PORT OF TALLINN

Offering, listing and admission to trading

PROSPECTUS

Offering of up to 86,704,968 Ordinary Shares

Offering Period 25.05.2018 - 06.06.2018

citi Carnegie ERSTE Swedbank LHV

Prospectus is not complete, in particular the price range, pricing information and allocation information in Part III (The Offering). The Company will prepare a supplement to this Prospectus to complete the relevant information. Such supplement is expected to be registered with the Authority and published together with this Prospectus on 24 May 2018.

Aktsiaselts TALLINNA SADAM

(Established and organised with limited liability in Estonia)

Offering of up to 86,704,968 Ordinary Shares
Offer Price Range EUR [●] to [●] per Offer Share

OFFERING, LISTING AND ADMISSION TO TRADING PROSPECTUS

This is the prospectus (the "**Prospectus**") for (i) the offering by aktsiaselts TALLINNA SADAM (the "**Company**", and, together with its consolidated subsidiaries, OÜ TS Shipping and OÜ TS Laevad and joint venture AS Green Marine (unless the context otherwise requires), the "**Group**") of newly issued shares in the Company (including by way of public offering to retail investors in Estonia); (ii) the offering of existing ordinary shares of the Company by the Republic of Estonia (acting through the Ministry of Economic Affairs and Communications) (the "**Government Shareholder**") and (iii) the listing and admission to trading of all shares of the Company (the "**Shares**") on the Baltic Main List of Nasdaq Tallinn (the "**Tallinn Stock Exchange**"). A public offering will be carried out only in Estonia and there will be no public offering of the Shares in any other jurisdiction.

The Company is offering up to 75,404,968 newly issued ordinary Shares with the nominal value of EUR 1 each (the "**New Shares**"). The Government Shareholder is offering up to 11,300,000 existing ordinary shares with the nominal value of EUR 1 each (the "**Secondary Shares**" and, together with the New Shares, the "**Offer Shares**"). The Offering is made (i) by way of an offering to retail investors in Estonia, including to employees and members of the management and supervisory bodies of the Group (including its joint venture AS Green Marine) (the "**Retail Offering**") in the course of which a certain number of New Shares are offered (the "**Retail Offer Shares**") and (ii) by way of an offering to institutional investors in and outside of Estonia (the "**Institutional Offering**") in the course of which a certain number of the New Shares (such New Shares, the "**Primary Shares**") and Secondary Shares are offered (the Primary Shares and Secondary Shares together, the "**Institutional Offer Shares**"). The Institutional Offering comprises an offer of Institutional Offer Shares to qualified investors within the meaning of Section 6(2) of the Estonian Securities Market Act in Estonia, and elsewhere outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933 as amended (the "**U.S. Securities Act**") and to qualified institutional buyers in the United States as defined in, and in reliance upon, Rule 144A under the U.S. Securities Act or another available exemption from the registration requirements of the U.S. Securities Act, the Institutional Offering together with the Retail Offering, the "**Offering**". The subscription/purchase period for the Offer Shares will commence on 25 May 2018 at 10:00 am (Eastern European Summer Time – Estonian time) and expire on 6 June 2018 at 2;00 pm (Eastern European Summer Time – Estonian time) (the "**Offer Period**"). The offer price per Offer Share (the "**Offer Price**") will be determined through a book-building process within the Offer Price Range (as defined below) and will be the same for all investors in the Retail Offering and the Institutional Offering. The Offer Price range for the Offer Shares is EUR [●] to [●] (the "**Offer Price Range**"). The final Offer Price will be published by means of a stock exchange release on or about 7 June 2018 and on the Company's website (investor.ts.ee).

In connection with the Offering, the Company and the Government Shareholder expect to agree that Swedbank AS, as stabilising agent on behalf of Citigroup Global Markets Limited (the "**Stabilising Manager**"), will have the right to acquire up to 11,300,000 Shares on the Tallinn Stock Exchange, in order to stabilise the stock market price of the Offer Shares at a level higher than that which would otherwise prevail and that, for the purposes of funding the stabilisation transactions, the Stabilising Manager will retain the proceeds from the sale of the Secondary Shares (the "**Stabilisation Proceeds**"). The acquisition of the Shares in connection with stabilisation transactions will be made subject to applicable law. The stabilising transactions to purchase the Offer Shares may be effected at any time on or before the 30th calendar day after the commencement of trading in the Shares on the Tallinn Stock Exchange (the "**Stabilisation Period**"). The stabilising transactions to purchase the Shares may only be effected at a price not exceeding the Offer Price. The Stabilising Manager or its agent will not, however, be required to carry out any stabilisation actions. If any such actions are carried out by the Stabilising Manager or its agent, they may be discontinued at any time without prior notice. No assurance can be given that such stabilisation actions, if taken, will bring the expected results. At the end of the Stabilisation Period, the Stabilising Manager or its agent will return to the Government Shareholder any Shares which have been purchased in the market as a result of stabilisation activities and/or any remaining Stabilisation Proceeds which were not used for stabilisation activities pursuant to the terms of the Put Option (as defined below) (see Part III (Offering), section 12 (Stabilisation)).

The Company intends to file an application with the Tallinn Stock Exchange regarding the listing of the Shares on the Nasdaq Baltic Main List of the Tallinn Stock Exchange (the "**Listing**") on or about 25 May 2018. The trading of the Shares is expected to commence on the Nasdaq Baltic Main List of the Tallinn Stock Exchange on or about 13 June 2018 following the registration of the New Shares with the Estonian Register of Securities ("**ERS**"). Please read Part III (The Offering), section 11 (Settlement and Trading) in respect of the terms and conditions for the clearing and settlement of the Offer Shares.

Once the New Shares are registered with the ERS, the New Shares will rank *pari passu* with all the existing Shares and the Offer Shares will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2018, and for any dividends declared and paid for any subsequent financial period. For the avoidance of doubt, the Offer Shares purchased by investors will not entitle the investors to receive any of the dividends declared and approved by the resolution of the Government Shareholder in the capacity of the sole shareholder of the Company on 25 April 2018, payment of which is expected to be made by the Company in June 2018 - the said dividend will be paid in full to the Government Shareholder only (for more information, see Part VI (Dividends and Dividend Policy). Possible dividends paid by the Company to shareholders who are not generally subject to taxation in Estonia may be subject to deduction of Estonian taxes as described in Part XIV (Taxation).

INVESTING IN THE OFFER SHARES IS CONNECTED WITH A HIGH DEGREE OF RISK INHERENT TO INVESTMENTS IN CAPITAL MARKET EQUITY INSTRUMENTS AND RISKS CONNECTED WITH THE COMPANY'S AND ITS SUBSIDIARIES' OPERATIONS AND BUSINESS ENVIRONMENT. YOU SHOULD READ THE WHOLE OF THIS PROSPECTUS. IN PARTICULAR, YOU SHOULD READ "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT YOU SHOULD CONSIDER BEFORE INVESTING IN THE OFFER SHARES. THE CONTENTS OF THIS PROSPECTUS ARE NOT INTENDED TO BE CONSTRUED AS

LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL ADVISOR, FINANCIAL ADVISOR, OR TAX ADVISOR FOR SUCH ADVICE. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS PROSPECTUS OR THE ACTION YOU SHOULD TAKE, YOU SHOULD IMMEDIATELY CONSULT A PERSON WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act. The Securities are being offered and sold in the United States only to QIBs as defined in, and in reliance on, Rule 144A under the U.S. Securities Act or another available exemption from the registration requirements of the U.S. Securities Act and outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

The Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law and taken by the Company. No action has been or will be taken in any jurisdiction by the Company or the Government Shareholder that would permit the offering of 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 Offer Shares. The Offer Shares have not been, and will not be, registered under the U.S. Securities Act, nor under the securities laws of any state of the United States, nor under any other jurisdiction except Estonia. The Shares, including 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. Please read Part III (The Offering), section 14 (Selling and Transfer Restrictions). Distribution of copies of the Prospectus or any related documents are not allowed in those countries where such distribution or participation in the Offering requires any extra measures or is in conflict with the laws and regulations of these countries. Persons who receive this 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. The Company is not liable in cases where persons or entities take measures that are in contradiction with the restrictions mentioned in this paragraph.

Neither the delivery of this Prospectus nor any subscription or purchase made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company and/or the Group since, or that the information contained herein is correct as of any time subsequent to, the date of this document.

The Offer Shares will be, and the existing Shares are registered with the ERS and are kept in book-entry form. The International Securities Identification Number (ISIN) for the Offer Shares is EE3100021635 (during the Offering, the New Shares will have a temporary ISIN, which will be changed to the permanent ISIN EE3100021635 prior to the settlement of the Offering (the "Settlement")).

Advisors to the Company

STJ Advisors Group

Superia Corporate Finance

Joint Global Coordinators and Joint Bookrunners

Citigroup Global Markets Limited

Carnegie Investment Bank AB

Joint Bookrunners

Erste Group Bank AG

Swedbank AS

Joint Lead Manager

AS LHV Pank

The date of this Prospectus is 7 May 2018.

This Prospectus is registered with the Estonian Financial Supervision Authority ("**Authority**") under the registration number 4.3-4.9/1589, by a decision of the Management Board of the Authority dated 7 May 2018. This Prospectus is not complete, in particular, the price range, pricing information and allocation information in Part III (The Offering) is not included.

The Company will prepare a supplement to this Prospectus to complete the relevant information. Such supplement is expected to be registered with the Authority and published together with this Prospectus on or about 24 May 2018.

This Prospectus contains references to the Company's websites. The Company is not incorporating by reference into this Prospectus any information posted on such websites.

TABLE OF CONTENTS

In making their investment decision, prospective investors should rely only on the information contained in this Prospectus. The Company and the Underwriters have not authorised anyone to provide prospective investors with any other information. If prospective investors receive any other information, they should not rely on it.

The Offer Shares are being offered for the subscription and purchase only in places where offers and subscriptions are permitted. Prospective investors should not assume that the information contained in this Prospectus is as of any other date than the date on the cover of this Prospectus.

PART I. SUMMARY

This summary (the "**Summary**") is a brief overview of information disclosed in the prospectus (the "**Prospectus**") for the offering (the **"Offering"**) of up to 75,404,968 newly issued ordinary shares and up to 11,300,000 existing ordinary shares in aktsiaselts TALLINNA SADAM (the "**Company**"; with its consolidated subsidiaries, OÜ TS Shipping and OÜ TS Laevad and joint venture AS Green Marine (unless the context otherwise requires), the "**Group**") with the nominal value of EUR 1 each (the "**Offer Shares**") and listing and admission to trading (the "**Listing**") of the shares of the Company (the "**Shares**") on the Baltic Main List of Nasdaq Tallinn (the "**Tallinn Stock Exchange**") dated 7 May 2018 and published in English language.

This Summary is made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary for this type of securities and issuer in accordance with Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), including any relevant implementing measure in each Member State of the European Economic Area which has implemented the Prospectus Directive (the “**Prospectus Directive**”). Because some Elements are not required to be addressed for the Offer Shares pursuant to the Prospectus Directive, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the Summary with the mention of 'not applicable'.

Section A — Introduction and warnings

Element	*Title*	*Disclosure*
A.1	Introduction and warnings	This Summary should be read as introduction to the Prospectus. Any decision to invest in the Offer Shares should be based on consideration of the Prospectus as a whole. An investor must take into account that if the investor wishes to file a claim in court proceedings relating to the information contained in the Prospectus with an Estonian court, the investor may be required to bear the costs of translating the Prospectus into Estonian. Civil liability attaches to the Company that has tabled the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Offer Shares.
A.2	Use of Prospectus for subsequent resale of Shares	Not applicable: the Prospectus cannot be used for the resale of the Shares.

Section B — Issuer

Element	*Title*	*Disclosure*
B.1	Legal and commercial name	The legal (business) name of the Company is aktsiaselts TALLINNA SADAM.
B.2	Domicile / legal form / legislation / country of incorporation	The Company is a public limited liability company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered in Estonian Commercial Register under registration code 10137319 and its registered office is located in Sadama 25, 15051 Tallinn, Estonia.
B.3	Key factors regarding current operations, principal activities, categories of products sold and services performed. Principal markets	The Group owns and operates four harbours: Old City Harbour, Saaremaa Harbour, Muuga Harbour and Paldiski South Harbour. In addition, the Group has minimal ongoing cargo operations (the harbour is mainly used for ship repair services provided by private shipyards) at Paljassaare Harbour and has decided to exit from Paljassaare Harbour. Old City Harbour (together with Old City Marina) and Saaremaa Harbour mainly service passengers and international cruise liners, and the Group also provides roll-on/roll-off ("**ro-ro**") cargo services at the Old City Harbour; Muuga Harbour and Paldiski South Harbour provide cargo handling services. The Group's harbours have natural advantages as they are navigable and easily accessible throughout the year. If any ice occurs (the last significant ice conditions occurred in 2013) it can be easily broken by tugs or ice-breakers, and the harbours are sufficiently deep to receive all vessels passing through the Danish Straits. The geographical location of the Group's harbours is particularly suitable for servicing cargo flows between East and West and to service passenger and cargo flows between North and South, with the planned Rail Baltica, a railway which is expected to connect Estonia and the Baltic countries with Central and Western Europe, expected to have its starting point in the Group's Muuga harbour. The Group provides port services in the capacity of a landlord port; it owns, maintains and develops quays and sea approaches, leases land to private operators, organises the traffic of vessels in the harbour basin and ensures safe navigation in harbour waters. At the Group's harbours, the Group owns buildings and structures necessary for servicing passengers. Cargo flows in the Group’s harbours are handled by private cargo operators who own the superstructure (buildings, structures and equipment) necessary for cargo handling, storage and warehousing. The Group is looking to further develop industrial land around its Muuga and Paldiski South Harbour to support cargo operating activities and is providing certain utility services in the harbours. Further to the above, the Group's main business lines/operations include providing domestic ferry services between Estonia's mainland and its two largest islands (Saaremaa, through Muhumaa Island, and Hiiumaa), providing ice-breaking and maritime support services utilising ice-breaker Botnica, and providing waste management at the Group’s harbours mainly through joint venture AS Green Marine. The Group is also evaluating opportunities to develop real estate areas in the Old City Harbour (which is located in the Tallinn city centre), with a detailed planning process having partially commenced and estimated to continue over the next three to five years.
B.4a	Significant recent trends affecting the industry	Cargo harbours are partly driven by the demand for cargo transit in the highly competitive Eastern Baltic Sea Region, which is largely determined by rates of economic growth, political and legal conditions and commodity and raw material prices. Economic growth across Estonia's key trading partners (Sweden, Finland, Latvia and Lithuania) is expected to exceed the average rate of growth of the European Union and the Estonian economy is forecasted to expand at a CAGR

<table>
<tr><td></td><td></td><td>of 3.5% from 2016 to 2020, resulting in a general increase in cargo flows to Estonian ports. The Baltic Sea Region has been a centre for liquefied natural gas ("LNG") activities and whilst the large-scale LNG imports are a significant change for power supply in the Baltic Sea Region, the biggest and most noticeable change has been the increase in the number of LNG-fuelled ships that operate in the Baltic Sea Region. The Russian government has in recent years directed export and import flows (particularly liquid bulk) into its own ports, which together with historically lower oil prices resulted in a decrease of liquid bulk handling volumes for the Group.

In terms of passenger harbours, Scandinavia and the Baltic countries are connected with well-developed international ferry routes that enable large numbers of passengers to move between the countries. Passenger numbers in the Baltic Sea Region have increased for a number of years and expectations for growth to continue will support increased investment into the sector. The route with the most passengers is Tallinn-Helsinki, which has one of the highest concentrations of passenger movements in Europe. One of the main driving forces behind the large number of passengers travelling from Finland to Estonia is the attraction of good value services and products that Estonia can provide compared to similar services and products in Finland. The number of cruise passengers has also grown in recent years, this growth has mainly been driven by the general increase in the popularity of the cruise industry.</td></tr>
<tr><td>B.5</td><td>Group description.

Position of the Company within the Group</td><td>The Company is the holding company of the Group, with two 100% owned subsidiaries: OÜ TS Shipping and OÜ TS Laevad.

In addition, the Company holds a 51% interest in a joint venture, AS Green Marine (49% is held by AS Green Marine management). However, this does not constitute control over the joint venture. The Group does not consolidate AS Green Marine, instead it accounts for the profit or loss attributable to the 51% shareholding under the equity method of accounting.</td></tr>
<tr><td>B.6</td><td>Persons, directly or indirectly, having interest in the Company's capital or voting rights notifiable under Estonian law and the amount of such interest. Voting rights of major shareholders

Direct or indirect control of the Company</td><td>As at the date of the Prospectus, the sole shareholder of the Company is the Republic of Estonia acting through the Ministry of Economic Affairs and Communications and all shares of the Company are held in a single securities' account of the Ministry of Economic Affairs and Communications.</td></tr>
<tr><td>B.7</td><td>Selected consolidated key financial information. Narrative description of significant change to the Company's financial condition and operating results subsequent to the period covered by selected consolidated key financial information.</td><td>The following tables set forth selected financial information as at the end of and for each of the three financial years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018 which have been extracted or derived from the Audited Financial Statements and Interim Financial Report, respectively. The Audited Financial Statements have been prepared by the Group in accordance with the International Financial Reporting Standards as adopted in the European Union ("IFRS") and the Estonian Accounting Act. The Interim Financial Report has been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting ("IAS 34").

On 1 January 2017, the Group early adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") and IFRS 9, Financial Instruments ("IFRS 9"). IFRS 15 was applied using the full retrospective transitional approach and therefore the 2016 comparatives have been adjusted to reflect the changes required to the comparative period. IFRS 9 has been applied retrospectively for 2016; however because the impact was not material, no restatements were required or applied as it relates to IFRS 9. In addition to the changes in accounting policy due to the early adoption of IFRS 9 and IFRS 15 the Group has voluntarily applied changes in accounting policies retrospectively for the presentation of government grants under International Accounting Standards 20, Government Grants ("IAS 20") and the presentation of loss allowance in order to provide more reliable and relevant information. The audited consolidated financial statements as of and for the year ended 31 December 2015 do not reflect the changes from the application of IFRS 15 and IFRS 9. Those audited consolidated financial statements applied IAS 18, Revenue ("IAS 18") and IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), which were the accounting standards in effect at that time. In addition, the voluntary changes in accounting policies were not applied to 2015. Therefore, due to the adoption of the new accounting standards, the consolidated financial statements as of and for the year ended 31 December 2017, including the comparative financial statements as of and for the year ended 31 December 2016, are not directly comparable with the consolidated financial statements as of and for the year ended 31 December 2015.

The financial information in this Prospectus has been derived or extracted from the Financial Statements.

Consolidated statement of financial position

<table>
<tr><th></th><th>As at 31 March</th><th colspan="3">As at 31 December</th></tr>
<tr><th></th><th>2018</th><th>2017</th><th>2016</th><th>2015</th></tr>
<tr><td></td><td>(unaudited)</td><td colspan="3">(audited)</td></tr>
<tr><td></td><td colspan="4">(EUR '000)</td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash and cash equivalents</td><td>20,188</td><td>6,954</td><td>49,918</td><td>25,902</td></tr>
<tr><td>Trade and other receivables</td><td>8,505</td><td>9,271</td><td>17,276</td><td>9,183</td></tr>
<tr><td>Contract assets</td><td>234</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Inventories</td><td>319</td><td>301</td><td>378</td><td>129</td></tr>
<tr><td>Total current assets</td><td>29,246</td><td>16,526</td><td>67,572</td><td>35,214</td></tr>
<tr><td>Non-current assets</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Investments in joint venture</td><td>1,256</td><td>1,256</td><td>1,086</td><td>710</td></tr>
<tr><td>Other long-term receivables</td><td>272</td><td>272</td><td>362</td><td>476</td></tr>
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Property, plant and equipment	573,707	577,125	568,533	544,189
Intangible assets	1,896	1,958	1,155	495
Total non-current assets	**577,131**	**580,611**	**571,136**	**545,870**
Total assets	**606,377**	**597,137**	**638,708**	**581,084**
Current liabilities				
Loans and borrowings	19,423	21,989	118,018	25,710
Derivative financial instruments	545	609	1,008	831
Provisions	881	1,503	1,156	965
Government grants	161	303	917	917
Taxes payable	1,223	698	9,436	8,318
Trade and other payables	7,497	7,777	8,344	5,700
Contract liabilities	3,663	33	40	-
Total current liabilities	**33,393**	**32,912**	**138,919**	**42,441**
Non-current liabilities				
Loans and borrowings	210,611	213,611	128,035	171,043
Government grants	23,687	23,826	23,703	23,695
Other payables	64	64	128	1,238
Contract liabilities	938	932	955	-
Total non-current liabilities	**235,300**	**238,433**	**152,821**	**195,976**
Total liabilities	**268,693**	**271,345**	**291,740**	**238,417**
Equity				
Share capital	185,203	185,203	185,203	185,203
Statutory reserve capital	18,520	18,520	18,520	18,520
Hedge reserve	(545)	(609)	(1,008)	(831)
Retained earnings	122,678	96,253	104,775	108,907
Profit for the period	11,828	26,425	39,478	30,868
Total equity	**337,684**	**325,792**	**346,968**	**342,667**
Total liabilities and equity	**606,377**	**597,137**	**638,708**	**581,084**

Consolidated statement of changes in equity

	Share capital	Statutory capital reserve	Cash flow hedging reserve	Retained earnings	Total
			(EUR '000)		
Equity as at 31 December 2014	**185,203**	**18,520**	**(747)**	**140,099**	**343,075**
Profit for the year	-	-	-	30,868	**30,868**
Other comprehensive income	-	-	(84)	-	**(84)**
Total comprehensive income for the year	-	-	(84)	30,868	**30,784**
Dividends declared	-	-	-	(31,192)	**(31,192)**
Total transactions with the shareholder of the company				(31,192)	**(31,192)**
Equity as at 31 December 2015	**185,203**	**18,520**	**(831)**	**139,775**	**342,667**
Profit for the year	-	-	-	39,478	**39,478**
Other comprehensive income	-	-	(177)	-	**(177)**
Total comprehensive income for the year	-	-	(177)	39,478	**39,301**
Dividends declared	-	-	-	(35,000)	(35,000)
Equity as at 31 December 2016	**185,203**	**18,520**	**(1,008)**	**144,253**	**346,968**
Profit for the period	-	-	-	26,425	**26,425**
Other comprehensive income for the period	-	-	399	-	**399**
Total comprehensive income for the period	-	-	399	26,425	**26,824**
Dividends Declared	-	-	-	(48,000)	**(48,000)**
Equity as at 31 December 2017	**185,203**	**18,520**	**(609)**	**122,678**	**325,792**
Profit for the period	-	-	-	11,828	**11,828**
Other comprehensive income for the period	-	-	64	-	**64**
Total comprehensive income for the period	-	-	64	11,828	**11,892**

Equity as at 31 March 2018	**185,203**	**18,520**	**(545)**	**134,506**	**337,684**

