2003	**2,883**	**10,073**	**2,405**	**2,832,210**	**2,847,571**
Additions	4,234	1,108	9,991	235,995	251,328
Depreciation for the year	(284)	(4,074)	(1,966)	(436,285)	(442,609)
Book value at Aug 31, 2004	**6,833**	**7,107**	**10,430**	**2,631,920**	**2,656,290**
At August 31, 2003					
—Cost	3,634	28,108	7,802	3,850,629	3,890,173
—Accumulated depreciation	(751)	(18,035)	(5,397)	(1,018,419)	(1,042,602)
At August 31, 2004					
—Cost	7,868	29,048	16,443	4,067,236	4,120,595
—Accumulated depreciation	(1,035)	(21,941)	(6,013)	(1,435,316)	(1,464,305)

The parent company has only leased ships (from its subsidiaries). For more information about the leased assets see also Note 16.

Note 15 INTANGIBLE ASSETS

(in thousand EEK)

The Group

	Goodwill	Patents and licences	Development costs	Total
Book value at Aug 31, 2003	**194,056**	**587**	**7,379**	**202,022**
Additions	0	3,202	0	3,202
Amortization for the year	(20,908)	(811)	(7,062)	(28,781)
Book value at Aug 31, 2004	**173,148**	**2,978**	**317**	**176,443**
At August 31, 2003				
Cost	208,821	2,112	33,206	244,139
Accumulated amortization	(14,765)	(1,525)	(25,827)	(42,117)
At August 31, 2004				
Cost	203,706	5,314	7,379	216,399
Accumulated amortization	(30,558)	(2,336)	(7,062)	(39,956)

Note 15 INTANGIBLE ASSETS (Continued)

Parent Company

	Patents and licences	Total
Book value at Aug 31, 2003	**0**	**0**
Additions	2,768	2,768
Amortization for the year	(251)	(251)
Book value at Aug 31, 2004	**2,517**	**2,517**
At August 31, 2004		
Cost	2,768	2,768
Accumulated amortization	(251)	(251)

Note 16 INTEREST BEARING LOANS AND BORROWINGS

(in thousand EEK)

The Group

At August 31, 2004	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2008	380	1,397	1,777
Long-term secured bank loans**	2004-2014	602,261	3,432,214	4,034,475
Other long-term secured loans	2007	48,766	49,764	98,530
Bonds	2004	99,310	0	99,310
Total		**750,717**	**3,483,375**	**4,234,092**

At August 31, 2003	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2008	253	1,671	1,924
Long-term secured bank loans**	2003-2014	396,621	2,046,983	2,443,604
Other long-term secured loans	2007-2011	197,350	74,646	271,996
Bonds	2004	76,487	0	76,487
Total		**670,711**	**2,123,300**	**2,794,011**

Parent Company

At August 31, 2004	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2005-2014	448,991	2,173,694	2,622,685
Long-term secured bank loans	2006-2008	69,424	81,299	150,723
Bonds	2004	99,310	0	99,310
Long-term loan Vana Tallinn Ltd	2005	0	50,441	50,441
Total		**617,725**	**2,305,434**	**2,923,159**

At August 31, 2003	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2005-2014	427,756	2,420,744	2,848,500
Long-term secured bank loans	2003-2006	69,424	307,189	376,613
Bonds	2004	76,487	0	76,487
Long-term loan from Vana Tallinn Line Ltd.	2005	0	54,572	54,572
Total		**573,667**	**2,782,505**	**3,356,172**

Note 16 INTEREST BEARING LOANS AND BORROWINGS (Continued)

* The group is allowed to use *bank overdraft* with limitation of EEK 200,000 thousand (including EEK 150,000 thousand granted to the parent company) and EUR 1,009 thousand . Bank overdrafts are secured with commercial pledge (in the total amount of EEK 151,250 thousand) and ship mortgages. In 2003/2004 the average effective interest rate of bank overdrafts is EURIBOR+2.17% for overdrafts from Estonian commercial banks and EURIBOR+1.25% from Finnish commercial bank. As of August 31, 2004 and 2003 there were no outstanding overdraft balances.

* In 2003/2004 the weighted average interest rate of *secured bank loan* was EURIBOR +1.44% (EURIBOR + 1.34% for the parent company).

* Interest rates of *other secured loans,* which is a loan from the parent company of the group—Infortar—in the amount of EEK 98,530 thousands at August 31, 2004, has a fixed interest rate 7%.