Consolidated statement of profit or loss and other comprehensive income

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 Adjusted**	**2015**
	(unaudited)		*(audited)*		
			(EUR '000)		
Revenue	29,414	29,849	121,295	103,152	93,794
Other income	203	3,898	4,808	8,099	5,824
Operating expenses	(7,584)	(10,163)	(41,041)	(30,327)	(23,514)
Personnel expenses	(4,189)	(4,057)	(17,957)	(14,121)	(12,416)
Depreciation, amortisation and impairment	(5,403)	(4,550)	(26,430)	(17,358)	(22,513)
Other expenses	(102)	(251)	(358)	(550)	(810)
Operating profit	**12,339**	**14,726**	**40,317**	**48,895**	**40,365**
Finance income	-	4	33	32	40
Finance costs	(511)	(475)	(2,318)	(1,075)	(1,328)
Finance costs net	**(511)**	**(471)**	**(2,285)**	**(1,043)**	**(1,288)**
Profit from investments in joint venture under equity method of accounting	-	51	348	376	162
Profit before income tax	**11,828**	**14,306**	**38,380**	**48,228**	**39,239**
Income tax expense	-	-	(11,955)	(8,750)	(8,371)
Profit for the period	**11,828**	**14,306**	**26,425**	**39,478**	**30,868**
Profit for the period attributable to owners of the Company	11,828	14,306	**26,425**	**39,478**	**30,868**
Basic earnings and diluted earnings per share (in euros)	0.06	0.08	0.14	0.21	0.17
Basic earnings and diluted earnings per share - continuing operations (in euros)	0.06	0.08	0.14	0.21	0.17
Other comprehensive income					
Profit for the period	11,828	14,306	26,425	39,478	30,868
Other comprehensive income					
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges	64	168	399	(177)	(84)
Total other comprehensive income	**64**	**168**	**399**	**(177)**	**(84)**
Total comprehensive income for the period	**11,892**	**14,474**	**26,824**	**39,301**	**30,784**
Total comprehensive income for the period attributable to owners of the Company	**11,892**	**14,474**	**26,824**	**39,301**	**30,784**

Impact of changes in accounting policies

Following is a summary of all adjustments to 2016 reported figures having impact from changes in accounting policies:

	2016		
	As previously reported	**Adjustments**	**As adjusted**
		(EUR '000)	
Revenue	95,885	7,267	103,152
incl. Cargo charges (1)	6,474	2,848	9,322
Sale of ferry services - government support (2)	-	4,419	4,419
Other income	15,366	(7,267)	8,099
incl. Penalties, interest on arrears(1)	9,858	(2,848)	7,010
Income from government grants (2)	5,066	(4,419)	647
Operating expenses	(29,260)	(1,067)	(30,327)
incl. Other operating expenses	(848)	(1,067)	(1,915)
Cost from credit-impaired financial assets (3)	(44)	(1,067)	(1,111)
Other expenses	(1,617)	1,067	(550)
incl. loss allowance (3)	(1,039)	1,067	28

Notes

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

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

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

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

	2016		
	As previously reported	Adjustments	As adjusted
		(EUR '000)	
Cash receipts from sale of goods and services	100,654	6,767	107,421
Cash receipts related to other income	7,053	(6,767)	286

Consolidated statement of cash flows

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 Adjusted	2015
	(unaudited)			*(audited)*	
			(EUR '000)		
Cash receipts from sale of goods and services	35,237	34,569	127,814	107,421	102,570
Cash receipts related to other income	3	327	450	286	1,603
Payments to suppliers	(8,987)	(11,705)	(48,658)	(37,343)	(32,957)
Payments to and on behalf of employees	(3,517)	(2,934)	(14,824)	(11,939)	(11,267)
Payments for other expenses	(99)	(590)	(744)	(204)	(629)
Income tax paid on dividends	-	(8,657)	(20,612)	(7,763)	-
Cash flows from operating activities	**22,637**	**11,010**	**43,426**	**50,458**	**59,320**
Purchases of property, plant and equipment (PPE)	(2,984)	(12,973)	(25,171)	(39,208)	(65,185)
Purchases of intangible assets	(130)	(236)	(1,346)	(704)	(185)
Proceeds from sale of PPE	-	250	524	726	1,914
Connection fees received	-	-	-	-	170
Proceeds from government grants for non-current assets	-	-	349	346	12
Dividends received	-	-	178	-	-
Interest received	-	3	19	14	18
Cash used in investing activities	**(3,114)**	**(12,956)**	**(25,447)**	**(38,826)**	**(63,256)**
Issue of debt securities	-	-	105,000	75,000	60,000
Redemption of debt securities	-	-	(111,250)	(2,500)	(2,500)
Proceeds from loans	-	-	-	-	15,000
Repayment of loans	(3,000)	(3,000)	(6,766)	(23,210)	(21,433)
Change in overdraft	(2,565)	-	2,565	-	-
Finance lease principal repayments	(1)	(1)	(3)	(2)	-
Dividends paid	-	-	(48,000)	(35,000)	(31,192)
Interest paid	(707)	(789)	(2,459)	(1,884)	(1,866)
Other payments related to financing activities	(16)	-	(30)	(20)	(42)
Cash used in financing activities	**(6,289)**	**(3,790)**	**(60,943)**	**12,384**	**17,967**
Net cash flow	**13,234**	**(5,736)**	**(42,964)**	**24,016**	**14,031**
Cash and cash equivalents at beginning of the period	**6,954**	**49,918**	**49,918**	**25,902**	**11,871**
Change in cash and cash equivalents	**13,234**	**(5,736)**	**(42,964)**	**24,016**	**14,031**
Cash and cash equivalents at end of the period	**20,188**	**44,182**	**6,954**	**49,918**	**25,902**

Additional Financial Information

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
			(Amounts in EUR '000)		
Operating profit margin (unaudited) [(1)]	41.9%	49.3%	33.2%	47.4%	43.0%
Net profit margin (unaudited)[(2)]	40.2%	47.9%	21.8%	38.3%	32.9%
Adjusted EBITDA (unaudited) [(3)(6)]	17,603	19,197	66,521	66,068	62,515

Adjusted EBITDA margin (unaudited) (4)(6)	59.8%	64.3%	54.8%	64.0%	66.7%
Adjusted cash conversion (unaudited) (5)(6)	89.3%	90.2%	76.3%	77.5%	83.6%
Cash conversion (unaudited) (6)(7)	89.1%	(82.1%)	46.1%	35.6%	(4.4%)

Notes:

(1) Operating profit margin represents operating profit divided by revenue, expressed as a percentage.

(2) Net profit margin represents profit for the period divided by revenue, expressed as a percentage.

(3) The Group defines Adjusted EBITDA as profit for the period plus depreciation, amortisation and impairment, finance income and cost (net) and income tax expense less amortisation of grants received.

A reconciliation of Adjusted EBITDA to profit for the period is as follows:

	For the three- month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
	(unaudited)			*(audited)*	
			(EUR'000)		
Profit for the period	**11,828**	**14,306**	**26,425**	**39,478**	**30,868**
plus:					
Finance income and costs, net	511	471	2,285	1,043	1,288
Profit from investments in joint venture under equity method of accounting………………............................	-	(51)	(348)	(376)	(162)
Income tax expense	-	-	11,955	8,750	8,371
Operating profit…………………………….................	**12,339**	**14,726**	**40,317**	**48,895**	**40,365**
Depreciation and amortisation	5,403	4,534	20,446	17,088	17,243
Impairment loss…………………………….	-	16	5,984	270	5,270
Amortisation of the government grants (included in other income)	(139)	(130)	(574)	(561)	(525)
Profits from investments in joint venture under equity method of accounting………….....................................	-	51	348	376	162
Adjusted EBITDA.......................................	**17,603**	**19,197**	**66,521**	**66,068**	**62,515**
Adjusted EBITDA margin (Adjusted EBITDA/ Revenue)...	**59.8%**	**64.3%**	**54.8%**	**64.0%**	**66.7%**

(4) Adjusted EBITDA margin (presented in the table above) represents Adjusted EBITDA divided by revenue, expressed as a percentage.

(5) Adjusted cash conversion represents Adjusted EBITDA less adjusted capital expenditure divided by Adjusted EBITDA. Adjusted capital expenditure is total capital expenditures less capital expenditure incurred by the Ferry segment. A reconciliation to cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities is presented as follows:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
	(unaudited)			*(audited)*	
			(EUR '000)		
Adjusted EBITDA (unaudited)………………….	17,603	19,197	66,521	66,068	62,515
Capital expenditure……………………………...	1,923	34,950	35,847	42,544	65,281
Less: capital expenditures related to the Ferry segment………………………………………….	39	33,074	20,066	27,683	55,021
Adjusted capital expenditure (unaudited)……….	1,884	1,876	15,781	14,861	10,260
Adjusted cash conversion (unaudited)…………..	89.3%	90.2%	76.3%	77.5%	83.6%
Cash flows from operating activities...................	22,637	11,010	43,426	50,458	59,320
Cash used in investing activities………………...	3,114	12,956	25,447	38,826	63,256
Cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities……………………… ..	86.2%	(17.7%)	41.4%	23.1%	(6.6%)

(6) Non-IFRS measures

(7) Cash conversion represents Adjusted EBITDA less capital expenditure divided by Adjusted EBITDA. A reconciliation to cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities is presented as follows:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(unaudited)		*(audited)*		
	(EUR '000)				
Adjusted EBITDA (unaudited)………………….	17,603	19,197	66,521	66,068	62,515
Capital expenditure……………………………...	1,923	34,950	35,847	42,544	65,281
Cash Conversion (unaudited)	89.1%	(82.1%)	46.1%	35.6%	(4.4%)
Cash flows from operating activities....................	22,637	11,010	43,426	50,458	59,320
Cash used in investing activities………………...	3,114	12,956	25,447	38,826	63,256
Cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities......................................	86.2%	(17.7%)	41.4%	23.1%	(6.6%)

B.8	Selected key pro forma financial information	Not applicable.
B.9	Profit forecast	Not applicable: the Company has not issued a profit forecast. Any previously published financial information including any profit forecasts ought not to be relied upon or form the basis of an investment decision, as the decision to invest in the Shares ought to be made solely on the basis of the information disclosed in the Prospectus.
B.10	Qualifications in the audit report on the historical financial information	Not applicable. There are no qualifications included in the reporting accountants' report on the historical financial information included in the Prospectus. However, the audit report on the consolidated financial statements for the year ended 31 December 2017, includes an emphasis of matter related to the adjustments made due to early application of IFRS 15 (Revenue from Contracts with Customers), IFRS 9 (Financial Instruments) and change in accounting policies in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) in the consolidated financial statements of the Company as at 31 December 2016 and 1 January 2017.
B.11	Working capital	The management board of the Company (the "**Management Board**") believes that, taking into account the Group's existing assets, financial condition, expected development plans, the expected minimum net proceeds of the Offering and the positive proceeds from the everyday business operations of the Group, the Group's working capital is sufficient to meet all the liabilities for at least the 12-month period following the date of the Prospectus, and no further external financing is required to satisfy the working capital needs.

Section C — Securities

Element	*Title*	*Disclosure*
C.1	Type and class of securities and Security identification number	The Company is offering up to 75,404,968 newly issued ordinary shares with the nominal value of EUR 1 each and the Republic of Estonia (acting through the Ministry of Economic Affairs and Communications) (the "**Government Shareholder**") is offering up to 11,300,000 existing Shares with the nominal value of EUR 1 each. The International Securities Identification Number (ISIN) of the Secondary Shares is and of the New Shares will be: EE3100021635 (during the Offering the New Shares will have a temporary ISIN code which will be changed to the permanent ISIN EE3100021635 before settlement occurs).
C.2	Currency of the issue	EUR / €
C.3	Number of shares issued and fully paid / issued but not fully paid. Par value per share	As at the date of the Prospectus, the Company's registered share capital is EUR 187,595,032 divided into 187,595,032 authorised issued Shares with a nominal value of EUR 1 each. All existing Shares are fully paid. In connection with the Offering, the Government of Estonia has authorised the Minister of the Economic Affairs and Infrastructure by its order dated 29 March 2018, as amended by the order dated 3 May 2018, (jointly the "**Governmental Order**"), *inter alia*, (i) to resolve the conditional increase of the share capital of the Company and the issue of up to 75,404,968 new ordinary Shares to be offered in the course of the Offering and to waive the pre-emptive right of the Government Shareholder to subscribe for such new Shares and (ii) to sell up to 11,300,000 existing Shares in the Offering and (iii) to acquire up to 11,300,000 Shares from the Stabilising Manager or its agent pursuant to the stabilisation arrangements. On 5 April 2018 and 7 May 2018 the transactions referred to in (ii) and (iii) above were also approved by the decrees of the Minister of Economic Affairs and Infrastructure. The resolution on the conditional increase of the share capital of the Company and the issue of up to 75,404,968 new ordinary Shares is expected to be adopted by the Government Shareholder at the General Meeting of Shareholders to be held on or about 25 May 2018.
C.4	Rights attached to the securities	The Company has one class of shares. All Shares rank *pari passu*. ***General Meetings of Shareholders*** Each Share entitles its holder to one vote at the Company's general meeting of shareholders (the "**General Meeting of Shareholders**"). The agenda of the General Meetings of Shareholders is determined by the supervisory council of the Company (the "**Supervisory Council**"). If however, the shareholders or the auditor convene a General Meeting of Shareholders, they also determine the agenda of that meeting. The Management Board or one or more shareholders; whose shares represent at least one-tenth of the share capital of the Company (one twentieth in case of listed companies) are entitled to request that additional items be included on the agenda of an ordinary General Meeting of Shareholders, if such a request is made not later than 15 calendar days before the day of the general meeting. In addition, they can make resolution proposals on items listed in the agenda.

		An extraordinary General Meeting of Shareholders must be convened in cases set forth by the Estonian Commercial Code, for example, if the net assets decrease below the legally required minimum level, if the Supervisory Council, the auditor of the Company or shareholders whose shares represent at least one-tenth of the share capital of the Company (one twentieth in case of listed companies) make such a request to the Management Board, or if this is clearly in the interests of the Company. If the Management Board does not convene an extraordinary General Meeting of Shareholders within one month following the receipt of a request of one or more shareholders, the Supervisory Council or the auditor, the person or the persons who have submitted the respective request are entitled to convene an extraordinary General Meeting of Shareholders. In order to have the right to attend and vote at a General Meeting of Shareholders, a shareholder must be registered in the shareholders' register on the cut-off date, which is seven days before the meeting. A shareholder whose shares are registered in the name of a nominee may exercise the voting rights only if the nominee account holder has given a power of attorney to the shareholder. A shareholder may attend and vote at a General 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 meeting. However, pursuant to law certain resolutions require a higher majority (e.g. of two-thirds or three-quarters) of the votes represented at the general meeting of shareholders. ***Shareholder's right to information*** Shareholders have the right to receive information on the activities of the Company from the Management Board at the General Meeting of Shareholders. The Management Board may refuse to give information if there is a basis to presume that this may cause significant damage to the interests of the Company. If the Management Board refuses to give information, the shareholder may demand that the General Meeting of Shareholders decide on the legality of the shareholder's request or to file, within two weeks after the General Meeting of Shareholders, a petition to a court by way of proceedings on petition in order to oblige the Management Board to give information. ***Right to dividends*** All Shares will be eligible for dividends. After the registration of the New Shares with the Estonian Register of Securities ("**ERS**"), the New Shares will rank *pari passu* with all the existing Shares and the Offer Shares will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2018, and for any subsequent financial period. For the avoidance of doubt, the Offer Shares purchased by investors will not entitle the investors to receive any of the dividends declared and approved by the resolution of the Government Shareholder in the capacity of the sole shareholder of the Company on 25 April 2018, in the net amount of EUR 105 million, payment of which is expected to be made by the Company in June 2018 - the said dividend will be paid in full to the Government Shareholder only. Under the Estonian Commercial Code, the payment of dividends is resolved by the General Meeting of Shareholders. The Management Board must present a profit distribution proposal to the General Meeting of Shareholders together with submitting an annual report. The Supervisory Council has the right to make changes to the proposal of the Management Board before submission to the General Meeting of Shareholders.
C.5	Restrictions on free transferability of securities	Not applicable. Free transferability of the Shares has not been restricted in the Company's articles of association (the **"Articles of Association"**). The Shares are not subject to any general transfer restrictions.
C.6	Admission to trading / Name of the regulated market	The Company intends to file an application to Nasdaq Tallinn Aktsiaselts for the Listing on the Baltic Main List of the Tallinn Stock Exchange on or about 25 May 2018. No application has been made for the Shares to be admitted to listing or trading on any other exchange.
C.7	Dividend policy	According to the Company’s dividend policy, approved by the Supervisory Council of the Company on 13 February 2018 and by the Government Shareholder on 25 April 2018, during the period 2019-2020 the Company intends to annually pay out at least EUR 30 million in post-tax regular dividend distributions and following that period, the Company intends to distribute to its shareholders at least 70% of its preceding year’s net profit. The above excludes any one-off effects and is subject to market conditions, growth and development plans and the need to maintain a reasonable level of liquidity. The timing and amount of any future dividend payments will depend on the Group’s existing and future financial condition, results of operations, capital requirements, liquidity needs and other matters that it may consider relevant from time to time, including, without limitation, the ability of subsidiaries to distribute dividends, its capital needs, financial performance and prevailing equity market conditions. Furthermore, as under Estonian law the payment of dividends is decided by the General Meeting of Shareholders, the Company cannot ensure that dividends will be paid in the future, or if dividends will be paid, how much they will amount to.

Section D – Risks

Element	*Title*	*Disclosure*
D.1	Key risks specific to the Group's business and the Group's industry	The Group's business is subject to many risks and uncertainties, which may affect future financial performance. Because of the risks and uncertainties described below, as well as other factors affecting the Group's operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance. • The Group faces competition • The escalation of geopolitical tensions in the region and changes in economic and political situation in Russia may affect the Group's business • General macroeconomic factors may negatively affect number of passengers and cargo flows through the Group's harbours • The Group derives a large proportion of revenue from its two largest customers • The Group is subject to several on-going legal proceedings • There is an ongoing investigation into acts by individuals formerly connected with the Company being accused of accepting bribes • The Group has not found and may not find a profitable use for its ice-breaking vessel, Botnica, from May to November each year • The proposed tunnel between Tallinn and Helsinki may have a material negative impact on the Group's annual passenger levels and ro-ro cargo • The Group's domestic ferry services between Estonian mainland and Saaremaa Island (through Muhumaa Island) could be significantly affected by the construction of a bridge or an alternative connection route • The Group's market position may in the future become subject to further limitations imposed by EU and/or Estonian competition laws and authorities • The Group is subject to an increasingly complex regulatory environment, and regulatory changes may negatively affect its business • The Group may be liable to compensate cargo terminal operators for the market value of the terminal infrastructure retained by the Group on its land upon termination of building title contracts • Investments and financial support from the Republic of Estonia (including acting through governmental agencies) are subject to state aid rules in Estonia and the EU • The commercial real estate development in the Old City Harbour under the Masterplan may not materialise • Demand for international passenger ferry and cruise services is subject to trends in the ferry and cruise industries and other factors beyond the Group's control • Trade barriers, restrictions on imports or exports or trade disputes may adversely affect the Group's harbours
D.3	Key risks that are specific to the Shares and the Offer	• There has been no prior public trading of the Shares • The price of the Shares may be subject to volatility • The Company's ability to pay dividends in the future is not guaranteed • Additional equity capital may dilute existing shareholdings • Shareholders in certain jurisdictions may not be able to participate in future equity offerings • The Government Shareholder will continue to control or have significant influence over the Group and may not act in line with the interests of other holders of the Shares. • There is no guarantee of continued analyst research coverage for the Company • The rights of shareholders of Estonian companies may differ from the rights of the shareholders of companies organised in other jurisdictions • Future sales of Shares by the Government Shareholder may put pressure on the Share price

Section E – Offer

Element	*Title*	*Disclosure*
E.1	Net proceeds and costs of the issue	The aggregate net proceeds deriving from the sale of the New Shares to the Company are estimated to amount to approximately EUR [●] million, after deducting the fees and expenses of the Offering, assuming that all offered Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range. The estimated total expenses of the Company relating to the Offering amount to approximately EUR [●] million. The Company will not receive any proceeds deriving from the sale of the Secondary Shares, which proceeds (if any) will be for the Government Shareholder.
E.2a	Reasons for the Offer and use of proceeds	The purpose of the Offering is to offer to investors approximately one third of the Company. The goals of the Government Shareholder (current sole shareholder) are to: • increase flexibility, transparency and efficiency of the Company and the Company's market value; • provide domestic investment opportunities for Estonian private investors and pension funds; • increase liquidity and attractiveness of the Tallinn Stock Exchange by attracting international investors. The Group plans to use the net proceeds received from the Offering to fund part of the EUR 105 million net dividend to the Government Shareholder, which is expected to be paid in June 2018, together with a corresponding corporate income tax amounting to approximately EUR 26.3 million. In addition, the Group plans to use part of the proceeds for general corporate purposes, including ongoing investments in passenger harbour facilities, and to reduce the Group's leverage. The Government Shareholder plans to include the net proceeds received from the offering of the Secondary Shares into the Republic of Estonia's liquidity reserve in order to facilitate the management of the Republic of Estonia's cash flows. The net proceeds to the Government Shareholder will be reduced to the extent that the Stabilising Manager or its agent exercises a put option, granted by the Government Shareholder to the Stabilising Manager and its agent, on behalf of the Underwriters, to sell up to 11,300,000 Shares to the Government Shareholder at such prices at which the

Element	Title	Disclosure
		Stabilising Manager or its agent may acquire them in the open market in connection with the stabilisation transactions (the "**Put Option**"). In addition to the above, the Offering is expected to broaden the Group's investor base. The Listing is expected to create liquidity of the Shares, to enhance the Group's profile in relation to current and potential customers and other cooperation partners and to increase trading and liquidity of the Tallinn Stock Exchange.
E.3	Terms and conditions of the Offering	The Company is offering up to 75,404,968 newly issued ordinary shares with the nominal value of EUR 1 each (the "**New Shares**"). The Government Shareholder is offering up to 11,300,000 existing ordinary shares with the nominal value of EUR 1 each (the "**Secondary Shares**" and, together with the New Shares, the "**Offer Shares**"). The Offering is made (i) by way of an offering to retail investors in Estonia, including to employees and members of the management and supervisory bodies of the Group (including its joint venture AS Green Marine) (the "**Retail Offering**") in the course of which a certain number of New Shares are offered (the "**Retail Offer Shares**") and (ii) by way of an offering to institutional investors in and outside of Estonia (the "**Institutional Offering**") in the course of which a certain number of the New Shares (such New Shares, the "**Primary Shares**") and Secondary Shares are offered (the Primary Shares and Secondary Shares together, the "**Institutional Offer Shares**"). The Institutional Offering comprises an offer of Institutional Offer Shares to qualified investors within the meaning of Section 6(2) of the Estonian Securities Market Act in Estonia, and elsewhere outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933 as amended (the "**U.S. Securities Act**") and to qualified institutional buyers in the United States as defined in, and in reliance upon, Rule 144A under the U.S. Securities Act or another available exemption from the registration requirements of the U.S. Securities Act. In connection with the Offering, the Government Shareholder and the Company expect to agree that Swedbank AS, as stabilising agent on behalf of Citigroup Global Markets Limited (the "**Stabilising Manager**"), will have the right to acquire up to 11,300,000 Shares on the Tallinn Stock Exchange in order to stabilise the stock market price of the Shares in accordance with applicable law. The stabilisation transactions to purchase the Shares may be effected at any time on or before the 30th calendar day after the commencement of trading in the Shares on the Tallinn Stock Exchange (the "**Stabilisation Period**"). The Retail Offering comprises an offer of Retail Offer Shares to all natural and legal persons in Estonia, except for any persons categorised as qualified investors pursuant to Section 6(2) of the Estonian Securities Market Act who should submit their offers in the Institutional Offering. In order to subscribe for the Offer Shares in the course of the Retail Offering, the investor must have a securities account opened with the ERS and the investor must submit a subscription undertaking via the relevant custodian (the "**Subscription Undertaking**") that operates such investor's relevant securities account. An investor may apply to subscribe for the Offer Shares only at the upper limit of the price range, i.e. at EUR [●] per Offer Share (the "**Subscription Price**"). Possible multiple Subscription Undertakings submitted by an investor shall be merged for the purposes of allocation. <u>Offer Period</u> The period during which investors may submit Subscription Undertakings will start at 10:00 am (Eastern European Summer Time - Estonian time) on 25 May 2018 and will end at 14:00 pm (Eastern European Summer Time - Estonian time) on 6 June 2018 (the "**Retail Offer Period**"). The Subscription Undertakings may be submitted only during the Retail Offer Period. The book-building period for the Institutional Offering will last from 25 May 2018 to 6 June 2018 (the "**Book-Building Period**"), unless shortened or extended. <u>Offer Price</u> The Offer Price will be in the range of EUR [●] to [●] (the "**Offer Price Range**"). The final offer price payable for each Offer Share (the "**Offer Price**") shall be decided jointly by the Company and the Government Shareholder, after consultation with the Advisors (STJ Advisors Group and Superia Corporate Finance) and the Joint Global Coordinators (Citigroup Global Markets Limited and Carnegie Investment Bank AB), following the completion of the book-building process directed at institutional investors in the course of the Institutional Offering. The Offer Price per Offer Share will be the same for all investors in the Retail Offering and the Institutional Offering. An investor having the right to participate in the Retail Offering may apply to purchase the Retail Offer Shares only for the price equal to the upper end of the Offer Price Range, i.e. EUR [●] per Retail Offer Share (the "**Subscription Price**"). The Company expects to announce the final Offer Price and the results of the Offering, including the total amount of Offer Shares allocated in the Institutional Offering and in the Retail Offering on or about 7 June 2018 via Tallinn Stock Exchange and on the website of the Company (investor.ts.ee). <u>Placement Applications and Subscription Undertakings</u> A Subscription Undertaking is deemed submitted from the moment the registrar of the ERS receives a duly completed transaction instruction from the custodian of the respective investor. An investor may submit a Subscription Undertaking through a nominee account only if such investor authorises the owner of the nominee account in writing to disclose the investor's identity and details to the registrar of the ERS. An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Retail Offer Period. By submitting a Subscription Undertaking every investor: • confirms that he/she/it has read the Prospectus and the Prospectus summary translated into Estonian or Russian, including without limitation Risk Factors in the Prospectus and the description of rights and obligations resulting from the ownership title to the Shares contained therein; • accepts the terms and conditions of the Offering and agrees with the Company that such terms will be applicable to the investor's acquisition of any Retail Offer Shares; • acknowledges that the Retail Offering does not constitute an offer of the Retail Offer Shares by the Company within the meaning of Section 16(1) of the Estonian Law of Obligations Act or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Retail Offer Shares nor result in a contract for the sale of Retail Offer Shares between the Company and the investor;

Element	Title	Disclosure
		• accepts that the number of the Retail Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Retail Offer Shares, which the investor wishes to acquire (the "**Maximum Number"**) and that the investor may receive less (but not more) Retail Offer Shares than the Maximum Number; • undertakes to acquire any number of Retail Offer Shares, up to the Maximum Number, allocated to it in accordance with these terms and conditions and pay for each acquired Retail Offer Share the Retail Offer Price (to be determined by the Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, provided that it is not greater than the Subscription Price); • authorises and instructs its custodian to forward the investor's Subscription Undertaking to the registrar of the ERS; • authorises the custodian and the registrar of the ERS to amend the information contained in the investor's Subscription Undertaking, including (a) to specify the value date of the transaction, (b) to specify the price per Retail Offer Share in accordance with the determination of the Offer Price by the Company and (c) to specify the number of the Retail Offer Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Retail Offer Price by the number of Retail Offer Shares allocated to the relevant investor; • confirms, that he/she/it is located within Estonia and not subject to the laws of any other jurisdiction which would prohibit the placing of the Subscription Undertaking and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus; • confirms that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable from the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and • confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience. An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Retail Offer Period. To do so, the investor must contact its custodian through whom the Subscription Undertaking in question has been made, and carry out the procedures required by the custodian for amending or cancelling a Subscription Undertaking (such procedures may differ between different custodians). Applications for Institutional Offer Shares (the "**Applications**") in the Institutional Offering must be made during the Book-Building Period by informing one of the Underwriters of the number of Institutional Offer Shares that the investor wishes to order, and the price per share that the investor is offering to pay for such Institutional Offer Shares within the Offer Price Range. <u>Allocation</u> The sizes of the Institutional Offering tranche and the Retail Offering tranche have not been pre-determined; the exact tranche sizes of the Retail Offering and Institutional Offering (percentage wise) will be determined jointly by the Company and the Government Shareholder, in consultation with the Advisors and Joint Global Coordinators. The Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, will also determine the exact allocation of the Offer Shares among investors in the Institutional Offering on a discretionary basis. The Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, will determine allocation percentages applied to the Retail Offering as follows: • The indicative minimum individual allocation (amount up to which Subscription Undertakings are expected to be fully accepted in the Retail Offering) is [●] Offer Shares. The final minimum individual allotment will however be determined by the Company and the Government Shareholder, together with the Advisors and the Underwriters, after the expiry of the Offer Period and it may differ from the indicative amount provided above. • The indicative minimum individual allocation to a member of the management board or of the supervisory council of the Company, its consolidated subsidiaries or its joint venture AS Green Marine, as at 10:00 a.m. (Eastern European Summer Time - Estonian time) on 25 May 2018 (the "**Preferred Manager**") and/or an employee who works under an employment contract concluded with the Company, its consolidated subsidiaries or its joint venture AS Green Marine valid as at 10:00 a.m. (Eastern European Summer Time - Estonian time) on 25 May 2018 (the "**Preferred Employee**") is [●] Offer Shares. The final minimum individual allotment to the Preferred Managers and Preferred Employees will however be determined by the Company and the Government Shareholder, together with the Advisors and the Underwriters, after the expiry of the Offer Period and it may differ from the indicative amount provided above; • any Subscription Undertakings exceeding the above indicative minimum individual allocation are expected to be allocated to investors in the Retail Offering on the basis of stepped allocation methodology as follows: - the Company and the Government Shareholder, together with the Advisors, and the Underwriters will determine, after the Offer Period, one or more allocation levels (in number of Offer Shares) and the allocation percentages applied to each level; - the transaction amount in each Subscription Undertaking will be divided into different parts, e.g. part being below the first level (x% of such part will be accepted), part being between the first and second level (y% of such part will be accepted), part exceeding the second level (z% of such part will be accepted) etc.; - the main criteria for the determination of the levels and allocation percentages are: (a) the total demand for the Offer Shares in the Retail Offering; (b) the size of Subscription Undertakings in the Retail Offering and (c) the number of investors having submitted Subscription Undertakings in the Retail Offering. The Company is not aware whether members of the Management Board and Supervisory Council of the Company or any other Preferred Managers or Preferred Employees intend to subscribe for Offer Shares. <u>Payment and settlement</u>

Element	Title	Disclosure
		By submitting a Subscription Undertaking, an investor authorises and instructs the credit institution operating the investor's cash account connected to its securities account (investor's custodian) to immediately block the whole transaction amount on the investor's cash account. The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Number. An investor additionally authorises its custodian to block the amount necessary for payment of custodian's fees and charges related to Subscription Undertaking according to the applicable price list of the custodian. The Offer Shares allocated to the investors who participated in the Retail Offering shall be transferred to their securities accounts on or about 12 June 2018 through the "delivery versus payment" method simultaneously with effecting the payment for such Offer Shares. Each investor shall be entitled to transfer the Offer Shares from its securities' account as from the moment the transfer of the Offer Shares to its account has been completed. Each investor in the Institutional Offering will be required to undertake to pay the Offer Price for the Offer Shares to the respective Underwriter. <u>Listing</u> The Company intends to file an application with the Tallinn Stock Exchange for the Listing of all Shares on the Nasdaq Baltic Main List on or about 25 May 2018. Upon satisfaction of the application for the Listing, the trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 13 June 2018. <u>Cancelling or Postponement of the Offering</u> The Company and the Government Shareholder may jointly decide to postpone or cancel the Offering or any part thereof at any time prior to the date and time at which pricing and allocation of the Offer Shares occurs. In case of cancellation of the Offering, or any part thereof, the Company shall make an announcement thereof via the Tallinn Stock Exchange and on the Company's website. As of the moment of announcement, all rights and obligations of the parties relating to the cancelled part of the Offering shall terminate. The Offering will not be completed, if the conditions precedent to the Underwriters' obligations are not satisfied (nor expressly waived in writing) as and when required by the Underwriting Agreement, or if the Underwriting Agreement is terminated prior to payment for the Offer Shares in accordance with the terms of the Underwriting Agreement. <u>Return of Funds in the Retail Offering</u> If (i) the Offering is cancelled in full, (ii) the Offer Price is lower than the Subscription Price, (iii) the Subscription Undertaking is revoked, (iv) the investor's Subscription Undertaking is rejected or (v) the allocation deviates from the Maximum Number of Offer Shares indicated in the duly submitted Subscription Undertaking, the funds blocked on the investor's cash account in excess of the payment for the allocated Offer Shares will be released by the custodian in or around one business day after the relevant event or settlement. The Company will not be liable for the payment of the interest on the payment amount for the time it was held. The Company shall be liable neither for the release of the respective amount nor for the payment of interest on the released amount for the time it was blocked.
E.4	Interests material to the Offering / Conflicting interests	The Management Board is not aware of any conflicts of interest or potential conflicts of interest between any duties of members of the Supervisory Council, the Management Board and other key executives to the Company and their private interests and other duties, nor do they possess in the Management Boards belief any material interest related to the Offering.
E.5	Name of the person or entity offering to sell the security. Lock-up agreements: parties involved; period of lockup	The Government Shareholder is offering up to 11,300,000 existing ordinary shares (the "**Secondary Shares**"). The Government Shareholder is expected to agree to a lock-up commitment for a period of 180 calendar days in connection with the Offering. The Government Shareholder owns and controls 100% of the Shares outstanding prior to the Offering and will own and control 67.03% of all the Shares outstanding immediately following the Offering assuming that all offered New Shares will be subscribed for and issued and all Secondary Shares are sold and the Put Option is not exercised. Pursuant to such lock-up agreement, the Government Shareholder is expected to undertake, subject to certain exceptions, not to directly or indirectly, offer, pledge, sell, contract to sell, or otherwise dispose of any of the Shares that it owned at the time of entering into the lock-up agreement, during the period ending 180 calendar days after the commencement of the Listing, without the prior written consent of the Joint Global Coordinators. The Company is expected to agree that, subject to certain exceptions, during the period of 180 calendar days after the commencement of the Listing, it will not, without prior written consent of the Joint Global Coordinators, issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.
E.6	Immediate dilution. Amount and percentage of immediate dilution if Existing Shareholder not Subscribing during Offering	Following the completion of the Offering assuming that all offered New Shares will be subscribed for and issued and all Secondary Shares sold, the Offer Shares will represent approximately 32.97% of the Company's share capital provided that all Secondary Shares remain in public hands or 28.67% of Company's share capital if all Secondary Shares are put back to the Government Shareholder in accordance with the terms of the Put Option. Assuming that all offered New Shares will be subscribed for and issued, all Secondary Shares sold, the Government Shareholder will be diluted: a) 32.97% of the Government Shareholder's shareholding assuming that all the Secondary Shares remain in public hands (no exercise of the Put Option); or b) 28.67% of the Government Shareholder's shareholding assuming that all the Secondary Shares are sold back to the Government Shareholder in accordance with the terms of the Put Option.
E.7	Estimated Expenses charged to the Investor by the Company	There are no direct expenses charged to the Investor by the Company when subscribing for the Offer Shares, i.e. no product charges, no entry charges, no management charges, and no exit charges apply.

PART II. RISK FACTORS

Subscription for and investment in the Shares involves a high degree of risk. Prospective investors in the Shares should consider carefully, among other things, the risks set forth below and the other information contained in this Prospectus prior to making a decision to subscribe for and invest in the Shares. Any of the risks highlighted below could have a material adverse effect on the Group's business, financial condition, result of operations or prospects and result in a corresponding decline in the value of Shares. As a result, investors could lose a part or all of the value of their investment. A potential investor who is in any doubt about the action it should take should consult a professional advisor who specialises in advising on the acquisition of shares and other securities.

Prospective investors should note that the risk factors described below are not intended to be exhaustive and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties not currently known to the Group or that the Group currently considers immaterial may also have the effect set forth above.

1. RISKS RELATING TO THE GROUP'S BUSINESS

A) The Group faces competition

The Group operates partly in a highly competitive environment, in particular with respect to handling transit cargo at its harbours. The Baltic Sea Region is very competitive for any transit cargo and the Group's main competitors are Baltic ports, especially Riga, Ventspils and Liepaja, in handling transit cargo mostly transported from or to Russia. The cargo port market is highly fragmented. According to the Management Board's information, in 2017 the Group had approximately 4% of the market share of cargo on the eastern shore of the Baltic Sea, with Ust-Luga, St. Petersburg and Primorsk ports (all located in Russia) being the largest ports, with a 21%, 11% and 12% market share of the cargo on the eastern shore of the Baltic Sea, respectively. If overall cargo volumes in the Baltics were to fall, then this would likely have a depressing effect on pricing in the market generally, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group also faces competition in its cargo harbours within Estonia. According to the Management Board's information, in 2017 the Group controlled approximately 53% of the market share of cargo volumes in Estonian ports, with the port of Sillamäe controlling 23% of the market. There can be no assurance that competition will not increase in the future and it is possible that competing ports could be constructed or existing competing ports are expanded in Estonia or the Baltic Sea Region. To the extent that new competing ports are constructed or that existing competing ports increase their capacity, trade volumes, revenue and profitability of the Group's cargo harbours could be negatively affected and, as such, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Russian government has in recent years directed export flows (particularly liquid bulk) into its own ports, which together with historically lower oil prices resulted in a decrease of liquid bulk handling volumes for the Group from 12.8 million tonnes in 2015 to 7.4 million tonnes in 2017. Notwithstanding the partial oil price recovery in 2016 and 2017, the decrease in liquid bulk handling volumes caused a drop in revenue for the Group's cargo harbours. As a result, the competition for non-Russia related cargo in the region has increased. There is also a risk that in the future the Russian government could direct Russian fertiliser export flows into its own ports once these ports have built suitable terminals and superstructure. This could have a significant effect on the volumes of fertiliser cargo handled by the Group, which on average amounts to 1.5 to 2 million tonnes annually.

In terms of passenger harbours, the Group faces competition from other ports, primarily within the Baltic Sea Region for vessel traffic. Such ports compete mainly based on their proximity to popular tourist sites, operational efficiency, shopping opportunities and other amenities for passengers, differences in price levels for goods and services offered at the destination countries as well as the perceived security of the port. To the extent that new competing passenger ports may be constructed or that existing competing passenger ports increase their capacity, revenue and profitability of the Group's passenger harbours could be negatively affected and, as such, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. Over the long-term, changes in international ferry and cruise itineraries may result in increased competition in the future and the Group's existing harbours may not be able to continue to compete effectively with the other ports in the Baltic Sea Region. Existing or future competition could result in a reduction of international ferry and cruise ship traffic and could potentially put pressure on fee levels, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

There are also early-stage plans subject to feasibility studies for building a tunnel between Tallinn and Helsinki, which, if completed, could in the longer term have a negative impact on passenger numbers and ro-ro cargo in the Group's harbours and, as such, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. See also Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection J (The proposed tunnel between Tallinn and Helsinki may have a material negative impact on the Group's annual levels of passengers and ro-ro cargo). Further, there are early-stage plans for constructing a bridge or alternative connection route between Estonian mainland and Muhumaa Island (which is adjacent to Saaremaa Island and connected to Saaremaa Island by a causeway), which, if constructed, may significantly adversely affect the Group's revenues from domestic ferry services on the route between Estonian mainland and Saaremaa Island (through Muhumaa Island) and, as such, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. See also Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection K (The Group's domestic ferry services between Estonian mainland and Saaremaa Island (through Muhumaa Island) could be significantly affected by the construction of a bridge or an alternative connection route).

B) The escalation of geopolitical tensions in the region and changes to the economic and political situation in Russia may affect the Group's business

The Group's business may be negatively affected by a further decrease in trade and cargo volumes connected to Russia, which are partly dependent on geopolitical tensions and the political and economic situation in Russia. Future political instability could result in the deterioration of the overall economic situation and future shifts in governmental policy and regulation in Russia could lead to political instability and disrupt or reverse political, economic and regulatory reforms. Possible future changes in the government, major policy shifts or a lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups could lead to political instability. There is also a risk of further international sanctions being imposed against Russia. In particular, regulations may require that the Group refrains from doing business, or accepts new customers, with certain organisations or in certain countries. Sanctions rules are highly complex and may often apply extraterritorially. The reactions of international investors to escalating geopolitical tensions and economic sanctions have had an adverse effect on the Russian economy and have increased capital outflows from funds focused on Russia, Eastern Europe and to some extent emerging markets. An escalation of sanctions against Russia, and any countermeasures put in place by the Russian government, could result in different trading partners and logistics channels being chosen, which as a result may affect export and import flows from Russia into the Group's harbours. In addition, sanctions prohibit the Group's use of its ice-breaker Botnica in oil industry related projects in Russia, which continue to affect the Group's revenues derived from the use of Botnica. See also Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection G (The Group has not found, and may not find a profitable use for its ice-breaking vessel, Botnica, from May to November each year). Further, the worsening of the economic and political situation in Russia could result in decreased purchasing power in Russia and as a result also affect cargo export and import flows from/into Russia passing through the Group's harbours.

In addition, political tensions in the Baltic Sea Region could rise to levels which would adversely affect the economic and business environment in the region, including Estonia, and therefore have a negative impact on the Group's operations. Recent defence related developments and projects, such as NATO's decision to increase its military presence by deploying four battalions to the region in 2017 and the conducting of large-scale military exercises in areas surrounding the Baltic States by Russia, could also potentially give rise to tensions in the Baltic Sea Region. Deterioration in the general economic conditions in Estonia or the Baltic Sea Region, as well as further restrictions on cargo transit from or into Russia resulting from geopolitical tensions may have a material adverse effect on the operations of the Group. Also, there is a risk the Russian government may transfer export and import flows to countries neighbouring with Estonia (for example, Latvia) in case there are political tensions between Russia and Estonia, resulting in limited co-operation between the two countries. In addition to the above there is a risk that the Russian government may limit cargo transported by rail at Russian borders, which may negatively affect cargo flows through the Group's harbours.

Any or all the above could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

C) General macroeconomic factors may negatively affect number of passengers and cargo flows through the Group's harbours

The Group's operations are affected by macroeconomic conditions, which are in turn influenced by factors beyond the Group's control, including general global macroeconomic conditions, employment levels, availability of discretionary income and credit to consumers, customer confidence, and tax or interest rate fluctuations. Changes in the macro economic environment may result in the decrease of passenger numbers and cargo flows through the Baltic Sea Region as a whole and the Group's harbours. The global financial crisis of 2007 – 2009 and the subsequent sovereign debt crisis (particularly in the Eurozone) has brought a long-lasting uncertainty regarding future economic development. Forecasted growth in the global economy for 2018 remains at around 3 per cent per annum, according to the World Bank. As a small country, the economy of Estonia is closely linked to the global economy and especially the macroeconomic conditions in the Eurozone countries (in particular the other Baltic countries and Finland), Scandinavian countries, and Russia.

Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic environment.

The Group intends to participate in the Rail Baltica project, an international railway connection that is expected to be completed and operational by 2026 and connect Estonia and the Baltic countries with Central and Western Europe. Separately, there are planned initiatives into the East-West transportation route, including One Belt and One Road initiatives. It is possible that these large scale projects and initiatives may fail to materialise and that any increase in cargo flows into the region and the Group's harbours may not occur, resulting in no positive impact on the Group's revenues.

D) The Group derives a large proportion of revenue from its two largest customers

The Group's two largest customers (with more than 10 per cent contribution to the Group's revenue) are the Republic of Estonia (acting through its government agencies) and Aktsiaselts Tallink Grupp ("**Tallink**"). The Group's largest customer is the Republic of Estonia (acting through its government agencies), and the Group derives revenue through rendering (a) its ferry services under a ten-year agreement for domestic ferry services between the Estonian mainland and its two largest islands (Saaremaa, through Muhumaa Island, and Hiiumaa) (the "**Ferry Services Agreement**") and (b) its ice-breaking services under a ten-year agreement (the "**Botnica Service Agreement**"). The agreements for the domestic ferry services and the ice-breaking services run until September 2026 and April 2022, respectively. There is a risk that the respective agreements will not be renewed.

The Group's second largest customer is Tallink, a passenger ferry operator. Passenger vessels operated by Tallink depart from the Old City Harbour to Helsinki and Stockholm. Ro-ro vessels operated by Tallink depart from Paldiski South Harbour to Kappelskär (Sweden) and from Muuga Harbour to Vuosaari (Finland). There are also other key customers (for example cargo and ferry operators) but their individual contribution is less than 10 per cent of the Group's revenue.

If either of these two customers or any other key customers were to cease being a client of the Group or were to reduce their demand for the Group's services, it could have a significant adverse effect on the Group’s business, financial condition, results of operations or prospects.

E) The Group is subject to several on-going legal proceedings

The Group is currently involved in a number of legal proceedings, the most material of which is the AS Coal Terminal bankruptcy proceedings. This relates to an on-going dispute regarding claims for damages submitted by the Group against the now bankrupt operator, AS Coal Terminal, amounting to approximately EUR 46 million (claim for loss of profits and contractual penalties under a now terminated cooperation agreement and two building title agreements, covering future periods), which remains outstanding, and EUR 1.4 million (for contractual penalties and unpaid contractual fees under the cooperation agreement, for periods before the declaration of bankruptcy), of which approximately EUR 1.1 million has been accepted. The rejection of the rest of the claim (approximately EUR 300,000) has been challenged in court. In connection with the termination of the building title agreements due to the bankruptcy of AS Coal Terminal, the bankruptcy administrator is also in the process of assessing the market value of the infrastructure constructed on the Group’s land and transferred to the Group with the termination of the building title, which may potentially result in a claim for compensation against the Group. The bankruptcy administrator has submitted to the Group a valuation report estimating such value to be approximately EUR 20-26 million which is opposed by the Group. As at the date of this Prospectus, no claim has been submitted by the bankruptcy administrator against the Group in respect of such compensation.

The Group is a defendant in a civil dispute with AS Saaremaa Laevakompanii and Väinamere Liinid OÜ as plaintiffs in relation to the Ferry Services Agreement. The plaintiffs allege that the Group was provided confidential information which AS Saaremaa Laevakompanii and Väinamere Liinid OÜ had submitted in the course of the tender and won the tender by exploiting their business secrets. AS Saaremaa Laevakompanii claims EUR15.8 million and Väinamere Liinid OÜ claims EUR 8 million, totalling EUR 23.8 million. The Group has disclaimed liability and is defending the action. The dispute is currently pending before the court of first instance. If the dispute is eventually ruled in favour of the plaintiffs, there is a risk of negative monetary impact for the Group in the amount of EUR 23.8 million.

See Part X (Business), section 6 (Overview of Operations), subsection J (Legal Proceedings) for further information in connection with material legal proceedings of the Group. If any of these legal proceedings resulted in an unfavourable decision for the Group, it could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Separately, there is a potential European Commission proceeding on the basis of a complaint from Väinamere Liinid OÜ, in relation to the public tender process pursuant to which the Group was awarded the Ferry Services Agreement. As at the date of this Prospectus, the European Commission is yet to make a decision on the complaint raised by Väinamere Liinid OÜ. If the European Commission were to initiate formal proceedings and should the Group be associated with such proceedings, the proceedings could have a negative reputational impact on the Group. The risk that the European Commission finds that unlawful state aid was granted to the Company’s wholly owned subsidiaries, OÜ TS Shipping and OÜ TS Laevad, cannot be fully excluded. Such a finding would require the Group to return the unlawful state aid together with interest and this could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects. The exact value of the alleged unlawful state aid is unclear from the complaint and it is therefore not possible to determine the exact value of the potential recovery claim.