* As of August 31, 2004 *bonds* with the book value of EEK 99,310 thousands (as at Aug 31, 2003: EEK 76,487 thousands) have the fixed interest rate of 0%. The total nominal value of these bonds is EEK 100,000 thousands (2003: EEK 80,390 thousands). The difference between the nominal value and the received amount is expensed during the loan period—it means that average effective interest rate is approx. 3.0% (2003: 6.6%).

* Interest rate of *long-term loan from Vana Tallinn Line Ltd* is 0%. In the opinion of the management of Tallink Grupp there is not a material impact on the financial statements from not using the effective interest rate, as Vana Tallinn Line Ltd is a subsidiary of Tallink Grupp AS. Therefore, the specified loan carrying amount has not been corrected based on the effective interest rate in the both companies' financial statements.

* *Lease liability* of the group as of August 31, 2004 is related to office equipment in Sweden. Lease liability of the parent company is related to the charters of ships from its subsidiaries. The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments are as follows:

The Group

	2003/2004		2002/2003	
	minimum payments	PV of payments	minimum payments	PV of payments
Within one year	406	380	270	253
After 1 year, but not more than 5 years	1,492	1,397	1,785	1,671
Total minimum lease payments	1,898		2,055	
Future financial charges	(121)		(131)	
PV of minimum lease payments	1,777	1,777	1,924	1,924

Book value of leased assets as at August 31, 2003	**1,909**
Additions, incl. exchange rate difference	451
Depreciation for the financial year	(682)
Book value of leased assets as at August 31, 2004	**1,678**
—at costs	3,024
—accumulated depreciation	(1,346)

Parent Company

	2003/2004		2002/2003	
	minimum payments	PV of payments	minimum payments	PV of payments
Within one year	569,870	448,991	597,812	427,756
After 1 year, but not more than 5 years	1,392,513	1,069,585	1,443,419	1,078,529
More than 5 years	1,237,805	1,104,109	1,537,635	1,342,216
Total minimum lease payments	3,200,188		3,578,866	
Future financial charges	(577,503)		(730,365)	
PV of minimum lease payments	2,622,685	2,622,685	2,848,501	2,848,501

Book value of leased assets as at August 31, 2003	**2,815,303**
Additions	233,794
Depreciation for the financial year	(420,821)
Book value of leased assets as at August 31, 2004	**2,628,276**
—at costs	4,054,452
—accumulated depreciation	(1,426,176)

For additional information about currency structure of borrowings see Note 21.

Note 17 OTHER PAYABLES AND DEFERRED INCOME

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Customers' prepayments	25,585	14,229	3,080	1,533
Payables to subsidiaries	0	0	579,063	531,852
Payables to associates	147	0	147	0
Other payables	2,865	386	843	94
Payables to employees	53,848	36,162	7,210	6,087
Interests payable	50,228	28,153	726	1,535
Other accruals	7,298	1,364	0	62
TOTAL	**139,971**	**80,294**	**591,069**	**541,163**

* See Note 20 for more information about payables to subsidiaries.

Note 18 SHARE CAPITAL

(in thousand EEK)

	31.08.2004	31.08.2003
Ordinary shares of EEK 10 each (thousands pcs)	27,500	22,400
The number of shares issued and fully paid (thousands pcs)	27,500	22,400
Share capital	275,500	224,000
Share premium per share in EEK	15.09	3.09
Total share premium	414,870	69,223

According to the Articles of Association the maximum number of authorized common shares is 89,600,000.

According to AS Tallink Grupp Shareholders' Extraordinary General Meeting on September 15, 2003 AS Tallink Grupp increased the share capital from EEK 224,000 th to EEK 275,000 th by issuing 5,100,000 new shares with the par value of 10 kroons each. The new shares were issued at a premium of EEK 72.14 per share. The payment for new shares was made on September 18, 2003. The share premium has been reduced by the expenses related to the issuing of shares in the total amount of EEK 22,267 thousands.

During the financial year 2002/2003 AS Tallink Group repurchased its shares for EEK 4,599 thousand and sold these with the same price.