In addition, the Company is exposed to legal disputes around the applicable minimum cargo volumes and fees/penalties payable by cargo terminal operators, termination of the agreements and terminal operators’ insolvency risk, which may lead to a loss of revenues by the Group and/or the need to find a new terminal operator to replace a non-performing operator. Furthermore, although most of the building title agreements concluded by the Company with cargo terminal operators foresee the sale of the building title to a new terminal operator as being exercisable only with the prior consent of the Company, there are certain building title agreements that do not contain such requirement. Therefore, the Company may not have control over the change of its contract partners in such agreements and is not protected against the sale of the building title to a party that does not meet relevant reputational and/or solvency requirements. In addition, in the future the Group may be subject to other legal proceedings relating to its operations or other material agreements or legal proceedings from customers and business partners. The results of any such disputes and legal proceedings are inherently difficult to predict and even the disputes and proceedings themselves, not only unfavourable outcomes, may result in the Group incurring significant losses and expenses, which may not be sufficiently covered by insurance, and negatively affect the Group's reputation, which in turn may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

F) There is an ongoing investigation into acts by individuals formerly connected with the Company being accused of accepting bribes

There are ongoing criminal court proceedings against previous members of the Company's Management Board, Mr. Ain Kaljurand and Mr. Allan Kiil, and a previous employee of the Company, Mr. Martin Paide, who are accused of acts of bribery and, in certain cases, money laundering, during the period 2004 – 2015 while they were still engaged by the Group, relating to contracts entered into by the Company and TS Laevad OÜ with certain third parties (see Part X (Business), section 6 (Overview of Operations), subsection J (Legal Proceedings). The accusations came to light in August 2015, following which the Group conducted an investigation into the circumstances relating thereto, which revealed certain weaknesses within its internal systems and controls. The Group has since taken steps aimed at addressing these concerns, including the replacement of the entire Management Board and Supervisory Council as of August 2015 and October 2015, respectively, and the establishment of new policies and controls, particularly in the areas of anti-bribery and anti-corruption (see Part XVIII (Additional Information), section 3 (Internal Anti-Corruption Policies)). However, it is possible that the steps the Group has taken might prove inadequate to prevent future instances of bribery and corruption, which could have a material adverse impact on its reputation, results of operations, financial condition and the future price of the Shares. In addition, the risk of an adverse impact on the Group's reputation, results of operations, financial condition and the future price of the Shares arising from negative media speculation in connection with these matters cannot be excluded. Notwithstanding anything in this paragraph, the risk described should not be taken as implying that the Company will be unable to comply with its obligations as a company with securities listed on the Tallinn Stock Exchange.

G) The Group has not found and may not find a profitable use for its ice-breaking vessel, Botnica, from May to November each year

The Group provides ice-breaking services and other maritime support services such as anchor handling, diving support and underwater construction with a multifunctional vessel, Botnica. During the winter season (from December until April) Botnica is utilised pursuant to a ten-year service agreement between the Group and the Estonian Maritime Administration (government agency operating within the administrative area of the Ministry of Economic Affairs and Communications) for rendering ice-breaking services to Estonian ports in the Gulf of Finland. During the ice-free season (normally from May until November) Botnica can be used for other maritime support services in order to earn additional revenue. Following the decrease in the price of oil during the period from the end of 2014 up until early 2016, which adversely affected the offshore services market, and coupled with the sanctions imposed on Russia by the United States and the European Union, there has been no utilisation for Botnica in the ice-free season resulting in a loss of revenues that may otherwise have been earned. Botnica is certified as a DP3 class vessel (dynamic positions ships classified by classification societies on the basis of ship equipment) able to offer services as an auxiliary ship for underwater works and support in offshore works such as oil drilling. Due to high competition in auxiliary fleet services in the oil drilling field and sanctions imposed on Russia by the United States and the European Union, the Group has not been in recent years, and may not be in the future, able to find a profitable use for Botnica during the ice-free season, which could continue to affect the overall revenues derived from the vessel.

H) The market value of the Group's assets could decrease

There is a risk that the market value of the assets of the Group, including but not limited to the ferries owned by the Group and multifunctional ice-breaker Botnica, could decrease if any major market downgrade were to occur. In such case, the assets of the Group may become impaired, which could have an adverse effect on the business, results of operations and financial conditions of the Group.

I) The Group is subject to risk relating to its joint venture, AS Green Marine, over which it does not exercise control

The Group expects to continue conducting waste management services mainly through a joint venture with AS Green Marine management (AS Green Marine). The Group owns a 51% interest in the joint venture; however, this does not constitute control over the joint venture since pursuant to the Articles of Association of AS Green Marine, the members of the supervisory council of AS Green Marine are elected with an affirmative vote of the shareholders holding two thirds of the shares present at the general meeting of shareholders; furthermore, the Company does not currently have any nominees in the management board of AS Green Marine (which consists of the nominees of the other joint venture partners, being experts in the waste management industry). The Group does not consolidate revenues from AS Green Marine, instead accounting for the profit or loss attributable to the 51% shareholding under the equity method of accounting. AS Green Marine's success is, in part, dependent on the Group's cooperation with AS Green Marine management, which is critical for the smooth operation and financial success of the joint venture. If the Group is unable to come to unanimous decisions with AS Green Marine management over business, financial, legal or managerial decisions there could be deadlocks, disputes, litigation or other disagreements. If any of those risks materialise, it could impair the successful management and development of AS Green Marine, which could, in turn, have a material adverse effect on the Group's business, financial condition, and results of operation or prospects.

J) The proposed tunnel between Tallinn and Helsinki may have a material negative impact on the Group's annual levels of passengers and ro-ro cargo

The Group's passenger volume and ro-ro cargo on one of its key routes, the Tallinn - Helsinki route, could be reduced if the proposed tunnel between Tallinn and Helsinki is built. Currently, overland travel between Helsinki and Tallinn requires approximately an 800 kilometre long journey through Russia and air travel is generally more expensive than travel by ferry. In 2016, the transport ministers of Estonia and Finland signed a memorandum of understanding to cooperate on the plan to develop a rail line connecting Tallinn and Helsinki by building an approximately 103 kilometre long underwater tunnel beneath the Baltic Sea. A feasibility study by FinEst Link was completed in February 2018, according to which the tunnel could be built in approximately 15 years (if construction were to start in 2025) and the total cost could be between EUR 13- 20 billion (assuming that 40% of the total cost would be covered by EU-funding), including the cost of planning and building tunnels and artificial islands, and the cost of building stops, terminals and depots but not the cost of rolling stock. In such case, the feasibility study estimated that the ticket revenue and tunnel taxes would cover yearly maintenance costs of the tunnel but the operation of trains in the tunnel would require additional state subsidies in the amount of approximately EUR 280 million per year, for a period of approximately 40 years. On 1 March 2018, the Estonian Ministry of Economic Affairs and Communications announced that together with the Finnish Ministry of Economic Affairs and Employment they have formed a working group, which will agree on the next steps in relation to the tunnel project considering the long-term financial impact of the tunnel project, options for financing the project, questions related to transportation and logistics and technological developments. The working group is expected to present the results of its work in May 2018.

If completed, the Tallinn - Helsinki tunnel could have a negative impact on the volume of ro-ro and other cargo transported and the number of passengers using the Group's harbours to travel from and to Helsinki. This could in turn have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

K) The Group's domestic ferry services between Estonian mainland and Saaremaa Island (through Muhumaa Island) could be significantly affected by the construction of a bridge or an alternative connection route

A private initiative led by Saarte Sillad OÜ for building a bridge between Estonian mainland and Saaremaa Island (via a bridge between Estonian mainland and Muhumaa Island, which is adjacent to Saaremaa Island and connected to Saaremaa Island by a causeway) has emerged. According to the Saarte Sillad OÜ website, the estimated cost of the bridge would be EUR 400 - 450 million (together with ramps) and construction may commence as early as 2022 with the bridge being operational in 2026. In relation to the initiative, a preliminary financial model has been published, together with a disclaimer that the preliminary financial model is dependent on individual components, most important of which are the cost of construction, ticket price, amount of discounted tickets, traffic flows and dotation.

The Republic of Estonia expects to conduct by March 2019 an analysis regarding the construction of the Saaremaa bridge from both a financial as well as socio-economic perspective before determining its support for the project. It cannot be excluded that other alternative connection routes, such as a tunnel, will also be considered. If a bridge is constructed, or an alternative connection route is developed, it may have a significant negative effect on the part of the Group's domestic ferry services revenue which is derived from the route between Estonian mainland and Saaremaa Island (it would not affect revenues from the route between Estonian mainland and Hiiumaa Island).

L) The Group's market position may in the future become subject to further limitations imposed by EU and/or Estonian competition laws and authorities

The Group is the market leader in passenger operations in Estonia (international ferry passenger traffic at the Old City Harbour). Its market position is currently subject to legal constraints due to having a dominant position in the market for passenger operations in Estonia within the meaning of EU and Estonian competition law and the Group is therefore under an obligation to diligently avoid abusing its dominant position (e.g. potential discrimination, predatory pricing) in said market. Because of its market position, the Group could in the future be subject to further regulation that may set stricter operational requirements and affect the Group's ability to freely conduct its operations. Furthermore, because the concept of abuse of dominance under competition law is subjective and influenced by the development of the internal market, there may be a risk that behaviour which is currently allowed under competition laws may be considered as an abuse of a dominant position due to future developments of the internal market.

In addition to risks arising from the Group's market position in passenger operations in Estonia, the Group could also be found to hold a dominant position in other markets where the Group operates in (for example the markets of certain cargo port services, in which it holds a strong position in Estonia). The Estonian Competition Authority has between 2004 and 2006 published several decisions regarding the Company. The majority of these decisions found that the Company holds a dominant position in the markets of certain cargo port services. There was one decision of the Estonian Competition Authority, however, that reached the opposite conclusion, taking into account the circumstances of the case. Therefore, whether the Group holds a dominant position in the market for certain cargo port services or other services, depends in each case on the definition of the relevant market, as well as on the economic circumstances inherent to that market. There are and have been instances in the past where the Group has been accused of the abuse of its dominant position and the Group cannot exclude that such claims may also be brought in the future. Any actual or alleged violations of EU or Estonian competition laws and regulations or the outcome of any legal or administrative proceedings brought against the Group in relation to breaches of competition laws and regulations could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. For more information, see Part X (Business), section 6 (Overview of Operations), subsection K (Limitations arising from the Group's market position).

M) The Group faces uncertainties as a result of developments in Estonian, Finnish and Swedish tax policies

The Group's revenues from international ferry passengers are dependent on the number of passengers on key routes, including the Tallinn - Helsinki route and the Tallinn - Stockholm route. The harmonisation of excise taxes, value added taxes, as well as other tax duties between Estonia, Finland and Sweden, and amended regulations for sales on-board, may have a negative impact on the passengers' activities on the key routes and lead to a decrease in passenger numbers. The Estonian excise tax rate on alcohol 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. The Estonian parliament has in recent years significantly increased excise tax on alcohol, however in 2018 some cuts were made to the rate of increase of the excise tax. Other excise duty rates have experienced increases as well (see Part VIII (Operating and Financial Review), section 5 (Major factors affecting consolidated financial results), subsection E (Taxation). Any additional rise in alcohol excise tax rates in the future may result in a decrease in passenger numbers on key routes, such as Tallinn - Helsinki and Tallinn - Stockholm. The future of excise taxation in Finland and Sweden may also impact the relative price levels. Any or all of the above could have a material adverse effect on the Group's clients, international passenger ferry operators and, as a result, on the Group's business, financial condition, results of operations or prospects.

N) The Group is subject to an increasingly complex regulatory environment, and regulatory changes may negatively affect its business

In addition to compliance with its contractual agreements and related licences and permits, the Group must comply with a range of other legal requirements, including corporate, maritime, customs, antitrust, administrative, data protection, property and environmental laws and regulations.

Although the Group seeks to continue to comply with all relevant laws, regulations, licences, permits and agreements, to the extent it is not able to do so, it could be subject to:

- significant administrative or civil penalties, including the imposition of fines, penalties and criminal sanctions for wilful violations;
- termination or non-renewal of concessions;
- increased regulatory scrutiny;
- suspension of certain port activities, domestic ferry services and other services of the Group (ice-breaking and waste management);
- reputational damage to the Group’s brand;
- default under financing and commercial agreements, see for example Part XVIII (Additional Information) for further details;
- judgements for damages, which may not be covered by insurance or in excess of insurance cover;
- termination of, or increased premiums on, insurance policies;
- difficulty in recruiting and retaining personnel (especially with specific professional backgrounds), particularly where any non-compliance relates to matters affecting its employees; and/or
- the representatives, directors or managers of the relevant Group company being subject to a fine or imprisonment.

In addition, future changes to existing regulations or the introduction of new regulations, procedures or licensing requirements (either at European Union or international level) may adversely affect the Group's business. For example, the City of Tallinn could in the future impose restrictions on car/truck traffic in the Old City Harbour, which would in turn make sea-travel more expensive for the passengers and make some of the investments made by ferry operators obsolete as the ferries may not be best suited to the new restrictions (for example, new traffic limitations around the Old City Harbour could in practice have the effect of limiting the possibility for the ferry operators to use the full car/truck capacity of their ferries), resulting in lower operational efficiency. Any such expansion of the scope of regulations may require additional investment by the Group to ensure compliance, which may result in higher ongoing compliance costs and may increase the risk of non-compliance by the Group.

Any failure by the Group to fully comply with current and future laws and regulations or to maintain good relations with regulators, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

O) The Group's success depends on its senior management team and other key personnel

The Group depends on its senior management team and other key personnel to maintain its competitive position and implement its business strategy. The Group must compete for the services of its key personnel. The loss or decline in the services of key personnel, or an inability to attract and retain qualified key personnel, could have a material adverse effect on the Group's business, financial condition and results of operations. The Group's inability to expand its management team and key personnel as its business expands may constrain the Group's strategy and growth plans.

P) The Group's success depends on maintaining good labour relations

In addition to the Group's dependence on its management and other key personnel, the Group's success depends on its ability to attract and maintain a motivated workforce. The Group's level of unionisation is currently at 16%. The failure to maintain good relations with the Group's workforce could result in labour disputes, which could involve work stoppages, strikes or other industrial action or labour difficulties (including higher labour costs) which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations or future prospects.

Q) Additional indebtedness could have an adverse effect on the Group's operations and financial condition

The Group has historically used financing through loans and bonds in connection with its investments (see Part XVIII (Additional Information)). An increase in indebtedness may expose the Group to additional risks as debt can make companies inherently more sensitive to declines in revenue, increases in expenses and interest rates, and adverse economic, market and industry developments. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed to the same extent. Leverage may also restrict the Company from making strategic acquisitions or cause them to make non-strategic divestitures and limit their ability to obtain additional financing. In addition, companies with relatively high fixed costs may have greater difficulty servicing higher debt levels.

In addition, indebtedness typically includes covenants that restrict the operations of the borrower. The Group has three financial covenants: EBITDA of more than or equal to EUR 20 million, debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) maximum 4.5 times and equity to total assets (40% or 50%) under the loan agreements with European Investment Bank (EIB), Nordic Investment Bank (NIB), and the bonds subscribed by Nordea Bank AB (publ) and Swedbank AS, as applicable. Relevant financing agreements also include covenants, which may limit the Group's ability or require the lenders' prior consent to:

- incur or guarantee additional financial indebtedness or issue certain redeemable shares;
- make certain investments or acquisitions;

- create liens on certain assets;
- grant security or create any security interests;
- restructure, consolidate, merge, sell, or otherwise dispose of any of its assets; and
- distribute profits.

Debt covenants may limit the Group’s ability to finance additional expansion through borrowings, which could limit the Group’s scope for expansion or force the Group to pass over certain opportunities. This could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

R) The Group may be liable to compensate cargo terminal operators for the market value of the terminal infrastructure retained by the Group on its land upon termination of building title contracts

Most of the building title contracts between the Group and the cargo terminal operators set out the Group's obligations to compensate the operators for the market value of the terminal buildings or of the loss of opportunity to remove the terminal buildings upon termination of the building title contract, irrespective of the reason for termination or who terminates the building title contract. It is possible that there may be a dispute around the market value which the parties will need to resolve through formal dispute resolution proceedings and that the market value determined in such proceedings may differ from what the Group is able to recover from the subsequent re-use of the relevant terminal infrastructure. Furthermore, there is a risk that the Group may be liable for paying a substantial amount within a short time and may need to find financing for such a liability. This may have a material adverse effect on the financial condition of the Group, especially if such payment obligations arise in respect of several cargo terminal operators during a short time period. The Company is also exposed to a risk that it may not be able to re-use the relevant terminal buildings. The Group has recently been involved in a dispute with bankruptcy administrators of former (now bankrupt) terminal operator AS Coal Terminal regarding the Group's obligation to compensate AS Coal Terminal for the market value of the infrastructure constructed by the operator on the Group’s land (see Part X (Business), section 6 (Overview of Operations), subsection J (Legal Proceedings) for further information). There is a risk that other cargo terminal operators may also get into financial difficulties, which may result in their bankruptcy and the Group may have to compensate for the market value of the infrastructure constructed by the operator on the Group’s land.

S) The Group is exposed to the risk of adverse weather conditions, natural disasters, public health crises, political and social unrest or other catastrophic events

The Group’s operations are subject to the risks of adverse weather conditions and natural disasters (such as extreme wind or ice, floods, high/low sea levels and other adverse weather and climate conditions), unforeseen public health crises (such as pandemics and epidemics), unstable political conditions and potential catastrophic events. For example, adverse weather conditions such as harsh winters could reduce the demand for international and domestic ferry passenger services, interfere with the services provided by the Group (for example by limiting access to the Group's harbours or by restricting the ferry operations) increase the Group’s operating expenses and may also cause higher accident frequency, increased claims and more equipment repairs.

These events could disrupt the Group’s operations and/or the operations of one or more of its customers, disrupt freight shipments or routes, affect regional economies, damage or destroy the Group’s assets or adversely affect the business or financial condition of the Group’s customers, any of which could adversely affect the Group’s business, results of operations, financial condition and prospects.

T) The Group’s current and prospective operations may be negatively affected by failure of its operational information and technology systems as well as inability to implement technological and information technology innovations and risk of cyber attacks

The Group’s business strongly depends on the efficient, stable and uninterrupted operation of its information technology ("**IT**"), management information and communications systems. The Group’s key software, accounting, hardware systems and infrastructure have been developed internally in cooperation with external suppliers or by adapting purchased software applications and hardware to suit the needs of the Group. The Group's IT systems are critical to its business and are used in various aspects of its business, including SmartPort, hardware and software application, which facilitates traffic management (passenger cars and trucks) in the Old City Harbour and on domestic ferry services through its automated travel process, customer and cargo flows, customer billing, financial and other reports, and other general functions and purposes. If any of the Group's critical information or communications systems fail or become unavailable, the Group may need to perform certain functions manually, which would temporarily affect the efficiency and effectiveness of its operations.

The operations of the Group and of its technology and communications service providers are vulnerable to damage or interruption from human error, data inconsistency, internet slowdowns or unavailability, natural disasters, power loss, computer viruses, intentional acts of vandalism, breaches of security and similar events.

Digital dependence of vital services in Estonia is continually increasing and therefore the impact of interruptions of these services on the functioning of society, the economy and national security in general is increasingly significant. Due to its geopolitical location, Estonia is also at risk of being a target of politically-motivated cyber attacks. The high level of the digitalisation of the Group's services leads to an increased exposure to cyber threats and attempts of cyber attacks, which have grown in recent years. If such attacks occur, some of the problems the Group may encounter include theft or destruction of data, including commercial, customer and financial information, which could cause commercial detriment to the Group and/or damage to its reputation. The policies maintained by the Group to protect its data may not be sufficient to prevent its systems from suffering failures or delays that might cause significant data loss or other disruptions to the Group's business. Cyber crime is becoming increasingly professional, the methods for spreading malware are becoming more sophisticated and targeted attacks are becoming extremely plausible. Should the Estonian public or financial sector generally or the Group in particular become a target of a cyber attack, the Group's operations may be materially affected. A system failure, disruption or security breach that causes a delay, interruption, impairment of the Group's services and operations, or the unsuccessful integration of ongoing projects, could adversely affect the Group's business, results of operations, financial condition and prospects.

U) The Group is subject to public procurement laws and regulations in Estonia

The Group is subject to certain requirements under public procurement laws and regulations in Estonia. Public procurement laws and regulations, as well as the practice of courts and relevant authorities when applying such laws and regulations, is constantly developing, and it is possible that new developments in interpretation and/or application of such laws and regulations could be unfavourable to the Group. Furthermore, as public procurement laws and regulations are often difficult to interpret and apply, it cannot be excluded that claims may be brought against the Group for violation of such laws and regulations and certain activities of the Group may be considered to breach such laws. Additionally, the Group has entered into agreements as tenderer (most importantly, the Ferry Services Agreement and Botnica Service Agreement), as a result of public procurement proceedings. Estonian public procurement laws allow the contracting authority to unilaterally cancel agreements entered into as a result of public procurement proceedings in case there has been a fundamental breach of public procurement laws by the contracting authority. While the Group is not aware of any such fundamental breaches, the possibility of such violations cannot be excluded. Any alleged violations of public procurement laws and regulations or the outcome of any legal or administrative proceedings brought against the Group or its contractual counterparties in relation to public procurement laws and regulations could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

For further information on the Ferry Services Agreement and the Botnica Service Agreement, see Part XVIII (Additional Information), section 1 (Material Contracts), subsection C (Commercial Agreements).

V) Investments and financial support from the Republic of Estonia (including acting through governmental agencies) are subject to state aid rules in Estonia and the EU

Any investments and financial support (for example payments into the share capital of the Company) by the Government Shareholder to the Group are subject to state aid rules in Estonia. Because the determination whether or not a particular measure qualifies as state aid requires a case by case complex economic and legal assessment, it cannot be excluded that these may be found to constitute non-approved state aid if these are not approved by the European Commission or exempted from an obligation to obtain approval from the European Commission (e.g. under so called block exemption regulation), or are otherwise deemed incompatible with the common market. Receipt of any non-approved and incompatible state aid may result in the European Commission requiring the Government Shareholder to withdraw investment, seek repayment (including any interest on any state aid received prior to any European Commission decision, whether or not the state aid is approved), and cease from providing any similar investments and support in the future, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. The Group has limited control over such matters, which relate primarily to actions taken by the Government Shareholder and the European Commission. See Notes 2 and 18 of the Audited Financial Statements as of and for the year ended 31 December 2017 for further information on government grants.

W) The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group

Transactions and agreements concluded by the Group may be subject to the laws of Estonia or to the laws of other countries. Occasional contradictions and variations of interpretation may occur, causing these transactions or agreements to be fully or partially unenforceable. Consequently, the Group may not be able to always enforce its contractual rights, which in turn may have a material adverse effect on the Group's operations, financial condition and results of operations.

X) The commercial real estate development in the Old City Harbour under the Masterplan may not materialise

The Group's long-term plan is for the Old City Harbour to be designed into an urban city centre with commercial and residential properties and other attractions, in addition to passenger harbour activities. The Group has initiated a development plan, in co-operation with Zaha Hadid Architects, which sets out an opportunity to develop prime real estate covering a total land area of 16.2 hectares at the Old City Harbour area in Tallinn city centre. Zaha Hadid Architects delivered the Masterplan to the Group in December 2017 (the "**Masterplan**").

The Masterplan is preliminary in nature. Its implementation is subject to further changes, as well as legal and regulatory approval most likely over the next three to five years during which the Group will initiate and carry out the detailed planning process which, if successful and approved by the City of Tallinn, will give the legal right for the execution of the development plans contained in the Masterplan.

In addition, the delivery models for the different land plots covered by the Masterplan, that can be developed for prime real estate, are not yet agreed. A number of options are being considered, including among others (i) a long term lease to operator(s) that construct facilities, (ii) a build operate transfer ("**BOT**") concession contract, (iii) public private partnership (dependent on the level of municipal resources), (iv) a master developer model whereby the Group sets up a separate entity to operate the development and retains partial/full control of development. However, no final decision has been taken with regard to the delivery model or a combination of different models for the Masterplan. There is no guarantee that the real estate developments under the Masterplan will ever materialise nor is there any guarantee on the timing of any such developments. Therefore, no positive impact on the Group's revenues can be assured or quantified.

2. RISKS RELATING TO THE GROUP'S INDUSTRY

A) Demand for international passenger ferry and cruise services is subject to trends in the ferry and cruise industries and other factors beyond the Group's control

The Group’s international passenger ferry and cruise operations depend on visiting passengers from Finland, Estonia, Sweden, Russia and growing numbers from Asia, the rest of Europe and the United States. The spending power of such international ferry and cruise passengers is influenced by factors beyond the Group’s control, including general economic conditions in their respective countries, and tax or interest rate fluctuations.

Further, the demand for international passenger ferry and cruise services is correlated with changes in consumer preferences for sea travel over other forms of travel. The demand for international passenger ferry and cruise operations may be negatively affected by a number of factors beyond the control of the Group, including:

- events that cause consumers to perceive travel by sea as unsafe or undesirable, including political or social unrest, terrorist incidents or the spread of other contagious diseases affecting travel destinations;
- the availability and pricing of other forms of travel;
- changes in border control (including strengthened border controls by Schengen Area states with non-Schengen countries), visa or other requirements making travel more difficult or expensive;
- factors affecting international passenger ferry and cruise operations, including fuel prices and currency fluctuations;
- consumer concerns regarding the potentially adverse impact of international passenger ferry and cruise operations on the environment; and/or
- increasing environmental requirements for marine traffic may create a rise in prices of international passenger ferry and cruise services and therefore have potentially adverse impact on demand.

Decreased consumer demand for international passenger ferry and cruise operations generally could have a material adverse effect on the Group’s business, its financial conditions and results of operations.

B) Trade barriers, restrictions on imports or exports or trade disputes may adversely affect the Group’s harbours

The success and profitability of the Group’s port operations depend, in part, on global economic growth and maritime trading volumes. Maritime trading volumes within a country and between countries will be affected by changes or developments in global economic and financial conditions that are beyond the control of the Group. The imposition of trade barriers (such as tariffs, minimum prices, export subsidies and import restrictions), imposition of embargoes or sanctions, extra duties resulting from trade litigation judgements (such as anti-dumping or countervailing duties) in respect of a major trading partner, any strikes, acts of piracy, or any change in maritime or other transportation patterns, or a change in government policies, could also lead to lower growth and/or a decline in the volume of domestic, regional and global trade and, consequently, a decline, or slower growth in cargo traffic. The import and export of certain commodities handled by the Group may be affected to a certain extent by government policies and initiatives. A significant decline in volume as a result of the foregoing could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

C) The Group is subject to risks inherent in port operations, and losses resulting from these risks may not be fully covered by insurance

The Group carries insurance required by Estonian law. However, the Group can offer no assurance that its insurance will be adequate to cover all losses or liabilities that may arise from the Group’s port operations.

For instance, the insurance policies do not provide coverage for liabilities towards the employees of the Group companies and the liabilities of Group companies under workmen's compensation or employer's liability acts, which the Group does not consider financially viable, taking into account the risks which the policies would cover and the insurance premiums required to be paid for such insurance policies. Also, the Group does not have insurance against business interruption. Should the Group be subject to any material claims or damages, which are not covered by insurance policies, such claims, or damages may have a material adverse effect on the Group's business, financial condition, and results of operations or prospects. Further, insurance may prove inadequate when the loss suffered is not easily quantifiable or results in essentially uninsurable damage to the Group's reputation. In addition, it is possible that, in the future, the Group may be unable to maintain the types or levels of insurance it deems necessary or advisable, and it may be unable to obtain insurance at premiums that it considers reasonable.

Port operations carry inherent risks, which can include the possibility of:

- explosions due to dangerous cargo being handled (for example, liquid bulk at Paldiski South Harbour and fertilisers combined with liquid bulk at Muuga Harbour);
- accidents with passengers in the Group's harbours or marine accidents in the Group's harbours' aquatories, including ships colliding with piers or the grounding of ships;
- damage resulting from adverse weather conditions or natural disasters, such as extreme winds or ice, or from other causes, including from the failure or improper operation of machinery and equipment;
- security breaches and criminal and other malicious acts; and
- business interruptions caused by mechanical failure, human error, war, terrorist attacks, political action in various countries and labour strikes.

Travel disruptions affecting passenger (ferry and cruise) lines may reduce the number of passengers to the Group's passenger and cruise harbours and disruptions in rail, trucking and other methods of transporting goods to a port may reduce the volume of cargo passing through the Group's harbours. In addition, the Group may, under rare circumstances, have to interrupt or suspend harbour operations from time to time to accommodate routine maintenance, refurbishment or construction within the harbour, and such downtime may take longer than anticipated.

To the extent that the material losses the Group incurs as a result of any of the above risks are not adequately covered by its insurance, such losses could have a material adverse effect on the Group's business, financial condition, operating results and prospects. Under some of its material contracts and financial agreements or the requirements of Estonian law, the Group has an obligation to maintain insurance, and the Group's failure to obtain or maintain such insurance may result in fines, contractual penalties or even the possibility of termination of such contracts.

D) The Group's port security measures cannot protect against all possible security threats

The Management Board believes that port security is one of the primary concerns for passenger and cargo operators in selecting a port and that it is critical to have security measures in place to address threats of terrorist attacks or other criminal activity affecting the safety of passengers and their property. Accordingly, the Group seeks to comply with the International Ship and Port Facility Security ("**ISPS**") Code, which provides an international framework for ports to evaluate risks. Although the Group believes that it maintains standards for security at its terminals that satisfy generally accepted industry standards, no security system can offer absolute protection to the passenger and cargo ships calling at the Group's harbours. In practice, if a vessel possesses an ISPS Code certificate showing proper monitoring and inspection by the prior ports visited, a port is only required to undertake limited inspections of the vessel upon its landing. As a result, the Group necessarily relies, to some extent, on security procedures carried out by other ports, which may have less stringent security controls than those employed by the Group's harbours.

Security breaches, crime or terrorism may result in a decline in passenger numbers in the Group's passenger and cruise harbours, increased operating costs and loss of goodwill for the Group, as well as the possibility of litigation and, ultimately, civil liability and the temporary closure of a harbour. If any of these risks materialise, it could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

E) An incident involving passenger vessels could have a material adverse effect on the Group's business

The Group's business could be materially affected by incidents at sea, which could bring into question passenger safety and adversely affect future industry performance. An accident similar to the sinking of an Estonian passenger ferry operated by Estline (a company which was declared bankrupt as a result of the accident) in the autumn of 1994 in the Northern Baltic Sea Region could be detrimental to the cruise and ferry industry and result in a drastic reduction of passenger volumes. If a similar incident were to occur on or to one of the passenger or cruise vessels in the Baltic Sea Region, it could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

F) The Group is exposed to environmental liability

The Group's activities are and will continue to be subject to laws and regulations relating to environmental protection and sustainable development. Such laws and regulations typically cover a wide range of matters, including, among other things, waste handling and protection of ambient air and use of water and energy consumption. Furthermore, such laws are subject to possible future changes, which could impose additional costs and/or other burdens on the Group. Failure to comply with the laws, regulations, permits and contractual terms and conditions (including failure to adjust the Group's activities to the amended legal requirements) could result in substantial costs and liabilities, which could adversely affect the Group's business, its financial condition and results of operations.

In general, the environmental requirements for the Baltic Sea Region are more strict than other regions as it is designated as a special area for the purposes of International Convention for the Prevention of Pollution from Ships ("**MARPOL**") Annex I (oil), Annex IV (sewage), Annex V (garbage) and Annex VI (Prevention of air pollution by ships), and the Baltic Sea due to highly sensitive ecosystem is protected by the Convention on the Protection of the Marine Environment in the Baltic Sea Area which is governed by the Helsinki Commission - Baltic Marine Environment Protection Commission. New environmental regulations include the International Maritime Organisation ("**IMO"**) regulations on wastewater, prohibiting discharge into the sea, which will apply to new passenger and cruise ships from June 2019, to all passenger and cruise ships from June 2021 and to ships on direct route to St. Petersburg and in the North Sea from 2023. According to IMO requirements the Baltic Sea ports must therefore ensure that adequate port reception facilities for sewage are in place by these dates. The regulations directly involve the Group's domestic ferry services and involve the Group's passenger harbours as sufficient facilities for discharge must be present at the harbours. In addition, the IMO recently entered into an agreement that aims to reduce CO2 emissions from shipping by at least 50% by 2050. This may lead to further environmental regulations being introduced with a view to encouraging shipping companies to use low carbon solutions. Also, in the future, the Group may have to comply with rules relating to on-shore power supply for ships and there may be additional costs associated with such compliance. The Group is planning to provide on-shore power supply for vessels carrying passengers and ro-ro cargo in the Old City Harbour by 2020 (with implementation expected to start 2018/2019). A memorandum has been signed between the ports of Tallinn, Helsinki, Turku and Stockholm aimed at using the same on-shore power supply standards by 2025 according to EU legislation, which will make on-shore connections in the Trans-European Transport (TEN-T) core network ports mandatory starting from 2025.

3. RISKS RELATING TO THE SHARES AND THE OFFER

A) An active trading market for the Shares may not develop or may not be sustainable

Prior to the Offering, there has been no public trading market for the Shares. There can be no assurance that an active trading market for the Shares will develop, or if developed, can be sustained following the closing of the Offering. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected.

B) The price of the Shares may be subject to volatility

The value of an investment in the Shares may decrease or increase abruptly, and such volatility may bear little or no relation to the Group's performance, for example, it may be caused by general market conditions and regulatory, economic or political changes. The price of the Shares may decrease or increase in response to market appraisal of the Group's strategy or if the Group's results of operations and/or prospects are different from the expectations of market analysts or shareholders, as well as in response to speculations, whether or not well-founded, about the Group's business, performance, management and strategic plans, the intentions of the Government Shareholder and actions by the Group's competitors. In addition, local and international stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to the Group's operating performance and prospects but nevertheless affect the price of the Shares. As a consequence of such volatility, investors should be aware that the value of an investment in the Company may go down as well as up.

C) The Company's ability to pay dividends in the future is not guaranteed

The Company may not be able to, or its General Meeting of Shareholders may choose not to, pay any dividends. In particular, the Company's ability to pay dividends may be limited by corporate law and the terms of its financing arrangements. The timing and amount of any future dividend payments will depend on the Company's existing and future financial condition, results of operations, capital requirements, liquidity needs and other matters that it may consider relevant from time to time, including, without limitation, its capital needs, financial performance, prevailing equity market conditions and ultimately, on how the General Meeting of Shareholders decides in relation to the payment of dividends (see Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights), subsection D (Dividends and other distributions)).

D) Additional equity capital may dilute existing shareholdings

The Company may choose to raise funds through further equity financing including on a non pre-emptive basis in order to make early re-payments on its indebtedness or for other reasons. There can be no assurance that such future equity offerings will be conducted at market value and the Company may decide to offer shares at a discount to the prevailing market price if it believes that this would be appropriate in the context of the financing options available to it. Shareholders may experience dilution of their shareholdings to the extent that the Company conducts future equity offerings. A future equity offering could also depress the market value of the Shares.

E) Shareholders in certain jurisdictions may not be able to participate in future equity offerings

Estonian corporate law provides for pre-emptive rights (in Estonian: eesõigus) to be granted to existing shareholders of the Company in case of future issue of shares by the Company, which can be disapplied, subject to a decision supported by a majority of at least 75% of the votes represented at the general meeting. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders in future offerings. In particular, holders of the Shares in the United States may not be entitled to exercise these rights, unless the Shares and any other securities that are offered and sold are registered under the U.S. Securities Act, or the Shares and such other securities are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

We cannot assure prospective investors that any exemption from such overseas securities law requirements would be available to enable U.S. or other shareholders to exercise their pre-emptive rights or, if available, that the Group will utilise any such exemption.

F) The Government Shareholder will continue to control or have significant influence over the Group and may not act in line with the interests of the other holders of the Shares

The Government Shareholder is expected to retain a minimum of approximately 67.03% interest in the Company, assuming that all Offer Shares are sold and that the Put Option is not exercised following the Stabilisation Period. The Government Shareholder will possess sufficient voting power to control nearly all matters requiring shareholder approval, including changes to the Company's governing documents, election of the Supervisory Council members and significant corporate transactions. Subject to compliance with the Company's governing documents and Estonian corporate law, the Government Shareholder is not obligated to act in the best interest of the other holders of Shares. There may be circumstances in which the Government Shareholder has different objectives from the holders of the Offer Shares. If the Government Shareholder chooses to cause the Group to pursue strategic objectives that conflict with the interests of the other holders of Shares, then the other holders of Shares could be disadvantaged by these actions.

G) Lack of Adequate Analyst Coverage

There is no guarantee of continued analyst research coverage for the Group. Over time, the amount of third party research available in respect of the Group may increase or decrease with little or no correlation with the actual results of its operations as the Group has no influence on the analysts who prepare such reports. Negative or insufficient third-party reports could have an adverse effect on the market price and the trading volume of Shares.

H) The rights of shareholders of Estonian companies may differ from the rights of the shareholders of companies organised in other jurisdictions

The Company's corporate governance and the rights, obligations and liability of its shareholders are governed by the laws of Estonia and by the Company's Articles of Association, and may be different from the rights and obligations of the shareholders of companies organised in other jurisdictions. Certain rights and privileges that shareholders may benefit from in another jurisdiction may not be available in Estonia. The exercise of some of the shareholders' rights in the Company could be more complicated or expensive for investors from other countries than the exercise of similar rights in their country of residence. See Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights) and Part XIII (Estonian Securities Market).

I) Enforceability of judgements against the Company

The Company is established in accordance with the Estonian laws and has its registered office in Estonia. The majority of the assets of the Group are located in Estonia and the majority of the management personnel working for the Group reside in Estonia. For this reason investors located or residing outside of Estonia may encounter more difficulty in serving summons and other documents relating to court proceedings on any of the entities within the Group and/or the management personnel working for the Group and in enforcing a judgement of the Estonian court issued against any entities within the Group and/or the management personnel working for the Group than if those entities and/or the management personnel were located in the jurisdiction where the investor concerned is located or residing.

J) Shareholders may be affected by changes in laws regarding taxation of dividends or gains at disposal

Changes in the tax regime applicable to taxation of dividends or gains on disposal of the Shares may result in an increased tax burden on the shareholders of the Company and may therefore have an adverse effect on the rate of return from an investment in the Shares.

K) Future sales of Shares by the Government Shareholder may put pressure on the Share price

The Government Shareholder is expected, following the Offering, to retain a minimum of 67.03% interest in the Company, assuming that all Offer Shares are sold and that the Put Option is not exercised following the Stabilisation Period. However, should the Government Shareholder (upon expiry of any applicable lock-up arrangements, see Part III (The Offering), section 13 (Lock-Up), or prior to the expiry of any applicable lock-up arrangement with the consent of the Joint Global Coordinators) choose to dispose of all or a portion of its Shares (which is at the discretion of the Government Shareholder and outside the Company's control), this may put pressure of the price at which the Shares trade on the Tallinn Stock Exchange.

PART III. THE OFFERING

1. THE OFFERING

In the course of the Offering, the Company is offering up to 75,404,968 newly issued ordinary shares with the nominal value of EUR 1 each (the "**New Shares**"). The Government Shareholder is offering up to 11,300,000 existing ordinary shares with the nominal value of EUR 1 each (the "**Secondary Shares**" and, together with the New Shares, the "**Offer Shares**"). The Offering is made (i) by way of an offering to retail investors in Estonia, including to employees and members of the management and supervisory bodies of the Group (including its joint venture AS Green Marine) (the "**Retail Offering**") in the course of which a certain number of New Shares are offered (the "**Retail Offer Shares")** and (ii) by way of an offering to institutional investors in and outside of Estonia (the "**Institutional Offering**") in the course of which a certain number of the New Shares (such New Shares, the "**Primary Shares**") and Secondary Shares are offered (the Primary Shares and Secondary Shares together, the "**Institutional Offer Shares**"). The Institutional Offering comprises an offer of Institutional Offer Shares to qualified investors within the meaning of Section 6(2) of the Estonian Securities Market Act in Estonia, and elsewhere outside the United States in reliance on Regulation S under the U.S. Securities Act and to qualified institutional buyers in the United States as defined in, and in reliance upon, Rule 144A under the U.S. Securities Act or another available exemption from the registration requirements of the U.S. Securities Act.

In connection with the Offering, the Government Shareholder and the Company expect to agree that Swedbank AS, as stabilising agent on behalf of Citigroup Global Markets Limited (the "**Stabilising Manager**"), will have the right to acquire up to 11,300,000 Shares on the Tallinn Stock Exchange in order to stabilise the stock market price of the Shares at a level higher than that which would otherwise prevail in accordance with applicable law and for the purposes of funding acquisition of the Shares in the stabilisation transactions the Stabilising Manager or its agent will use the proceeds from the sale of the Secondary Shares received from the Settlement Agent. The stabilisation transactions to purchase the Shares may be effected at any time on or before the 30th calendar day after the commencement of trading in the Shares on the Tallinn Stock Exchange (the "**Stabilisation Period**"). At the end of the Stabilisation Period, the Stabilising Manager or its agent will return to the Government Shareholder any Shares which have been purchased in the market as a result of stabilisation activities and/or any remaining Stabilisation Proceeds which were not used for stabilisation activities pursuant to the terms of the Put Option (as defined below).

In connection with the Offering, the Government of Estonia has authorised the Minister of the Economic Affairs and Infrastructure by its order dated 29 March 2018, as amended by the order dated 3 May 2018, (jointly the "**Governmental Order**"), *inter alia*, (i) to resolve the conditional increase of the share capital of the Company and the issue of up to 75,404,968 new ordinary Shares to be offered in the course of the Offering and to waive the pre-emptive right of the Government Shareholder to subscribe for such new Shares and (ii) to sell up to 11,300,000 existing Shares in the Offering and (iii) to acquire up to 11,300,000 Shares from the Stabilising Manager or its agent pursuant to the stabilisation arrangements described above. On 5 April 2018 and 7 May 2018 the transactions referred in (ii) and (iii) above were also approved by the decrees of the Minister of Economic Affairs and Infrastructure. The Resolution (as defined below) on the conditional increase of the share capital of the Company and the issue of up to 75,404,968 new ordinary Shares is expected to be adopted by the Government Shareholder at the General Meeting of Shareholders to be held on or about 25 May 2018. For further details regarding the share capital increase and issue of the New Shares see Part III (The Offering), section **Error! Reference source not found.** (Issue of the New Shares).

The sizes of the Institutional Offering tranche and the Retail Offering tranche have not been predetermined. A3.5.2.1
The total number of Institutional Offer Shares to be allocated to the investors participating in the A.3.5.2.3(a)
Institutional Offering and of Retail Offer Shares to the investors participating in the Retail Offering will be determined by the Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, in the allocation process after the end of the Offer Period based on the demand for the Offer Shares by the different investor groups. In case any part of the Offering is cancelled, the total

number of the Offer Shares issued and allocated to investors in the Offering may decrease (for further details, please see Part III (The Offering), section 5 (Cancellation and Postponement of Offering).

The final price of the Offer Shares shall be determined in accordance with the principles set out in Part III (The Offering), section 6 (Offer Price).

The Company expects to announce the final price of the Offer Shares and the results of the Offering, including the allocation of the Offer Shares between the Institutional Offering and the Retail Offering on or about 7 June 2018 via the Tallinn Stock Exchange and on the website of the Company (investor.ts.ee).

The Company intends to file an application with the Tallinn Stock Exchange for the Listing of all Shares on the Nasdaq Baltic Main List on or about 25 May 2018 (for further details please see Part III (The Offering), section 11 (Settlement and Trading).

The timetable set forth below provides certain indicative key dates for the Offering (subject to shortening or extensions):

25 May 2018	Retail Offer Period/Book-Building Period commences
6 June 2018	Retail Offer Period/Book-Building Period ends
On or about 6 June 2018	Decision on the Offer Price and allocation of the Offer Shares
On or about 7 June 2018	Publication of the results of the Offering
On or about 12 June 2018	Settlement of the Offering (the "**Settlement**")
On or about 13 June 2018	Commencement of trading on Tallinn Stock Exchange

Offering Statistics

The statistics of the Offering are set out below:

	Bottom of the Price Range	***Mid-point of the Price Range***	***Top of the Price Range***
Offer Price per Offer Share(1)	[●]	[●]	[●]
Number of New Shares to be issued in the Offering	[●]	[●]	[●]
Number of Secondary Shares to be sold in the Offering(2)	[●]	[●]	[●]
Aggregate number of Offer Shares to be sold in the Offering(2)	[●]	[●]	[●]
Percentage of the share capital being offered in the Offering(2)	[●]	[●]	[●]
Number of Shares subject to the Put Option(3)	[●]	[●]	[●]
Number of Shares issued immediately following the Offering	[●]	[●]	[●]
Expected market capitalisation of the Company at the Offer Price(4)	[●]	[●]	[●]
Estimated net proceeds of the Offering receivable by the Company(5)	[●]	[●]	[●]
Estimated net proceeds of the Offering receivable by the Government Shareholder (assuming no exercise of the Put Option)	[●]	[●]	[●]

Notes:

(1) The Offer Price will be set within the Offer Price Range. The Company expects to publish the final Offer Price on or about 7 June 2018 via Tallinn Stock Exchange and on the website of the Company at investor.ts.ee. In the event the Offer Price is set above the Offer Price Range, the Company will prepare a supplement to the Prospectus (for further details please see Part III (The Offering), section 7 (Procedure for Amending the Offer Price Range; Withdrawal Rights).
(2) Assuming no exercise of the Put Option.
(3) The maximum number of Shares subject to the Put Option will be approximately 4.3% of the total number of Shares following the Offering (assuming that all New Shares are issued).
(4) The market capitalisation of the Company at any given time will depend on the market price of the Shares at that time. There can be no assurance that the market price of a Share will be equal to or exceed the Offer Price.
(5) The estimated net proceeds receivable by the Company are stated after deduction of the estimated underwriting fees and other fees and expenses of the Offer (including unrecoverable VAT) payable by the Company, which are currently expected to be approximately EUR [●]. The Company will not receive any portion of the proceeds resulting from the sale of Secondary Shares by the Government Shareholder in the Offering.

2. UNDERWRITING

The Company expects and the Government Shareholder is expected to enter into an underwriting agreement on or about 25 May 2018 (the "**Underwriting Agreement**") with the Underwriters with respect to the Offering. On the terms and subject to the conditions set forth in the Underwriting Agreement, and subject to the execution of a pricing agreement (the "**Pricing Agreement**") between the parties to the Underwriting Agreement setting forth the final Offer Price and number of Offer Shares and the purchase commitments of each Underwriter and provided that the Offering has not been terminated prior thereto in accordance with the terms of the Underwriting Agreement, (see Part III (The Offering), section 5 (Cancellation and Postponement of Offering): (I) (i) Swedbank AS is expected to procure subscribers for the Retail Offer Shares, or, failing which, to subscribe for the Retail Offer Shares itself; (ii) the Underwriters are expected to agree to procure subscribers or purchasers for the Institutional Offer Shares, or, failing which, to subscribe for or purchase the Institutional Offer Shares themselves, severally and not jointly; and (II) (i) the Company expects to agree to offer and issue the New Shares for subscription by subscribers procured by Swedbank AS or the Underwriters, or, failing which, to Swedbank AS or the Underwriters themselves (as specified above); and (ii) the Government Shareholder is expected to agree to offer and sell the Secondary Shares to purchasers procured by the Underwriters, or, failing which, to the Underwriters themselves. The Underwriting Agreement is expected to include inter alia, an agreement on the underwriting fees to be received by the Underwriters in connection with the Offering. Please see Offer Statistics above for an indication of the net proceeds after deduction of the fees and expenses incurred in connection with the Offering.