Note 19 COMMITMENTS AND CONTINGENCIES

(in thousand EEK)

Legal claim

Tallinna Sadam AS has filed a claim to Tallinn City Court against Hansatee Cargo AS to claim cargo fees payable in the port of Paldiski in the amount of EEK 4,943 thousands. In the opinion of the management of Hansatee Cargo AS the claim was unfounded. The parties settled the dispute at court and it was accepted by Tallinn City Court with the ruling issued on February 13, 2004. According to the settlement AS Hansatee Cargo paid a one-time compensation to AS Tallinna Sadam in the amount of EEK 3,900 thousands, which was already expensed in 2002/2003.

Income tax on dividends

The group's retained earnings as at August 31, 2004 were 1,465,007 (as at August 31, 2003—EEK 1,157,084 thousand). The maximum possible income tax liability as at August 31, 2004, which would become payable if retained earnings were fully distributed and all shareholders belonged to the taxable category, is 351,062 (as at August 31, 2003 — EEK 300,842) thousand . Accordingly, it would be possible to pay out to the shareholders 1,113,945 (2003: EEK 856,242 thousand), net of tax.

Note 19 COMMITMENTS AND CONTINGENCIES (Continued)

Off-balance sheet guarantees

- Tallink Grupp AS has given a guarantee in the maximum amount of 10,010,000 SEK to Eesti Ühispank related to Swedish subsidiary. Due date is October 14, 2005.
- Tallink Grupp AS has given guarantees to HSH Nordbank AG (ex Hamburgische Landesbank) and Nordea Bank Plc for the loans granted to its overseas subsidiaries amounting to EEK 3,883,752 thousands. The primary securities for these loans are the pledge of shares of the overseas subsidiaries and mortgages on the ships belonging to the above-mentioned subsidiaries.
- Tallink Grupp AS has given a guarantee to Nordea Bank for the overdraft granted to its Finnish subsidiary. At August 31, 2004 the overdraft amounted to zero.
- Tallink Grupp AS has given a guarantee in the amount of EEK 1,000 thousands and EUR 5 thousands to Eesti Ühispank related to Vaba Maa AS. Due date is July 1, 2005.
- Tallink Grupp AS has given a guarantee in the amount of EUR 145 thousands to Eesti Ühispank related to Hakan Wilhelm Nordström. Due date is December 12, 2005.

Non-cancellable operating leases

On October 1, 2003 the group concluded a non-cancellable lease agreement for the hotel building. The lease period of 10 years started on May 2004. The group also has the option to renew the agreement for a further 5 years. The annual non-cancellable lease payments will be in the range of EEK 36,000 thousands to EEK 45,000 thousands (depends on the result of the hotel's operations).

Note 20 RELATED PARTY DISCLOSURES

(in thousand EEK)

The following transactions have been entered into with related parties.

The Group

2003/2004 or 31.08.2004	Sales to related party	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AS Infortar	37	6,424	0	100,005
AS Infortar, guarantee payments	0	1,159	0	0
AS Infortar, interest expense	0	7,422	0	1,188
AS Vaba Maa	0	1,620	0	565
AS HT Valuuta	12,186	0	1,835	147
AS HT Valuuta, interest revenue	0	57	11	0
2002/2003 or 31.08.2003				
AS Infortar	0	6,489	0	118,520
AS Infortar, purchase of shares*	0	298,000	0	0
AS Infortar, interest expense	0	8,559	0	3,212
AS HT Valuuta	281	0	112	0
AS HT Valuuta, interest revenue	57	0	12	0
Compo Investeeringud OÜ**	1,564	0	0	0
Hansalink Ltd, payments of lease***	0	37,895	0	0

* the shares of HTG Partner AS (associated company) were sold in February 2003 to Compo Investeeringud OÜ.
** before the acquisition of the shares of Hansalink Ltd.

AS Infortar

AS Infortar owns 55.53% of the shares of AS Tallink Grupp

Note 20 RELATED PARTY DISCLOSURES (Continued)

AS HT Valuuta

AS Tallink Group owns 25% of the shares of AS HT Valuuta

AS Vaba Maa

AS Vaba Maa is a subsidiary of Infortar AS

Hansalink Ltd.

AS Infortar owned 100% of the shares in Hansalink Ltd. In February 2003 Tallink Grupp AS purchased 100% of the voting shares of Hansalink Ltd from Infortar AS.