The obligations of the parties to the Underwriting Agreement will be subject to the execution of the Pricing Agreement by the parties to the Underwriting Agreement and certain other conditions precedent that are typical for an agreement of this nature. In addition, the Underwriters may terminate the agreement in certain specified circumstances that are typical for agreements of this nature. These include the occurrence of certain material changes in the condition (financial or otherwise), or in the earnings or business affairs of the Company and certain changes in the financial, political or economic conditions affecting the Company (as more fully set out in the Underwriting Agreement).

The Government Shareholder is expected to grant a put option to the Stabilising Manager or its agent, on behalf of the Underwriters, to sell up to 11,300,000 Shares to the Government Shareholder at the same price per Share at which the Stabilising Manager may acquire them in the open market in connection with the stabilisation transactions (the "**Put Option**"). The Put Option will be exercisable up to the sixth business day following the end of the Stabilisation Period. In connection with the stabilising actions that may be performed by the Stabilising Manager, the Government Shareholder will agree that the Stabilising Manager or its agent will use the Stabilisation Proceeds received from the Settlement Agent in order to finance the stabilisation transactions. The balance of such retained proceeds, after deduction of amounts used by the

Stabilising Manager to acquire the Shares in respect of which the Put Option is exercised, shall be transferred to the Government Shareholder by no later than the sixth business day following the end of the Stabilisation Period. The Underwriters will not be granted any overallotment or "green-shoe" option pursuant to the terms of the Underwriting Agreement.

3. INSTITUTIONAL OFFERING

A) Book-building Period

The book-building period for the Institutional Offering is expected to start on 25 May 2018 and end on 6 June 2018 (the "**Book-Building Period**"), unless shortened or extended. The Company and the Government Shareholder, in consultation with the Joint Global Coordinators, may jointly decide to shorten or extend the Book-Building Period at any time, on one or several occasions. In the event of shortening or extending the Book-Building Period, the allocation date, and the settlement date of Offer Shares and the Offer Period and the date of the Listing on the Tallinn Stock Exchange may not necessarily be changed.

B) Minimum Application

The Institutional Offering is not subject to a minimum application.

C) Application Procedure

Applications for Institutional Offer Shares (the "**Application**") in the Institutional Offering must be made during the Book-Building Period by informing one of the Underwriters of the number of Institutional Offer Shares that the investor wishes to order, and the price per share that the investor is offering to pay for such Institutional Offer Shares within the Offer Price Range.

All applications in the Institutional Offering will be treated in the same manner regardless of which Underwriter the applicant chooses to place the application with. Any orally placed application in the Institutional Offering will be binding upon the investor and subject to the same terms and conditions as a written application. The Underwriters may, at any time and in their sole discretion, require the investor to confirm any orally placed application in writing. Applications made may be withdrawn or amended by the investor at any time up to the end of the Book-Building Period. At the close of the Book-Building Period, all applications in the Institutional Offering that have not been withdrawn or amended are irrevocable and binding upon the investor.

4. RETAIL OFFERING

A) Right to Participate

The Retail Offering comprises an offer of Retail Offer Shares to all natural and legal persons in Estonia, except for any persons who are categorised as qualified investors pursuant to Section 6(2) of the Estonian Securities Market Act who should submit their offers in the Institutional Offering.

For the purposes of the Offering:

- a natural person is considered to be "in Estonia" and has the right to participate in the Retail Offering, if all the following conditions are met: (i) such person has an operational securities account with the ERS; (ii) such person's address recorded in the ERS records in connection with that securities account is located in Estonia; (iii) such person submits a Subscription Undertaking (as defined below) in relation to Offer Shares via that securities account; and
- a legal person is considered to be "in Estonia" and has the right to participate in the Retail Offering, if all the following conditions are met: (i) such person has an operational securities account with the ERS; (ii) such person's address recorded in the ERS records in connection with that securities account is located in Estonia or its registration code recorded in the ERS records is the registration code of the

Estonian Commercial Register; (iii) such person submits a Subscription Undertaking (as defined below) in relation to Offer Shares via that securities account.

The members of the management and supervisory bodies and employees of the Company, its consolidated subsidiaries and its joint venture AS Green Marine may participate in the Offering subject to meeting the conditions set out above in Part III (The Offering), section 4 (Retail Offering) subsection A (Right to Participate), as well as subject to other terms and conditions of the Offering set forth herein. The Company is not aware whether or not such persons intend to participate in the Offering.

B) Retail Offer Period

In order to participate in the Retail Offering, investors who meet the conditions set out in Part III (The Offering), section 4 (Retail Offering) must submit undertakings to subscribe for Retail Offer Shares (the "**Subscription Undertaking**") during the Retail Offer Period (as defined below).

The period during which investors may submit Subscription Undertakings will start at 10:00 am (Eastern European Summer Time - Estonian time) on 25 May 2018 and will end at 2:00 pm (Eastern European Summer Time - Estonian time) on 6 June 2018 (the "**Retail Offer Period**"), unless the Offering is postponed or cancelled in accordance with Part III (The Offering), section 5 (Cancellation and Postponement of Offering).

C) Subscription and Instructions to Investors

The Subscription Undertakings may be submitted only during the Retail Offer Period. An investor having the right to participate in the Retail Offering may apply to purchase the Retail Offer Shares only for the price equal to the upper end of the Offer Price Range, i.e. EUR [●] per Retail Offer Share.

Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. An investor shall bear all costs and fees charged by the respective custodian of the ERS accepting the Subscription Undertaking in connection with the submission, cancellation or amendment of a Subscription Undertaking in accordance with the price list of the respective custodian.

In order to subscribe for Retail Offer Shares, an investor must have a securities account with the ERS. Such securities account may be opened through any custodian of the ERS. The list of banks and investment firms authorised to operate as custodians of the ERS is available at the website of Nasdaq CSD SE (https://nasdaqcsd.com/services/services-to-account-operators/list-of-account-operators/). At the date of this Prospectus, the following banks and investment firms operate as custodians of the ERS in Estonia: Swedbank AS, LHV Pank AS, SEB Eesti AS, Luminor Bank AS, Coop Pank AS, Danske Bank A/S Eesti filiaal, Tallinna Äripank AS.

An investor wishing to subscribe for the Retail Offer Shares should contact a custodian that operates such investor's ERS securities account in Estonia and submit a Subscription Undertaking for the purchase of Retail Offer Shares in the form set out below. The Subscription Undertaking must be submitted by the end of the Offering Period. The investor may use any method that such investor's custodian offers to submit the Subscription Undertaking (e.g. physically at the client service venue of the custodian, over the internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	Tallinna Sadam share
ISIN code:	EE3100021635

Amount of securities:	the number of Retail Offer Shares for which the investor wishes to subscribe
Price (per one Offer Share):	EUR [●]
Transaction amount:	the number of Retail Offer Shares for which the investor wishes to subscribe multiplied by the Subscription Price per one Retail Offer Share
Counterparty:	Swedbank AS(1)
Securities account of counterparty:	99000011822
Custodian of the counterparty:	Swedbank AS
Value date of the transaction:	12 June 2018
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

Note:

(1) In order to facilitate the settlement process, Swedbank AS in its capacity as Settlement Agent is expected to agree to prefund the issuance of the New Shares and in connection with the prefunding, the New Shares will be transferred to a special purpose securities account of Swedbank AS prior to Settlement.

An investor may submit a Subscription Undertaking through a nominee account only if such investor authorises the owner of the nominee account in writing to disclose the investor's identity and details to the registrar of the ERS. The Subscription Undertakings submitted through nominee accounts will be taken into account upon the allocation of the Retail Offer Shares only if the owner of the nominee account has actually disclosed the identity and details of the investor to the registrar of the ERS in writing. Such details shall include: (i) the name of the investor; (ii) the permanent address and personal identification code if the investor is a natural person; and (iii) the registered address and the registry code (if applicable) if the investor is a legal person. An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorised (in the format required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ERS receives a duly completed transaction instruction from the custodian of the respective investor.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings, which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Retail Offer Period in accordance with all requirements set out in this Part III (The Offering).

By submitting a Subscription Undertaking every investor:

- confirms that he/she/it has read the Prospectus and the Prospectus summary translated into Estonian or Russian, including without limitation Part II (Risk Factors) of the Prospectus and the description of rights and obligations resulting from the ownership title to the Shares contained therein;
- accepts the terms and conditions of the Offering set out under this Section 4 of Part III (the Offering) and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Retail Offer Shares;

- acknowledges that the Retail Offering does not constitute an offer of the Retail Offer Shares by the Company within the meaning of Section 16(1) of the Estonian Law of Obligations Act or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Retail Offer Shares nor result in a contract for the sale of Retail Offer Shares between the Company and the investor;

- accepts that the number of the Retail Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the Maximum Number of the Retail Offer Shares, which the investor wishes to acquire and that the investor may receive less (but not more) Retail Offer Shares than the Maximum Number. Please see Part III (The Offering), section 8 (Distribution and Allocation);

- undertakes to acquire any number of Retail Offer Shares, up to the Maximum Number, allocated to it in accordance with these terms and conditions and pay for each acquired Retail Offer Share the Retail Offer Price (to be determined by the Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, provided that it is not greater than the Subscription Price);

- authorises and instructs its custodian to forward the investor's Subscription Undertaking to the registrar of the ERS;

- authorises the custodian and the registrar of the ERS to amend the information contained in the investor's Subscription Undertaking, including (a) to specify the value date of the transaction, (b) to specify the price per Retail Offer Share in accordance with the determination of the Offer Price by the Company and (c) to specify the number of the Retail Offer Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Retail Offer Price by the number of Retail Offer Shares allocated to the relevant investor;

- confirms, that he/she/it is located within Estonia and not subject to the laws of any other jurisdiction which would prohibit the placing of the Subscription Undertaking and represents that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus;

- confirms that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable from the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and

- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience.

D) Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the credit institution operating the investor's cash account connected to its securities account (investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with this Part III (The Offering). The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Number. An investor additionally authorises its custodian to block the amount necessary for payment of custodian's fees and charges related to Subscription Undertaking according to the applicable price list of the custodian. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its ERS securities account to cover the whole transaction amount for that particular Subscription Undertaking.

E) Amendment or Cancellation of Subscription Undertakings

An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Retail Offer Period. To do so, the investor must contact its custodian through whom the Subscription Undertaking in question has been made, and carry out the procedures required by the custodian for amending or cancelling a Subscription Undertaking (such procedures may differ between different custodians). All fees payable in connection with an amendment and/or annulment of a Subscription Undertaking shall be payable by the investor according to the applicable price list of the custodian or the relevant subscription place. Any amendment to or cancellation of the Subscription Undertaking becomes effective at the moment when the transaction instruction of the investor has been amended or cancelled in the ERS on the basis of the respective order received from the investor's custodian.

5. CANCELLATION AND POSTPONEMENT OF OFFERING

The Company and the Government Shareholder may jointly decide to postpone or cancel the Offering or any part thereof at any time prior to the date and time at which pricing and allocation of the Offer Shares occurs (the "**Time of Sale**").

The reasons for which the Company and the Government Shareholder may decide to cancel or postpone the Offering may include, but not be limited to:

- sudden and material adverse change in the economic or political situation in Estonia or worldwide, which could affect the financial markets, economy, or the Group's operations and its prospects; or
- failure to adopt a resolution authorising the issue of New Shares at a General Meeting of Shareholders, which is expected to take place on or about 25 May 2018;
- any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of the Group's operations.

In addition, the Company and the Government Shareholder jointly have the right to cancel a part of the Offering which was not subscribed for during the Offer Period.

Any cancellation of the Offering will be announced through the information system of the Tallinn Stock Exchange and on the website of the Company (investor.ts.ee). All rights and obligations of the parties in relation to the cancelled part of the Offering shall terminate at the moment when such announcement is made public.

Further, the Offering will not be completed, if the conditions precedent to the Underwriters' obligations are not satisfied (nor expressly waived in writing) as and when required by the Underwriting Agreement, or if the Underwriting Agreement is terminated prior to payment for the Offer Shares in accordance with the terms stipulated therein (for the summary of the relevant conditions precedent and termination grounds, see Part III (The Offering), section 2 (Underwriting).

6. OFFER PRICE

The final offer price payable for each Offer Share shall be decided jointly by the Company and the Government Shareholder, after consultation with the Advisors and the Joint Global Coordinators, following the completion of the Book-Building process directed at institutional investors in the course of the Institutional Offering. The Offer Price shall be determined on the basis of Applications for the Offer Shares obtained from institutional investors, taking into consideration, *inter alia*, the total demand for the Offer Shares in the Institutional Offering, price sensitivity of the demand and the nature of demand from various investors with the aim of a more balanced trading environment upon the Listing.

The Offer Price will be in the range of EUR [●] and EUR [●].The Offer Price Range may be amended until the end of the Offer Period on the basis of information obtained in the Book-Building process in accordance with applicable laws and notification requirements. Please also see Part III (The Offering), section 7 (Procedure for Amending the Offer Price Range; Withdrawal Rights).

The Offer Price in the Institutional Offering and the Retail Offering will be the same.

The Company will announce the final Offer Price via the Tallinn Stock Exchange and on the website of the Company (investor.ts.ee).

7. PROCEDURE FOR AMENDING THE OFFER PRICE RANGE; WITHDRAWAL RIGHTS

In case the Offer Price Range is amended, the Company may be required to prepare a supplement to the Prospectus. For example, such obligation will apply if the Offer Price is set higher than the Offer Price Range. The supplement will be submitted for approval to the Authority and, after having been approved, published in the same way as the original Prospectus was published. If the Offer Price Range is amended, also the total number of Offer Shares, the dates and other terms and conditions set forth in this Prospectus may be subject to change**.** All such changes shall be announced together with the announcement of the amended Offer Price Range via the Tallinn Stock Exchange and on the website of the Company (investor.ts.ee).

In addition, pursuant to the Estonian Securities Market Act, any significant new factor, material error or inaccuracy related to the information included in this Prospectus which could affect the assessment of the Offer Shares, and which arises or becomes known between the date of approval of this Prospectus and Listing of the Shares on Tallinn Stock Exchange will be required to be communicated through a supplement to this Prospectus.

In the event that the Company is required to publish a supplement to the Prospectus, investors who have submitted Subscription Undertakings in the Retail Offering before the publication and announcement of a Prospectus supplement will have a right to withdraw their Subscription Undertakings within two business days (or such later date as may be specified in that supplement) after the announcement following the procedure described in Part III (The Offering), section 4 (Retail Offering), subsection E (Amendment or Cancellation of Subscription Undertakings). However, in the event the Offer Price Range is amended so that the upper end of the Offer Price is set higher than the initial Offer Price Range, all Subscription Undertakings submitted in the Retail Offering will be cancelled and will need to be re-submitted in accordance with the procedure described in Part III (The Offering), section 4 (Retail Offering).

Investors who have submitted Applications in the Institutional Offering will also have a right to withdraw their Applications within two business days (or such later date as may be specified in that supplement) after the date on which the Prospectus supplement is published. Investors wishing to exercise the above right to withdraw their Application must do so by lodging a written notice of withdrawal via e-mail, fax or other means of communication (during normal business hours only) to any of the Underwriters.

If a Subscription Undertaking or an Application is not withdrawn within the stipulated period, that Subscription Undertaking or Application and the offer to apply for Offer Shares in the Offering stipulated therein will remain valid and binding.

8. DISTRIBUTION AND ALLOCATION

A) Allocation of Offer Shares in the Institutional Offering and the Retail Offering

In the allocation, the Company and the Government Shareholder shall take into consideration only those Subscription Undertakings and Applications, which have been completed and submitted during the Retail Offer Period and Book-Building Period respectively. The Company may reject any Subscription Undertaking, which has not been submitted in accordance with all the requirements set out in the terms above.

The Offer Shares will be allocated to investors participating in the Offering in accordance with the following terms and conditions:

a) the division of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The Company and the Government Shareholder, in consultation with the Advisors and Joint

Global Coordinators, will jointly determine the exact tranche sizes of the Retail Offering and Institutional Offering (percentage wise);

b) the Company and the Government Shareholder, in consultation with the Advisors and the Joint Global Coordinators, will determine the exact allocation of the Offer Shares among investors in the Institutional Offering on a discretionary basis;

c) the indicative minimum individual allocation in the Retail Offering (amount up to which Subscription Undertakings are expected to be fully accepted in the Retail Offering) is [●] Offer Shares. The final minimum individual allotment will, however, be determined by the Company and the Government Shareholder, together with the Advisors and Underwriters, after the expiry of the Offer Period and it may differ from the indicative amount provided above;

d) the indicative minimum individual allocation to the Preferred Managers (as defined below) and Preferred Employees (as defined below) (amount up to which Subscription Undertakings are expected to be fully accepted) is [●] Offer Shares. The final minimum individual allotment to the Preferred Managers and Preferred Employees will, however, be determined by the Company and the Government Shareholder, together with the Advisors and the Underwriters, after the expiry of the Offer Period and it may differ from the indicative amount provided above;

e) any Subscription Undertakings exceeding the above indicative minimum individual allocation are expected to be allocated to investors in the Retail Offering on the basis of stepped allocation methodology determined by the Company and the Government Shareholder, in consultation with the Advisors and the Joint Bookrunners as follows:

    (i) the Company and the Government Shareholder, together with the Advisors and the Underwriters will determine, after the Offer Period, one or more allocation levels (in number of the Offer Shares) and the allocation percentages applied to each level;

    (ii) the transaction amount in each Subscription Undertaking will be divided into different parts, e.g. part being below the first level (x% of such part will be accepted), part being between the first and second level (y% of such part will be accepted), part exceeding the second level (z% of such part will be accepted) etc.;

    (iii) the main criteria for the determination of the levels and allocation percentages are: (a) the total demand for the Offer Shares in the Retail Offering; (b) the size of Subscription Undertakings in the Retail Offering and (c) the number of investors having submitted Subscription Undertakings in the Retail Offering;

f) no tranche has been predetermined to investors in Estonia;

g) allocation of the Offer Shares will not be determined on the basis of which firm they are made through or by;

h) possible multiple Subscription Undertakings submitted by an investor in the Retail Offering or multiple Applications submitted by an investor in the Institutional Offering shall be merged for the purpose of allocation. If different securities' accounts of the investor have been indicated in the Subscription Undertakings or Applications submitted by such investor respectively, subject to the amount of the Offer Shares indicated in each such Subscription Undertaking, the Company and the Government Shareholder shall have the discretion to determine the number of the Offer Shares that will be transferred to each such securities' accounts of such investor in the course of the Settlement;

i) each investor subscribing via a nominee account is considered as an independent investor if the Company, the Government Shareholder and the Underwriters have received information on such investor's identity and the amount of Offer Shares subscribed for by such investor; and

j) each investor entitled to receive the Offer Shares shall be allocated a whole number of the Offer Shares and, if necessary, the number of the Offer Shares to be allocated shall be rounded down to the closest whole number. Any remaining Offer Shares which cannot be allocated using the above-described process will be allocated to investors on a random basis.

The Company and the Government Shareholder will decide on the allocation of the Offer Shares after the determination of the Offer Price. The Company expects to notify the results of the Offering, together with information about the final purchase commitments by the Underwriters by an announcement through Tallinn Stock Exchange and on the website of the Company (investor.ts.ee) on or about 7 June 2018.

B) Preferred allocation to management and employees

A natural person will be entitled to preferential allocation if he or she chooses to participate in the Retail Offering and duly submits a Subscription Undertaking via a custodian and he or she is:

- a member of the management board or of the supervisory council of the Company, its consolidated subsidiaries or its joint venture AS Green Marine, as at 10.00 a.m. (Eastern European Summer Time - Estonian time) on 25 May 2018 (the "**Preferred Managers**"); and/or
- an employee of the Company, its consolidated subsidiaries or its joint venture AS Green Marine, who works under an employment contract concluded with the Company, its consolidated subsidiaries or its joint venture AS Green Marine which is valid as at 10.00 a.m. (Eastern European Summer Time - Estonian time) on 25 May 2018 (the "**Preferred Employees**").

For the avoidance of doubt, such preferential allocation does not constitute a public offering of securities in any country other than Estonia, and no member of the management board or the supervisory council or employee of the Group is offered the Offer Shares with the right to participate in the preferential allocation, unless such person is a natural person in Estonia.

If a person is simultaneously both a Preferred Employee and a Preferred Manager such person shall be entitled to participate in the preferential allocation only once (i.e., the maximum preferential allocation to any one person is [●] Offer Shares. Multiple Subscription Undertakings by a Preferred Employee or a Preferred Manager, if submitted, shall be merged for the purposes of allocation.

The Company is not aware whether members of the Management Board and Supervisory Council of the Company or any other Preferred Managers or Preferred Employees intend to subscribe for Offer Shares.

9. RETURN OF FUNDS

If (i) the Offering is cancelled in full, (ii) the Offer Price is lower than the Subscription Price, (iii) the Subscription Undertaking is revoked, (iv) the investor's Subscription Undertaking is rejected or (v) the allocation deviates from the Maximum Number of Offer Shares indicated in the duly submitted Subscription Undertaking, the funds blocked on the investor's cash account in excess of the payment for the allocated Offer Shares will be released by the custodian in or around one business day after the relevant event or settlement described in Part III (The Offering), section 11 (Settlement and Trading) occurs. The Company shall be liable neither for the release of the respective amount nor for the payment of interest on the released amount for the time it was blocked.

10. ISSUE OF THE NEW SHARES

The New Shares subscribed for and allocated to investors in the course of the Offering in accordance with this Part III (The Offering) will be issued by the Management Board of the Company on the basis of a resolution on the conditional increase of the Company's share capital that is expected to be adopted at a General Meeting of Shareholders on or about 25 May 2018 (the "**Resolution**"). The Government Shareholder is expected to waive its pre-emptive right to subscribe for the New Shares with the adoption of the Resolution.

Provided that the Resolution is adopted by Government Shareholder, the Management Board will be authorised to issue the New Shares in connection with the Offering at the Offer Price to be determined in accordance with this Part III (The Offering). The conditional share capital increase is expected to be registered in the Estonian Commercial Register on or about 1 June 2018. The New Shares will be issued and will carry voting and other shareholders' rights once the New Shares have been issued by the ERS. Offer Shares are created and issued under Estonian laws. After the allocation of the Offer Shares, the Management Board will apply for the registration of the New Shares with the ERS.

11. SETTLEMENT AND TRADING

The New Shares will be, and the Secondary Shares together with existing Shares are, registered in book-entry form in the ERS maintained by Nasdaq CSD SE and under ISIN EE3100021635 (during the Offering, the New Shares will carry the temporary ISIN, which will be changed to the permanent ISIN EE3100021635 before Settlement occurs).

The Offer Shares allocated to the investors who participated in the Offering shall be transferred to their securities accounts on or about 12 June 2018 through the "delivery versus payment" method simultaneously with effecting the payment for such Offer Shares. Each investor shall be entitled to transfer the Offer Shares from its securities' account as from the moment the transfer of the Offer Shares to its account has been completed.