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

Parent Company

Sales	2003/04.a.	2002/03.a.
AS Infortar (parent)	0	298,000
AS Hansatee Cargo (subsidiary)	224,633	280,639
AS Tallink (subsidiary)	52,667	0
AS Hansaliin (subsidiary)	5,583	5,441
AS HT Laevateenindus (subsidiary)	2,175	1,884
AS HT Meelelahutus (subsidiary)	0	5
AS Tallink Duty Free (subsidiary)	8	1,375
Tallink Finland OY (subsidiary)	189	251
AS HT Valuuta (associate)	1,035	55
Compo Investeeringud OÜ (see Note 20/group)	0	1,564

Purchases	2003/04.a.	2002/03.a.
AS Infortar (parent)	720	720
AS Vaba Maa (subsidiary of AS Infortar)	1,335	0
AS Hansatee Cargo (subsidiary)	330	715
AS Hansaliin (subsidiary)	126,013	118,427
AS HT Laevateenindus (subsidiary)	143,196	126,340
AS HT Meelelahutus (subsidiary)	30,917	32,030
AS HT Kinnisvara (subsidiary)	4,172	2,903
AS Tallink Duty Free (subsidiary)	348,685	516,180
OÜ Tallink Travel Club (subsidiary)	1,377	0
OÜ TLG Hotell (subsidiary)	60	0
Tallink Finland OY (subsidiary)	118,132	93,880
Tallink-Ru OOO (subsidiary)	125	0
Tallink Ltd (subsidiary)	257,700	256,996
Tallinn Swedish Line Ltd (subsidiary)	101,007	100,731
Vana Tallinn Line Ltd (subsidiary)	79,115	79,037
Tallink Line Ltd (subsidiary)	94,424	94,200
Tallink Autoexpress Ltd (subsidiary)	38,303	0
Tallink Fast Ltd (subsidiary)	80,039	80,039
Kapella Shipping Ltd (subsidiary)	5,727	17,331
Hansalink Ltd (subsidiary)*	42,950	84,454

* including lease payments and interest expenses until 28.02.2003 and charter hire from 01.03.2003-31.08.2003

Note 20 RELATED PARTY DISCLOSURES (Continued)

Balances between subsidiaries and associates

	31.08.2004	31.08.2003
Short-term receivables from subsidiaries		
Tallinn Stockholm Line Ltd (subsidiary)—prepayment	*12,936*	*23,233*
Tallinn Swedish Line Ltd (subsidiary)—prepayment	*0*	*8,504*
Tallink Finland OY (subsidiary)—for services	*15,978*	*14,866*
AS HT Kinnisvara (subsidiary)—for services	*3,808*	*3,548*
OÜ TLG Hotell (subsidiary)—for services	*300*	*0*
Tallink Ltd (subsidiary)—loan (6%, maturity—2014)	*501*	*20,000*
Tallink Ltd (subsidiary)—interest	*2,200*	*2,284*
Tallink Line Ltd (subsidiary)—loan (12%, maturity—2005)	*0*	*68,595*
Tallink Line Ltd (subsidiary)—interest	*0*	*699*
*Tallink Victory line Ltd (subsidiary)**	*147,320*	*20,268*
Tallink High Speed Line Ltd (subsidiary)—prepayment	*3,787*	*0*
Tallink Autoexpress Line Ltd (subsidiary)—prepayment	*5,056*	*0*
Tallinn—Helsinki Line Ltd (subsidiary)—prepayment	*19,633*	*0*
Tallink-Ru OOO (subsidiary)—for services	*500*	*0*
Total subsidiaries	212,019	161,996
Short-term receivables from associates		
AS HT Valuuta—for services	*1,527*	*85*
AS HT Valuuta—interest	*11*	*10*
Total associates	1,538	95
Long-term receivables from subsidiaries		
*Victory Line Ltd (subsidiary)**	*496,630*	*0*
Tallink Ltd (subsidiary)—loan (6%, maturity—2014)	*120,997*	*428,181*
Total subsidiaries	617,627	428,181
Short-term liabilities to subsidiaries		
AS Infortar (parent)—for services	*71*	*71*
AS Vaba Maa (subsidiary of AS Infortar)—for services	*565*	*0*
Total parent	636	71
OÜ Tallink Travel Club (subsidiary)—for services	*544*	*0*
AS Hansatee Cargo (subsidiary)—for services	*50,035*	*118,339*
Tallink Fast Ltd (subsidiary)—for services	*152,605*	*112,801*
Kapella Shipping Ltd (subsidiary)—for services	*31,588*	*26,021*
Vana Tallinn Line Ltd (subsidiary)—for services	*205,035*	*159,346*
Tallinn Helsinki Line Ltd (subsidiary)—for services	*0*	*34,579*
Hansalink Ltd (subsidiary)—for services	*90,491*	*80,766*
Tallink Line Ltd (subsidiary)—for services	*16,334*	*0*
Tallinn Swedish Line Ltd (subsidiary)—for services	*32,431*	*0*
Total subsidiaries	579,063	531,852
Long-term liabilities to subsidiaries		
Vana Tallinn Line Ltd (subsidiary)—loan (see Note 16)	*50,441*	*54,572*
Total subsidiaries	50,441	54,572