The final amount payable by an investor for the Offer Shares will be calculated by multiplying the number of Offer Shares allocated to such investor with the Offer Price. Each investor in the Institutional Offering will be required to undertake to pay the Offer Price for the Offer Shares to the respective Underwriter.

The Company intends to file an application with the Tallinn Stock Exchange for the Listing of all Shares on the Nasdaq Baltic Main List on or about 25 May 2018. Upon satisfaction of the application for the Listing, the trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 13 June 2018.

12. STABILISATION

The Government Shareholder and the Company are expected to agree, pursuant to the Underwriting Agreement, that the Stabilising Manager or its agent may undertake stabilisation actions as further detailed below.

In connection with the Offering, the Government Shareholder has agreed that the Stabilising Manager or its agent, will have the right to acquire up to 11,300,000 Shares (but not exceeding the number of Secondary Shares sold) on the Tallinn Stock Exchange in order to stabilise the stock market price of the Shares at a level higher than that which would otherwise prevail and for the purposes of funding the stabilisation transactions the Stabilising Manager or its agent will use the proceeds from the sale of the Secondary Shares (the "**Stabilisation Proceeds**") received from the Settlement Agent. The acquisition of the Shares in connection with stabilisation transactions will be made subject to applicable law. The stabilisation transactions to purchase the Shares may be effected during the Stabilisation Period. The stabilisation transactions to purchase the Shares may only be effected at a price not exceeding the Offer Price. The Stabilising Manager or its agent will not, however, be required to carry out any stabilisation actions. If any such actions are carried out by the Stabilising Manager or its agent, they may be discontinued at any time without prior notice. No assurance can be given that such stabilisation actions, if taken, will bring the expected results.

In connection with the stabilisation actions that may be performed by the Stabilising Manager or its agent, the Government Shareholder is expected to agree in the Underwriting Agreement, that the Stabilising Manager or its agent will use the Stabilisation Proceeds from the Settlement Agent to finance the stabilisation actions. Pursuant to the Put Option, the Government Shareholder has agreed to purchase any Shares up to the number of Shares acquired by the Stabilising Manager or its agent in the course of the stabilising actions at the same price per Share at which such Shares were acquired by the Stabilising Manager or its agent, free and clear of all encumbrances. In accordance with the terms of the Put Option, any remaining portion of the Stabilisation Proceeds which was not used in the stabilisation activities shall be transferred to the Government Shareholder by no later than the sixth business day following the end of the Stabilisation Period.

13. LOCK-UP

The Government Shareholder (as the current sole shareholder of the Company) has agreed to a lock-up commitment for a period of 180 calendar days in connection with the Offering. The Government Shareholder owns and controls 100% of the Shares outstanding prior to the Offering and will own and control 67.03% of all the Shares outstanding immediately following the Offering assuming that all offered New Shares will be subscribed for and issued, all Secondary Shares sold and provided that the Put Option is not exercised.

Pursuant to such lock-up agreement, the Government Shareholder has undertaken not to directly or indirectly, offer, pledge, sell, contract to sell, or otherwise dispose of any of the Shares that such shareholder owned at the time of entering into the lock-up agreement, during the period ending 180 calendar days after the commencement of the Listing, without the prior written consent of the Joint Global Coordinators.

The Company has agreed that, subject to certain exceptions, during the period of 180 calendar days after the commencement of the Listing, it will not, without prior written consent of the Joint Global Coordinators, issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

14. SELLING AND TRANSFER RESTRICTIONS

The distribution of this Prospectus and the offer of any Shares, including the Offer Shares, in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those that follow. Failure to comply with these restrictions may constitute a violation of securities laws.

A) General

No action has been taken or will be taken in any jurisdiction other than Estonia by any of the Underwriters or the Company that would permit a public offering of the Shares, or the possession or distribution of any documents relating to the Offering, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. Each of the Underwriters will comply with all applicable laws and regulations in each jurisdiction concerning acquiring, offering or selling of Shares or possession or distribution of any offering documents or any amendment or supplement thereto. No offer or sale of any Shares, including the Offer Shares, may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws of such jurisdiction. Persons receiving a copy of this Prospectus are required by the Company and the Underwriters to inform themselves about and to observe any restrictions as to the offering of any Shares and the distribution of this Prospectus.

By its subscription for Offer Shares or purchase of Shares, each subscriber for Offer Shares or purchaser of Shares will be deemed to have acknowledged that the Company, the Underwriters, their respective affiliates, and other persons will rely upon the truth and accuracy of the acknowledgements, representations and agreements set forth below.

B) European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive other than Estonia (each, a "**Relevant Member State**"), no Offer Shares have been offered or will be offered pursuant to the Offering to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of the Offer Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive in that Relevant Member State:

- to a legal entity which is a qualified investor as defined in the Prospectus Directive; or
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Manager or Underwriters nominated by the Company for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall require the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State other than, in the case of qualified investors referred to in (a) below persons receiving offers contemplated in this Prospectus in Estonia, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with the Underwriters and the Company that:

- it is a qualified investor as defined in the Prospectus Directive, and
- in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) such Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Underwriters has been given to the offer or resale; or (ii) where such Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression "an offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State. In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Offer Shares to the public, other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale. The Company, the Government Shareholder, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor, and who has notified the Underwriters of such fact in writing, may, with the prior consent of the Underwriters, be permitted to subscribe for Offer Shares in the Offer.

C) United Kingdom

Each of the Underwriters has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Offer Shares in, from or otherwise involving the United Kingdom.

D) United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act and may not be offered or sold within the United States, except in a transaction not subject to, or pursuant to an exemption from, the registration requirements of the U.S. Securities Act.

The Securities are being offered and sold by the Underwriters in the United States only to QIBs as defined in, and in reliance on Rule 144A, or another available exemption from the registration requirements of the U.S. Securities Act and outside the United States in offshore transactions in reliance on Regulation S and, in each case, in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Underwriter has represented and agreed, severally and not jointly, that it has not offered or sold, and will not offer or sell, any of the Offer Shares as part of its allocation at any time other than to those it reasonably believes to be QIBs in the United States in accordance with Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act or outside of the United States in compliance with Rule 903 of Regulation S. Transfer of the Offer Shares will be restricted and each purchaser of the Offer Shares in the United States will be required to make certain acknowledgements, representations and agreements, as described under "Transfer Restrictions" below.

Any offer or sale in the United States will be made by affiliates of the Joint Global Coordinators or the Joint Bookrunners who are broker-dealers registered under the U.S. Exchange Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offer Shares into or within the United States by a dealer (whether or not such dealer is participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in reliance on Rule 144A or another available exemption from registration under the U.S. Securities Act.

E) Canada

The Offer Shares may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor. Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts*, the underwriters are not required to comply with the disclosure requirements of National Instrument 33-105 *Underwriting Conflicts* regarding underwriter conflicts of interest in connection with this Offering.

F) Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law (Law No. 25 of 1948, as amended) and accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

G) Transfer Restrictions

(a) United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold except: (i) within the United States only to QIBs as defined in and in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States in compliance with Regulation S, and in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Terms defined in Rule 144A or Regulation S shall have the same meaning when used in this section. Each purchaser of the Offer Shares outside the United States pursuant to Regulation S will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority or any state of the United States, and are subject to significant restrictions on transfer;
- The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares to any person in the United States;
- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Offer Shares;
- The purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Prospectus;
- The Offer Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S;
- The Company shall not recognise any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above restrictions; and
- The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Government Shareholder and the Underwriters will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States pursuant to Rule 144A will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions to transfer;
- The purchaser (i) is a QIB (as defined in Rule 144A), (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Offer Shares for its own account or for the account of a QIB, in each case for investment and not with a view to any resale or distribution to the Offer Shares, as the case may be;
- The purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act;
- The purchaser understands and acknowledges that if, in the future, the purchaser or any such other QIBs for which it is acting, or any other fiduciary or agent representing such purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, as the case may be, such Shares may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction meeting the requirements of Regulation S, (iii) in accordance with Rule 144 under the U.S. Securities Act (if available), (iv) pursuant to any other exemption from the registration requirements of the U.S. Securities Act, subject to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the U.S. Securities Act or (v) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction;
- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares;
- The purchaser understands that Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) and that no representation is made as to the availability of the exemption provided by Rule 144 under the U.S. Securities Act for resales of any Offer Shares, as the case may be;
- The Company shall not recognise any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions; and
- The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Government Shareholder, the Underwriters and their respective advisors will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(b) European Economic Area

Each person in a Relevant Member State (other than, in the case of paragraph (A) below, persons receiving public offers contemplated in this Prospectus in Estonia) who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Underwriter and the Company that:

A. it is a qualified investor as defined in the Prospectus Directive; and

B. in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Underwriters has been given to the offer or resale, or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

PART IV. BACKGROUND, REASONS FOR OFFERING AND USE OF PROCEEDS

The purpose of the Offering is to offer to investors approximately one third of the Company. The goals of the Government Shareholder (current sole shareholder) are to:

- increase flexibility, transparency and efficiency of the Company and the Company's market value;
- provide domestic investment opportunities for Estonian private investors and pension funds;
- increase liquidity and attractiveness of the Tallinn Stock Exchange by attracting international investors.

The Group plans to use the net proceeds received from the Offering to fund part of the EUR 105 million net dividend to the Government Shareholder, which is expected to be paid in June 2018, together with a corresponding corporate income tax amounting to approximately EUR 26.3 million. In addition, the Group plans to use part of the proceeds for general corporate purposes, including ongoing investments into passenger harbour facilities, and to reduce the Group's leverage.

In the Management Board's view, the exact allocation of the funds to the ongoing investments cannot be determined at the date of this Prospectus. The exact allocation of the funds to various ongoing investment projects will be determined by the Company at a later stage depending on the process (including speed, stage and order of execution) of the ongoing investment projects.

The aggregate net proceeds to the Company are estimated to amount to approximately EUR [●] million, after deducting the fees and expenses of the Offering, assuming that all Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range.

The proceeds deriving under the sale of the Secondary Shares (if any) will not be received by the Company, any proceeds of the sale of the Secondary Shares (if any) will be for the Government Shareholder. The Government Shareholder plans to include the net proceeds received from the offering of the Secondary Shares into the Republic of Estonia's liquidity reserve in order to facilitate the management of the Republic of Estonia's cash flows. The net proceeds to the Government Shareholder will be reduced to the extent that the Stabilising Manager exercises the Put Option.

The fees and expenses incurred in connection with the Offering and payable by the Company are estimated to amount to approximately EUR [●] million, based on the mid-point of the Offer Price Range.

In addition to the above, the Offering is expected to broaden the Group's investor base. The Listing is expected to increase liquidity of the Shares and enhance the Group's profile in relation to current and potential customers and other cooperation partners, and to increase trading and liquidity of the Tallinn Stock Exchange.

PART V. CAPITALISATION AND INDEBTEDNESS

1. CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The table below sets out the Group's capitalisation and indebtedness as of 31 March 2018. The capitalisation and indebtedness information has been sourced from the unaudited Interim Financial Report. The Group's consolidated capitalisation and indebtedness will be significantly impacted by the Offering and the use of proceeds therefrom. See Part IV (Background, Reasons for Offering and Use of Proceeds). Investors should read this table together with Part VII (Selected Financial Information).

	As at 31 March 2018 (EUR '000)
Current debt	
Guaranteed[1]	-
Secured[1]	-
Unguaranteed/unsecured[2]	19,423
Total current debt	**19,423**
Non-current debt	
Guaranteed[1]	-
Secured[1]	-
Unguaranteed/unsecured[3]	210,611
Total non-current debt	**210,611**
Equity	
Share capital	185,203
Statutory reserve capital	18,520
Hedge reserve	(545)
Retained earnings	122,678
Profit for the period	11,828
Total equity	**337,684**

[1] All loans and borrowings of the Company as of 31 March 2018 are unguaranteed/unsecured.
[2] Current debt unguaranteed/unsecured corresponds to the current balance of loans and borrowings as of 31 March 2018.
[3] Non-current debt unguaranteed/unsecured corresponds to the non-current balance of loans and borrowings as of 31 March 2018.

2. NET INDEBTEDNESS

The table below sets out the Group's net indebtedness as of 31 March 2018. This statement of indebtedness has been extracted without material adjustment from the Group's unaudited accounting records as of 31 March 2018.

	As at 31 March 2018 (EUR '000)
Cash and cash equivalents	20,188
Trading Securities	-
Liquidity	**20,188**
Current financial receivable[1]	**8,505**
Current bank debt	-
Current portion of non-current debt[2]	(19,416)
Other current financial debt[3]	(7)
Current financial debt[4]	**(19,423)**
Net current financial indebtedness	**9,270**
Non current bank loans[5]	(43,361)
Bonds issued[6]	(167,250)
Other non current loans	-
Non current financial indebtedness[7]	**(210,611)**
Net financial indebtedness	**(201,341)**

As of 31 March 2018 the Group has no contingent or indirect indebtedness. Certain of the Group's loan agreements and debt securities contain covenants that could result in an event of default under the existing loan agreement or debt instrument if breached, which include a maximum debt to EBITDA ratio (Consolidated Total Borrowings to Consolidated EBITDA maximum 4.5 times), a minimum Adjusted EBITDA of €20 million, and equity to total assets (40% or 50%). See Part XVIII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements).

For the Group's off-balance sheet transactions, see Part VIII (Operating and Financial Review), section 16 (Borrowings), subsection C (Off-Balance Sheet Transactions and Contingent Obligations and Liabilities).

[1] Corresponds to current trade and other receivables.
[2] Corresponds to current loans and borrowings less finance lease obligations.
[3] Corresponds to financial lease obligations.
[4] Corresponds to current liabilities - loans and borrowings
[5] Corresponds to non-current loans and borrowings.
[6] Corresponds to non-current debt securities.
[7] Corresponds to non-current liabilities - loans and borrowings

PART VI. DIVIDENDS AND DIVIDEND POLICY

1. DIVIDENDS

The following table shows the dividends *per* share declared and paid (or, with respect to EUR 105 million net dividend declared on 25 April 2018 - payable) by the Company to its sole shareholder, the Government Shareholder, in each of the years indicated:

Year of declaration	**2018**	**2017**	**2016**	**2015**
Number of shares	187,595,032 (number of shares at the moment dividends were declared)	185,203,032	185,203,032	185,203,032
Dividends declared (EUR)	105,000,000	48,000,000	35,000,000	31,192,000
Dividends paid (EUR)	Payment is expected to be made in June 2018, which is anticipated to be after the Settlement of the Offering	48,000,000	35,000,000	31,192,000
Dividends per share (EUR)	0.560 (based on the number of shares at the moment dividends were declared)	0.259	0.189	0.168

On 25 April 2018, the Government Shareholder in the capacity of the sole shareholder of the Company approved the audited annual report of the Company for the financial year which ended on 31 December 2017 and resolved to distribute dividends on the account of undistributed profits accrued until 31 December 2017, in the amount of EUR 105 million. The payment of the dividends is expected to be made to the Government Shareholder in June 2018, which is anticipated to be after the Settlement of the Offering. For the avoidance of doubt, the Offer Shares purchased by investors will not grant rights to the investors to receive any part of the said dividend payment. The income tax payable on the above-mentioned dividend declared (see Part XIV (Taxation), section 1 (Estonian Tax)) shall be reflected as cost for the financial year ending 31 December 2018.

2. DIVIDEND POLICY

The Offer Shares will give rights to dividends declared and paid on the Shares after the registration of the Offer Shares with the ERS for the financial period starting on 1 January 2018, and for any subsequent financial years. The average annual dividends paid out during the period 2008 - 2017 (inclusive) has been approximately EUR 28 million.

According to the Company's dividend policy, approved by the Supervisory Council of the Company on 13 February 2018 and by the Government Shareholder on 25 April 2018, during the period 2019-2020 the Company intends to annually pay out at least EUR 30 million in post-tax regular dividend distributions and following that period, the Company intends to distribute to its shareholders at least 70% of its preceding year's net profit. The above excludes any one-off effects and is subject to market conditions, growth and development plans and the need to maintain a reasonable level of liquidity.

Separate from the Company's dividend policy approved by the Government Shareholder, the Minister of Economic Affairs and Infrastructure on 19 April 2018 approved a policy document entitled "*State's primary objectives in connection with the shareholding in AS Tallinna Sadam*", which outlines the considerations and objectives of the Government Shareholder as a shareholder of the Company. Among other matters, this document acknowledges the Company's dividend policy (in the terms previously described) and in addition sets out, as an aim for the Company going forward, the payment of net dividends in the amount of EUR 35 million a year. In line with the Company's dividend policy, the document acknowledges, in all cases, that the timing and amount of dividend payments is subject to market conditions, growth and development plans and the need to maintain a reasonable level of liquidity, as well as any one-off effects. This section includes forward-looking statements, which involve risks and uncertainties relating to events and depending on circumstances that may or may not occur in the future (for further information, see Part XVIII (Additional Information), section 9 (Forward-Looking Statements).

The timing and amount of any future dividend payments will depend on the Group's existing and future financial condition, results of operations, capital requirements, liquidity needs and other matters that it may consider relevant from time to time, including, without limitation, the ability of subsidiaries to distribute dividends, its capital needs, financial performance and prevailing equity market conditions. Furthermore, as under Estonian law the payment of dividends is decided by the General Meeting of Shareholders, see Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights), subsection D (Dividends and Other Distributions), the Company cannot ensure that dividends will be paid in the future, or if dividends will be paid, how much they will amount to.

The existing financing agreements entered into by the Group do not restrict payment of dividends subject to (i) compliance by the Group with the financial covenants, (ii) no default set out in such financial agreements having occurred, and (iii) the proposed payment or distribution being out of retained earnings and distributable profits (not resulting from any revaluations) as approved by the last financial statement of the Company.

As to the tax considerations applicable to the Company's dividends, see Part XIV (Taxation), section 1 (Estonian Tax). As to the procedure relating to the payment of dividends, see Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights), subsection D (Dividends and Other Distributions).

PART VII. SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial information as at the end of and for each of the three financial years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018. The financial information included in this Prospectus as of and for each of the three financial years ended 31 December 2015, 2016 and 2017 has been derived or extracted from the Audited Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (the "**IFRS**") and the Estonian Accounting Act. The interim financial information included in this Prospectus as of and for the three months ended 31 March 2018 has been extracted or derived from the Interim Financial Report prepared in accordance with International Accounting Standards ("**IAS**") 34, *Interim Financial Reporting* ("**IAS 34**").

On 1 January 2017, the Group early adopted IFRS 15, *Revenue from Contracts with Customers* ("**IFRS 15**") and IFRS 9, *Financial Instruments* ("**IFRS 9**"). IFRS 15 was applied using the full retrospective transitional approach and therefore the 2016 comparatives have been adjusted to reflect the changes required to the comparative period. IFRS 9 has also been applied retrospectively; however because the impact was not material, no restatements were required or applied as it relates to IFRS 9. In addition to the changes in accounting policy due to the early adoption of IFRS 9 and IFRS 15, the Group has voluntarily applied changes in accounting policies retrospectively for the presentation of government grants under ISA 20, *Accounting for Government Grants and Disclosure of Government Assistance* ("**IAS 20**") and the presentation of loss allowance in order to provide more reliable and relevant information.

The audited consolidated financial statements as of and for the year ended 31 December 2015 (the "**2015 Audited Financial Statements**") do not reflect the changes from the application of IFRS 15 and IFRS 9. Those audited consolidated financial statements applied IAS 18, *Revenue* ("**IAS 18**") and IAS 39, *Financial Instruments: Recognition and Measurement* ("**IAS 39**"), which were the accounting standards in effect at that time. Therefore, due to the adoption of the new accounting standards, the consolidated financial statements as of and for the year ended 31 December 2017, including the comparative financial statements as of and for the year ended 31 December 2016, are not directly comparable with the consolidated financial statements as of and for the year ended 31 December 2015.

In addition, this section contains certain Non-IFRS Financial Measures. The Non-IFRS Financial Measures are not measurements of performance or liquidity under IFRS or any other generally accepted accounting principles. Investors should not place undue reliance on these Non-IFRS Financial Measures and should not consider these measures as: (a) an alternative to operating profit or profit for the year as determined in accordance with IFRS, or as measures of operating performance; (b) an alternative to cash flows from operating, investing or financing activities, as determined in accordance with IFRS, or a measure of the Group's ability to meet cash needs; or (c) an alternative to any other measures of performance under IFRS. These measures are not indicative of the Group's historical operating results, nor are they meant to be predictive of future results. These measures are used by the Group's management to monitor the underlying performance of the business and the operations. Since all companies do not calculate these measures in an identical manner, the Group's presentation may not be consistent with similar measures used by other companies. Such Non-IFRS Measures utilised by the Management Board are Adjusted EBITDA, Adjusted EBITDA margin, cash conversion and Adjusted cash conversion and the respective quantitative reconciliations to the most directly comparable amounts reported in accordance with IFRS, are below.