* Receivable from Tallink Victory Line Ltd arose due to payments regarding a new vessel made by the parent company. Interest rate of this *receivable* is 0%. In the opinion of the management of Tallink Grupp there is not a material impact on the financial statements from not using the effective interest rate, as Tallink Victory Line Ltd is a subsidiary of Tallink Grupp AS. Therefore, the specified loan carrying amount has not been corrected based on the effective interest rate in either company's financial statements. The payment schedule for this receivable is not agreed. The split between current and non-current assets has been made based on the estimation of the group's management on the actual payments in 2004/2005.

Note 20 RELATED PARTY DISCLOSURES (Continued)

Directors' remuneration

The executive members of the Management Board received a remuneration totalling EEK 10,147 thousand (2003—EEK 10,551 thousand). The executive members of the Management Board do not receive pension entitlements from the group.

Termination benefits

Some members of Management Board have right to termination benefits. The maximum amount is EEK 6,480 thousands.

Note 21 FINANCIAL INSTRUMENTS

(in thousand EEK)

The management of financial risks is centralised in the group's financial department, which is responsible for all borrowings within the group as well as all exposure linked to the currency, interest, liquidity and bunker price risks.

Currency risk

About 18% of the group's total revenues are in SEK. The group seeks to minimise currency transactions risk through matching foreign currency inflows with outflows. The group's other transactional currency exposure is to the US dollar for the purchase of ship fuel and insurance. The net open position in the currency exposure is not hedged by derivative financial instruments at the end of financial year.

August 31, 2004	EEK, EUR*	USD	SEK	Total
Cash and cash equivalents	336,713	0	29,955	366,668
Trade receivables	100,455	0	39,169	139,624
Other financial assets	29,574	0	18,231	47,805
Total financial assets	466,742	0	87,355	554,097
Current portion of borrowings	750,337	0	380	750,717
Trade payables	260,090	2,313	18,028	280,431
Other current financial liabilities	171,723	0	13,442	185,165
Non-current borrowings	3,481,978	0	1,397	3,483,375
Total financial liabilities	4,664,128	2,313	33,247	4,699,688
Currency net position	(4,197,386)	(2,313)	54,108	(4,145,591)

August 31, 2003	EEK, EUR*	USD	SEK	Total
Cash and cash equivalents	221,147	0	10,677	231,824
Trade receivables	79,830	0	27,819	107,649
Other financial assets	10,224	0	16,001	26,225
Total financial assets	311,201	0	54,497	365,698
Current portion of borrowings	670,458	0	253	670,711
Trade payables	148,887	1,465	25,761	176,113
Other current financial liabilities	85,103	0	6,808	91,911
Non-current borrowings	2,121,629	0	1,671	2,123,300
Total financial liabilities	3,026,077	1,465	34,493	3,062,035
Currency net position	(2,714,876)	(1,465)	20,004	(2,696,337)

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

Note 21 FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

In its operations, the group uses a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases as well as cash. The group borrows in desired currencies at both fixed and floating rates of interest having regarding to current market rates and future trends. At year-end loans with fixed interest rate represented close to 4.7% of the group's total interest-bearing liabilities. The company uses interest rate swaps to modify its exposure to interest rate movements and to manage its interest expense. As of August 31, 2004, the company had an agreement in effect which exchanged floating interest rate for fixed interest rate in a notional amount of EUR 9,33 million maturing in 2007. As of August 31, 2004 the fair value of this derivative amounted to EEK 793 th (recorded as an interest expense in the income statement and as an other payable in the balance sheet).

Analysis of borrowings by fixed and floating interest rates

August 31 , 2004

Fixed rate	<1 year	1-5 year	>5 years	Total
Obligation under finance lease	380	1,397	0	1,777
Other loans	48,766	49,764	0	98,530
Bonds	99,310	0	0	99,310

Floating rate	<1 year	1-5 year	>5 years	Total
Secured bank loans	602,261	1,695,077	1,737,137	4,034,475

August 31, 2003

Fixed rate	<1 year	1-5 year	>5 years	Total
Obligation under finance lease	253	1,671	0	1,924
Other loans	40,884	74,646	0	115,530
Bonds	76,487	0	0	76,487

Floating rate	<1 year	1-5 year	>5 years	Total
Secured bank loans	396,621	1,232,419	814,564	2,443,604
Other loans	156,466	0	0	156,466

Credit risk

The maximum credit risk exposure of unsecured receivables of the group at the balance sheet date is EEK 185,316 thousands (2003: EEK 133,462 thousands). There is no significant concentration of credit risk within the group.

Bunker price risk

The total bunker cost for the fleet represents about 9% of the total operating expenses. Changes in bunker prices follow the changes in the oil price and the USD price. The group's policy for the financial year ended was not to hedge the risk related to the bunker cost although the group is considering possibilities to start hedging bunker price risk along with the relating US dollar risk.

Fair values

In the opinion of the company's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities of the group.

Note 22 EVENTS AFTER THE BALANCE SHEET DATE

(in thousand EEK)

In September 2004 the group established a new subsidiary TDF Kommerts OÜ with 100% of the ownership. The payment into the share capital in the amount of EEK 40 thousand was made in cash. The new subsidiary has been registered in Estonia and was established for later retail business on mainland purpose.

On October 27, 2004 Aker Finnyard and Tallink Grupp AS signed a shipbuilding contract to construct a new passenger cruise ship. The new ship should be delivered in May 2006. The shipbuilding contract price of new ship is EUR 165,000,000 of which 20% will be paid during construction and 80% will be paid at delivery of the ship. On November 18, 2004 Tallink Grupp AS made the first prepayment of EUR 2,000,000 to Aker Finnyard.

In November 2004 Tallink Grupp AS established a new subsidiary Tallink Sea Line Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made also in November 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

In November 2004 bank loans of three subsidiaries were refinanced with a bank loan granted to the parent company. The refinanced loans' amount was EEK 262,073 thousands and the amount of the new loan is EEK 269,122 thousands.

MANAGEMENT BOARD'S APPROVAL OF THE FINANCIAL STATEMENTS

We hereby declare our responsibility for the Financial Statements and confirm that Tallink Group AS's Financial Statements for the year ended August 31, 2004 are prepared in accordance with International Financial Reporting Standards and the Financial Statements set out on pages F-34 to F-63 give a true and fair view of the financial position of the group and the parent company and of the result of their operations and cash flows:

Chairman of the Board
Enn Pant

Member of the Board
Kalev Järvelill

Member of the Board
Keijo Mehtonen

Member of the Board
Andres Hunt

Tallinn
December 17, 2004

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

AUDITORS' REPORT TO THE AS TALLINK GRUPP SHAREHOLDERS

We have audited the financial statements of AS Tallink Grupp (hereafter "the Company") and the consolidated financial statements of AS Tallink Grupp and its subsidiaries (hereafter "the Group") for the financial year ended August 31, 2004 (that also include the corresponding figures for the financial year ended August 31, 2003), which are set out on pages F-34 through F-63 of the Offering Memorandum. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements for the financial year ended August 31, 2004 (including the corresponding figures for the financial year ended August 31, 2003) present fairly, in all material respects, the financial position of the Company and the Group as of August 31, 2004, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

The audit of the financial statements for the financial year ended August 31, 2004 was completed on December 21, 2004, except for the minor financial statements style presentation amendments done in 2005, as to which the date is November 18, 2005.

REFERENCE LIST

The Tallink's Q3 results can be found at ***http://www.ee.omxgroup.com/?lang=en/ ; Listed companies, TSE Listed securities, Tallink Grupp; Reports.***

The stock exchange releases of Tallink can be found at ***http://www.ee.omxgroup.com/?lang=en/ ; Listed companies, TSE Listed securities, Tallink Grupp; News.***

Any links and references in this Table of References are correct as of August 4, 2006.

REFERENCE	LOCATION IN THE PROSPECT
Please see stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled "TAL: Boycott ends". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207763*	Risk Factors – Risks Relating to Our Business – Rising labor costs as the …, (page 17)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Selected Financial Information (page 35)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Operating and Financial Review and Prospects – Overview, (page 37)
Please see stock exchange release on Tallinn Stock Exchange on 17.03.2006 titled "TAL: Riga-Stockholm Route". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=205530*	Operating and Financial Review and Prospects – Recent Developments and Outlook, (page 38)
Please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=205622*	Operating and Financial Review and Prospects – Recent Developments and Outlook, (page 38)
Please see stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled "TAL: Boycott ends". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207763*	Operating and Financial Review and Prospects – Recent Developments and Outlook, (page 38)

Please see stock exchange release on Tallinn Stock Exchange on 06.04.2006 titled "TAL: Sale of Tallink Autoexpress". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=206011*	Operating and Financial Review and Prospects – Recent Developments and Outlook, (page 39)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Operating and Financial Review and Prospects – Results of Operations, (page 41)
Please see Tallink's Q3 results on Tallinn Stock Exchange for financial overview of the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Operating and Financial Review and Prospects – Financial Year Ended August 31, 2004 Compared to Financial Year Ended August 31, 2003, (page 45)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business - Overview, (page 60)
Please see stock exchange release on Tallinn Stock Exchange on 19.12.2005 titled "TAL: Ordering new vessel. *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=204067*	Business - Overview, (page 60)
Please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=205622*	Business - Overview, (page 61)
Please see stock exchange release on Tallinn Stock Exchange on 12.06.2006 titled "TAL: Sea Containers to sell Silja ferry business to Tallink". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207853*	Business - Overview, (page 61)

Please see stock exchange release on Tallinn Stock Exchange on 21.11.2005 titled "TAL: AS Tallink Grupp launches an initial public offering". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=203442*	Business – History, (page 64)
Please see stock exchange release on Tallinn Stock Exchange on 19.12.2006 titled "TAL: Ordering new vessel". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=204067*	Business – History, (page 64)
Please see stock exchange release on Tallinn Stock Exchange on 18.04.2006 titled "TAL:Delivery of M/S Galaxy". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=206354*	Business – History, (page 64)
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Please see stock exchange release on Tallinn Stock Exchange on 06.04.2006 titled "TAL: Sale of Tallink Autoexpress". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=206011*	Business – Routes operated, (page 65)
Please see stock exchange release on Tallinn Stock Exchange on 18.05.2006 titled "TAL: Establishing a new subsidiary, chartering a vessel". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207318*	Business – Routes operated, (page 66)

Please see stock exchange release on Tallinn Stock Exchange on 21.03.2006 titled "TAL: Acquisition of three new Superfast ferries". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=205622*	Business – Routes operated, (page 66)
Please see stock exchange release on Tallinn Stock Exchange on 31.05.2006 titled "TAL: Finnish Seamen's Union starts illegal boycott on Superfast VIII". *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207630*	Business – Routes operated, (page 66)
Please see stock exchange release on Tallinn Stock Exchange on 05.06.2006 titled "TAL: Boycott ends" *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207763*	Business – Routes operated, (page 66)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products, (page 67)
Please see Tallink's Q3 results on Tallinn Stock Exchange for respective figures for the first three quarters of financial year ending August 31, 2006. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products – Ticket sales, (page 67)
Please see Tallink's Q3 results on Tallinn Stock Exchange. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products – Sales of Cargo Transport, (page 69)
Please see Tallink's Q3 results on Tallinn Stock Exchange. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products – Sales of Cargo Transport, (page 70)

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Please see Tallink's Q3 results on Tallinn Stock Exchange. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products – Sales of Cargo Transport, (page 70)
Please see Tallink's Q3 results on Tallinn Stock Exchange. *http://market.ee.omxgroup.com/upload/reports/tal/2006_q3_en_uni.pdf*	Business – Products – Sales of Cargo Transport, (page 70)
Please see www.tallink.com – Extraordinary General Meeting *http://www2.tallink.com/user_files/Silja_Statutory_Accounts_2005_eng.pdf*	Pro Forma Financial Information (page 87)
Please see stock exchange release on Tallinn Stock Exchange on 16.06.2006 titled "TAL: Signed loan agreements" and stock exchange release on Tallinn Stock Exchange on 14.06.2006 titled "TAL: Additional information on acquisition of Silja" *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207931* *http://market.ee.omxgroup.com/?pg=details&instrument=EE3100004466&list=2&tab=news&news_id=207911*	Pro Forma Financial Information (page 88)

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