1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March	As at 31 December		
	2018	2017	2016	2015
	(unaudited)	*(audited)*		
	(EUR '000)			
Current assets				
Cash and cash equivalents	20,188	6,954	49,918	25,902
Trade and other receivables	8,505	9,271	17,276	9,183
Contract assets	234	-	-	-
Inventories	319	301	378	129
Total current assets	**29,246**	**16,526**	**67,572**	**35,214**
Non-current assets				
Investments in joint venture	1,256	1,256	1,086	710
Other long-term receivables	272	272	362	476
Property, plant and equipment	573,707	577,125	568,533	544,189
Intangible assets	1,896	1,958	1,155	495
Total non-current assets	**577,131**	**580,611**	**571,136**	**545,870**
Total assets	**606,377**	**597,137**	**638,708**	**581,084**
Current liabilities				
Loans and borrowings	19,423	21,989	118,018	25,710
Derivative financial instruments	545	609	1,008	831
Provisions	881	1,503	1,156	965
Government grants	161	303	917	917
Taxes payable	1,223	698	9,436	8,318
Trade and other payables	7,497	7,777	8,344	5,700
Contract liabilities	3,663	33	40	-
Total current liabilities	**33,393**	**32,912**	**138,919**	**42,441**
Non-current liabilities				
Loans and borrowings	210,611	213,611	128,035	171,043
Government grants	23,687	23,826	23,703	23,695
Other payables	64	64	128	1,238
Contract liabilities	938	932	955	-
Total non-current liabilities	**235,300**	**238,433**	**152,821**	**195,976**
Total liabilities	**268,693**	**271,345**	**291,740**	**238,417**
Equity				
Share capital	185,203	185,203	185,203	185,203

	As at 31 March	As at 31 December		
	2018	2017	2016	2015
	(unaudited)	*(audited)*		
	(EUR '000)			
Statutory reserve capital	18,520	18,520	18,520	18,520
Hedge reserve	(545)	(609)	(1,008)	(831)
Retained earnings	122,678	96,253	104,775	108,907
Profit for the period	11,828	26,425	39,478	30,868
Total equity	**337,684**	**325,792**	**346,968**	**342,667**
Total liabilities and equity	**606,377**	**597,137**	**638,708**	**581,084**

2. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory capital reserve	Cash flow hedging reserve	Retaine d earnings	Total
	(EUR '000)				
Equity as at 31 December 2014	**185,203**	**18,520**	**(747)**	**140,099**	**343,075**
Profit for the period	-	-	-	30,868	**30,868**
Other comprehensive income	-	-	(84)	-	**(84)**
Total comprehensive income for the year	-	-	(84)	30,868	**30,784**
Dividends declared	-	-	-	(31,192)	**(31,192)**
Total transactions with the shareholder of the company				(31,192)	**(31,192)**
Equity as at 31 December 2015	**185,203**	**18,520**	**(831)**	**139,775**	**342,667**
Profit for the period	-	-	-	39,478	**39,478**
Other comprehensive income	**-**	-	(177)	-	**(177)**
Total comprehensive income for the year	-	-	(177)	39,478	**39,301**
Dividends declared	-	-	-	(35,000)	(35,000)
Equity as at 31 December 2016	**185,203**	**18,520**	**(1,008)**	**144,253**	**346,968**
Profit for the period	-	-	-	26,425	**26,425**
Other comprehensive income for the period	**-**	-	399	-	**399**
Total comprehensive income for the period	-	-	399	26,425	**26,824**
Dividends Declared	-	-	-	(48,000)	(48,000)
Equity as at 31 December 2017	**185,203**	**18,520**	**(609)**	**122,678**	**325,792**
Profit for the period	**-**	**-**	**-**	11,828	**11,828**
Other comprehensive income for the period	**-**	**-**	64	-	**64**
Total comprehensive income for the period	**-**	**-**	64	11,828	**11,892**
Equity as at 31 March 2018	**185,203**	**18,520**	**(545)**	**134,506**	**337,684**

3. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 Adjusted**	**2015**
	(unaudited)			*(audited)*	
			(EUR '000)		
Revenue..	29,414	29,849	121,295	103,152	93,794
Other income...	203	3,898	4,808	8,099	5,824
Operating expenses	(7,584)	(10,163)	(41,041)	(30,327)	(23,514)
Personnel expenses..................................	(4,189)	(4,057)	(17,957)	(14,121)	(12,416)
Depreciation, amortisation, and impairment	(5,403)	(4,550)	(26,430)	(17,358)	(22,513)
Other expenses	(102)	(251)	(358)	(550)	(810)
Operating profit..	**12,339**	**14,726**	**40,317**	**48,895**	**40,365**
Finance income	-	4	33	32	40
Finance costs	(511)	(475)	(2,318)	(1,075)	(1,328)
Finance costs net..	**(511)**	**(471)**	**(2,285)**	**(1,043)**	**(1,288)**
Profit from investments in joint venture under equity method of accounting	-	51	348	376	162
Profit before income tax	**11,828**	**14,306**	**38,380**	**48,228**	**39,239**
Income tax expense	-	-	(11,955)	(8,750)	(8,371)
Profit for the period	**11,828**	**14,306**	**26,425**	**39,478**	**30,868**
Profit for the period attributable to owners of the Company	**11,828**	**14,306**	**26,425**	**39,478**	**30,868**
Basic earnings and diluted earnings per share (in euros)	0.06	0.08	0.14	0.21	0.17
Basic earnings and diluted earnings per share - continuing operations (in euros)	0.06	0.08	0.14	0.21	0.17

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 Adjusted	2015
	(unaudited)			*(audited)*	
			(EUR '000)		
Other comprehensive income					
Profit for the period ....………	11,828	14,306	26,425	39,478	30,868
Other comprehensive income					
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges	64	168	399	(177)	(84)
Total other comprehensive income	**64**	**168**	**399**	**(177)**	**(84)**
Total comprehensive income for the period ..	**11,892**	**14,474**	**26,824**	**39,301**	**30,784**
Total comprehensive income for the period attributable to owners of the Company	**11,892**	**14,474**	**26,824**	**39,301**	**30,784**

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES

On 1 January 2017, the Group early adopted IFRS 15 and IFRS 9. IFRS 15 was applied using the full retrospective transitional approach and therefore the 2016 comparatives have been adjusted. IFRS 9 has also been applied retrospectively for 2016; however, because the impact was not material, no restatements were required or applied as it relates to IFRS 9. In addition to the changes in accounting policy due to the early adoption of IFRS 9 and IFRS 15, the Group has voluntarily applied changes in accounting policies retrospectively for the presentation of government grants under IAS 20 and the presentation of loss allowance in order to provide more reliable and relevant information.

The audited consolidated financial statements as of and for the year ended 31 December 2015 have not been adjusted for the application of IFRS 15 and IFRS 9. Those audited consolidated financial statements applied IAS 18 and IAS 39, which were the accounting standards in effect at that time. Therefore, due to the adoption of the new accounting standards, the consolidated financial statements as of and for the year ended 31 December 2017, including the adjusted comparative financial statements as of and for the year ended 31 December 2016, are not directly comparable with the consolidated financial statements as of and for the year ended 31 December 2015.

Following is a summary of all adjustments to 2016 reported figures having impact from changes in accounting policies:

	2016		
	As previously reported	Adjustments	As adjusted
		(EUR '000)	
Revenue	95,885	7,267	103,152
incl. Cargo charges[(1)]	6,474	2,848	9,322
Sale of ferry services-government support[(2)].	-	4,419	4,419
Other income	15,366	(7,267)	8,099
incl. Penalties, interest on arrears[(1)]	9,858	(2,848)	7,010
Income from government grants[(2)]	5,066	(4,419)	647
Operating expenses	(29,260)	(1,067)	(30,327)
incl. Other operating expenses	(848)	(1,067)	(1,915)
Cost from credit-impaired financial assets [(3)]	(44)	(1,067)	(1,111)
Other expenses	(1,617)	1,067	(550)
incl loss allowance[(3)]	(1,039)	1,067	28

Notes

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

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

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

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

	2016		
	As previously reported	Adjustments	As adjusted
		(EUR '000)	
Cash receipts from sale of goods and services	100,654	6,767	107,421
Cash receipts related to other income	7,053	(6,767)	286

5. CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 Adjusted	2015
	(unaudited)		(audited)		
	(EUR '000)				
Cash receipts from sale of goods and services .	35,237	34,569	127,814	107,421	102,570
Cash receipts related to other income..............	3	327	450	286	1,603
Payments to suppliers......................................	(8,987)	(11,705)	(48,658)	(37,343)	(32,957)
Payments to and on behalf of employees	(3,517)	(2,934)	(14,824)	(11,939)	(11,267)
Payments for other expenses	(99)	(590)	(744)	(204)	(629)
Income tax paid on dividends..........................	-	(8,657)	(20,612)	(7,763)	-
Cash flows from operating activities............	**22,637**	**11,010**	**43,426**	**50,458**	**59,320**
Purchases of property, plant and equipment (PPE)	(2,984)	(12,973)	(25,171)	(39,208)	(65,185)
Purchases of intangible assets	(130)	(236)	(1,346)	(704)	(185)
Proceeds from sale of PPE	-	250	524	726	1,914
Connection fees received	-	-	-	-	170
Proceeds from government grants for non-current assets	-	-	349	346	12
Dividends received	-	-	178	-	-
Interest received	-	3	19	14	18
Cash used in investing activities...................	**(3,114)**	**(12,956)**	**(25,447)**	**(38,826)**	**(63,256)**
Issue of debt securities	-	-	105,000	75,000	60,000
Redemption of debt securities	-	-	(111,250)	(2,500)	(2,500)
Proceeds from loans	-	-	-	-	15,000

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 Adjusted	2015
	(unaudited)		*(audited)*		
			(EUR '000)		
Repayment of loans	(3,000)	(3,000)	(6,766)	(23,210)	(21,433)
Change in overdraft	(2,565)	-	2,565	-	-
Finance lease principal repayments	(1)	(1)	(3)	(2)	-
Dividends paid	-	-	(48,000)	(35,000)	(31,192)
Interest paid	(707)	(789)	(2,459)	(1,884)	(1,866)
Other payments related to financing activities	(16)	-	(30)	(20)	(42)
Cash used in financing activities	**(6,289)**	**(3,790)**	**(60,943)**	**12,384**	**17,967**
Net cash flow	**13,234**	**(5,736)**	**(42,964)**	**24,016**	**14,031**
Cash and cash equivalents at beginning of the period	**6,954**	**49,918**	**49,918**	**25,902**	**11,871**
Change in cash and cash equivalents	**13,234**	**(5,736)**	**(42,964)**	**24,016**	**14,031**
Cash and cash equivalents at end of the period	**20,188**	**44,182**	**6,954**	**49,918**	**25,902**

6. ADDITIONAL FINANCIAL INFORMATION

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(Amounts in EUR '000)				
Operating profit margin (unaudited) (1)	41.9%	49.3%	33.2%	47.4%	43.0%
Net profit margin (unaudited)(2)	40.2%	47.9%	21.8%	38.3%	32.9%
Adjusted EBITDA (unaudited) (3) (6)	17,603	19,197	66,521	66,068	62,515
Adjusted EBITDA margin (unaudited) (4) (6)	59.8%	64.3%	54.8%	64.0%	66.7%
Adjusted cash conversion (unaudited) (5) (6)	89.3%	90.2%	76.3%	77.5%	83.6%
Cash Conversion (unaudited) (6) (7)	89.1%	(82.1%)	46.1%	35.6%	(4.4%)

Notes:

(1) Operating profit margin represents operating profit divided by revenue, expressed as a percentage.

(2) Net profit margin represents profit for the period divided by revenue, expressed as a percentage.

(3) The Group defines Adjusted EBITDA as profit for the period plus depreciation, amortisation and impairment, finance income and cost (net) and income tax expense less amortisation of grants received. A reconciliation of Adjusted EBITDA to profit for the period is as follows:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(EUR '000)				
Profit for the period	11,828	14,306	26,425	39,478	30,868
plus:					
Finance income and costs, net.........................	511	471	2,285	1,043	1,288
Profit from investments in joint venture under equity method of accounting...........................	-	(51)	(348)	(376)	(162)
Income tax expense...	-	-	11,955	8,750	8,371
Operating profit	**12,339**	**14,726**	**40,317**	**48,895**	**40,365**
Depreciation and amortisation	5,403	4,534	20,446	17,088	17,243
Impairment loss...	-	16	5,984	270	5,270
Amortisation of the government grants (included in other income)	(139)	(130)	(574)	(561)	(525)
Profits from investments in joint venture under equity method of accounting.................	-	51	348	376	162
Adjusted EBITDA...	**17,603**	**19,197**	**66,521**	**66,068**	**62,515**
Adjusted EBITDA Margin (Adjusted EBITDA/Revenue)	**59.8%**	**64.3%**	**54.8%**	**64.0%**	**66.7%**

(4) Adjusted EBITDA margin (presented in the table above) represents Adjusted EBITDA divided by total revenue, expressed as a percentage.

(5) Adjusted cash conversion represents Adjusted EBITDA less adjusted capital expenditure divided by Adjusted EBITDA. Adjusted capital expenditure is total capital expenditure less capital expenditures incurred by the Ferry segment. A reconciliation to cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities is presented as follows:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(unaudited)		*(audited)*		
	(EUR '000)				
Adjusted EBITDA (unaudited)……………………...	17,603	19,197	66,521	66,068	62,515
Capital expenditure………………………………….	1,923	34,950	35,847	42,544	65,281
Less: capital expenditures related to the Ferry segment…………………………………………...	39	33,074	20,066	27,682	55,052
Adjusted capital expenditure (unaudited)…………...	1,885	1,876	15,781	14,862	10,229
Adjusted cash flow conversion (unaudited)…………	89.3%	90.2%	76.3%	77.5%	83.6%
Cash flows from operating activities	22,637	11,010	43,426	50,458	59,320
Cash used in investing activities..............................	3,114	12,956	25,447	38,826	63,256
Cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities	86.2%	(17.7%)	41.4%	23.1%	(6.6%)

(6) Non-IFRS measures

(7) Cash Conversion represents Adjusted EBITDA less capital expenditure divided by Adjusted EBITDA. A reconciliation to cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities is presented as follows:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(unaudited)		*(audited)*		
	(EUR '000)				
Adjusted EBITDA (unaudited)………………………	17,603	19,197	66,521	66,068	62,515
Capital expenditure………………………………….	1,923	34,950	35,847	42,544	65,281
Cash conversion (unaudited)	89.1%	(82.1%)	46.1%	35.6%	(4.4%)
Cash flows from operating activities	22,637	11,010	43,426	50,458	59,320
Cash used in investing activities..............................	3,114	12,956	25,447	38,826	63,256
Cash flows from operating activities less cash used in investing activities divided by cash flows from operating activities	86.2%	(17.7%)	41.4%	23.1%	(6.6%)

PART VIII. OPERATING AND FINANCIAL REVIEW

The following discussion should be read together with the Financial Statements and the notes thereto and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those discussed under Part II (Risk Factors) and in Part XVIII (Additional Information), section 9 (Forward-Looking Statements).

1. OVERVIEW

The Group is the owner of the third largest passenger port in the Baltic Sea Region and the fourth largest passenger port in the Northern Europe in terms of passenger traffic (10.6 million passengers in 2017). The Group is the largest cargo port in Estonia in terms of cargo volumes (19.2 million tonnes in 2017). The Group provides infrastructure (such as aquatories, quays and road networks) and superstructure (such as ramps, galleries and terminals) for passenger vessels, infrastructure for cargo vessels and cargo operators, efficient ferry services between the Estonian mainland and its two largest islands for domestic ferry passengers, as well as offering passenger ship and cargo operators a productive, technology-enabled environment for their operations. The Group has a diversified portfolio of operations, including passenger harbours, cargo harbours, domestic ferry services between Estonia's mainland and its two largest islands (Saaremaa, through Muhumaa Island, and Hiiumaa), and other services (which include the provision of ice-breaking and other maritime support services utilising the Group's ice-breaker Botnica and the provision of waste management services mainly through joint venture, AS Green Marine).

In 2017, the Group generated revenue of €121.3 million, an Adjusted EBITDA of €66.5 million, profit for the period of €26.4 million, and an operating profit of €40.3 million. See Part VII (Selected Financial Information), section 6 (Additional Financial Information) and Part XVIII (Additional Information), section 8 (Presentation of Financial and Certain Other Information), subsection B (Non-IFRS Financial Measures) for a reconciliation of Adjusted EBITDA to operating profit.

	For the three month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 (Adjusted)**	**2015[5]**
Passenger Harbours					
Total passengers[1] ('000)	1,924	1,921	10,560	10,173	9,793
International ferry[1] ('000)	1,924	1,921	9,994	9,699	9,295
Tallinn-Helsinki route ('000)	1,686	1,682	8,798	8,477	8,186
Tallinn-Stockholm route ('000)	216	211	1,013	964	931
Tallinn-Stockholm-Helsinki-St. Petersburg route ('000)	2	7	83	163	125
Overnight cruise and other passengers ('000)[1]	20	21	100	95	53
Cruise[2] ('000)	-	-	566	474	497
Old City Harbour[2] ('000)	-	-	564	473	494
Saaremaa Harbour[2]	-	-	1,500	700	3,600
Vessel calls	1,138	1,179	5,716	5,381	5,197
International ferry[3]	1,138	1,179	5,400	5,109	4,916
Tallinn-Helsinki route	1,039	950	4,554	4,093	3,921
Tallinn-Stockholm route	89	85	359	365	362
Tallinn-Stockholm-Helsinki-St. Petersburg route	1	2	41	79	87
Overnight cruise and other vessels[3]	9	142	446	572	546
Cruise[2]	-	-	316	272	281

	For the three month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 (Adjusted)	2015[5]
Old City Harbour[2]	-	-	311	270	276
Saaremaa Harbour[2]	-	-	5	2	5
Revenue ('000)	€8,843	€9,310	€49,854	€47,454	€44,326
Operating profit ('000)	€4,150	€5,225	€28,765	€28,925	€25,997
Adjusted EBITDA ('000)	€5,480	€6,254	€33,299	€33,620	€30,451
Adjusted EBITDA Margin	62.0%	67.2%	66.8%	70.8%	68.7%
% of Group's total revenue	30.1%	31.2%	41.1%	46.0%	47.3%
% of Group's Adjusted EBITDA	31.1%	32.6%	50.1%	50.9%	48.7%
Passenger yield[6]	€4.60	€4.85	€4.72	€4.66	€4.53
Cargo Harbours					
TEU Traffic for the period	51,666	54,516	215,451	202,327	208,784
Cargo volume for the period ('000 tonnes) [4]	5,019	5,000	19,182	20,118	22,431
Cargo vessel calls	396	453	1,677	1,791	1,682
Revenue ('000)	€10,473	€10,822	€39,757	€44,755	€44,890
Operating profit ('000)	€4,661	€5,236	€15,144	€18,935	€19,628
Adjusted EBITDA ('000)	€6,713	€7,290	€23,331	€28,412	€29,262
Adjusted EBITDA Margin	64.1%	67.4%	58.7%	63.5%	65.2%
% of Group's total revenue	35.6%	36.3%	32.8%	43.4%	47.9%
% of Group's Adjusted EBITDA	38.1%	38.0%	35.1%	43.0%	46.8%
Adjusted cargo yield[7]	€2.62	€2.73	€2.67	€2.77	€2.40
Ferry					
Revenue ('000)	€6,655	€6,342	€27,100	€6,330	-
Operating profit ('000)	€1,336	€2,554	€3,482	€2,504	€(92)
Adjusted EBITDA ('000)	€2,738	€3,311	€8,398	€2,772	€(92)
Adjusted EBITDA Margin	41.1%	52.2%	31.0%	43.8%	-
% of Group's total revenue	22.6%	21.2%	22.3%	6.1%	-
% of Group's Adjusted EBITDA	15.6%	17.2%	12.6%	4.2%	(0.1%)
Other					
Revenue ('000)	€3,443	€3,375	€4,584	€4,613	€4,577
Operating profit ('000)	€2,192	€1,711	€(7,074)	€(1,469)	€(5,169)
Adjusted EBITDA ('000)	€2,672	€2,342	€1,493	€1,264	€2,894
Adjusted EBITDA Margin	77.6%	69.4%	32.6%	27.4%	63.2%
% of Group's total revenue	11.7%	11.3%	3.8%	4.5%	4.9%
% of Group's Adjusted EBITDA	15.2%	12.2%	2.2%	1.9%	4.6%

Notes: (1) Includes a limited number (less than 0.5%) of passengers serviced by the Group's cargo harbours (such as truck drivers).
(2) Excludes overnight cruises.
(3) Includes cargo vessel calls to Group's passenger harbours and excludes passenger vessel calls to the Group's cargo harbours.
(4) Includes 1.0 million and 1.0 million tonnes of cargo from passenger harbours in the three month periods ended 31 March 2017 and 2018, respectively, and 3.8 million, 4.0 million and 4.3 million tonnes of cargo from passenger harbours for in 2015, 2016 and 2017 respectively.
(5) Financial figures for 2015 are unaudited and have been derived from management accounts.
(6) Calculated as revenue from the Passenger Harbours segment divided by total number of passengers.
(7) Calculated as revenue from the Cargo Harbours segment divided by (total cargo minus passenger harbours cargo).

2. BASIS OF PRESENTATION

The Audited Financial Statements have been prepared in accordance with IFRS. On 1 January 2017, the Group adopted IFRS 15 and IFRS 9. IFRS 15 was applied using the full retrospective transitional approach and therefore the 2016 comparative figures have been adjusted to reflect the changes required to the comparative period. IFRS 9 was also applied retrospectively for the year ended 31 December 2016 but no restatements related to IFRS 9 were required or applied because the impact was not material.

The 2015 Audited Financial Statements do not reflect the changes from the application of IFRS 15 and IFRS 9. The 2015 Audited Financial Statements applied IAS 18, and IAS 39 which were the accounting standards in effect at that time. Therefore, due to the adoption of the new accounting standards, the Audited Financial Statements as of and for the year ended 31 December 2017, including the audited comparative period as of and for the year ended 31 December 2016, is not directly comparable with the 2015 Audited Financial Statements. The 2016 financial information included in this Prospectus was derived or extracted from the audited comparative financial information included in the Audited Financial Statements as of and for the year ended 31 December 2017.

The Interim Financial Report has been prepared in accordance with IAS 34.

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

For further information on IFRS 15 and IFRS 9, see Part VIII (Operating and Financial Review) section 14 (Adoption of new and revised IFRS standards).

Revenue and contract assets/liabilities

Vessel dues include a tonnage charge based on the gross tonnage of the vessel for each port call of the vessel. For vessels visiting the port based on a pre-agreed schedule and having a prospective volume discount during the year, the transaction price is allocated between the tonnage services and the option for discounted tonnage services based on the estimated total number of port calls by that vessel during the calendar year. Revenue from tonnage dues is recognised based on the yearly average tariffs and estimated volume as described above. The difference with amounts charged to customers was recognised as a contract asset in the amount of €0.1 million (revenue recognised is higher than revenue charged) and as a contract liability in the amount of €3.5 million (revenue recognised is less than revenue charged) as at 31 March 2018.

In addition, some cargo charge contracts set a minimum annual cargo volume whereby if the cargo operator handles less than the minimum, the Group has the right at the end of the calendar year to charge the customer based on the minimum volume. The Management Board has estimated that Group's remaining right to consideration based on minimum cargo volumes and fees already received from customers as at 31 March 2018 and, as a result, the Group has recognised a contract asset in the amount of €0.2 million. Revenue received from some customers as of 31 March 2018 has exceeded the Management Board's estimate and as a result the Group has recognised a contract liability in the amount of €0.1 million to recognise the estimated revenue evenly throughout the interim periods of 2018. See Note 10 to the Interim Financial Report.

3. BASIS OF CONSOLIDATION

A) Subsidiaries

In accordance with IFRS, a subsidiary is any entity controlled by the Company, which occurs if the Company has (i) power over the entity, (ii) exposure, or rights, to variable returns from the Company's involvement with the entity and (iii) has the ability to use its power over the entity to affect the amount of the returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income for each consolidated subsidiary are attributed to the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. The Group owns 100% of each of its consolidated subsidiaries, and therefore a non-controlling interest has not been recognised for the periods under review.

If necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group. Assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Company and its consolidated subsidiaries have been eliminated.

B) Joint Ventures

Joint ventures are accounted for under the equity method, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). Under the equity method, the Company's holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the Group's share of the net assets under joint control. The statement of profit or loss of the Group includes the Group's share in the profit or loss of the entity under joint control. For more information on the basis of consolidation for joint ventures, see Note 2 to the Audited Financial Statements as of and for the year ended 31 December 2017.

4. SEGMENT REPORTING

The Group's reportable segments are as follows:

- Passenger Harbours – the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing passengers – Old City Harbour and Saaremaa Harbour.
- Cargo Harbours – the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing cargo – Muuga Harbour and Paldiski South Harbour. Paljassaare Harbour also has minimal ongoing cargo operations (the harbour is mainly used for ship repair services provided by private shipyards) but is in the process of being divested.
- Ferry – the rendering of a ferry service by TS Laevad OÜ with passenger ferries between Estonia's mainland and two major islands (Saaremaa (through Muhumaa) and Hiiumaa) in accordance with the Ferry Service Agreement concluded with the Republic of Estonia through the Estonian Road Administration (the "**ERA**") (in total two routes are serviced).
- Other – the results from the activities of the ice-breaker Botnica provided by TS Shipping OÜ and the Group's share in the profit or loss of AS Green Marine as an equity method investee.

See this Part VIII (Operating and Financial Review), section 6 (Components of Results of Operations), subsection A (Revenue) below for more information on the components of revenue for each reportable segment.

5. MAJOR FACTORS AFFECTING CONSOLIDATED FINANCIAL RESULTS

The most significant factors affecting the Group's consolidated financial results are described below:

A) Demand for the Group's services.

The Group's results depend on demand for the Group's services, which can be influenced by a number of factors.

(a) Passenger Harbours

Total revenue from the Passenger Harbours segment increased from €44.3 million in 2015 to €49.8 million in 2017 (reflecting a CAGR of 6.0% from 2015 to 2017). The growth in the revenue from the Passenger Harbours segment was mainly driven by an increase in the total number of passengers from 9.8 million in 2015 to 10.6 million in 2017 (reflecting a CAGR of 4.0% from 2015 to 2017). The total number of passengers has increased from 8.8 million in 2012 to 10.6 million in 2017 (reflecting a CAGR of 3.8%). The Management Board expects the rate of growth per annum in passenger volume to decrease slightly to a CAGR of 2% over the near term before converging to a CAGR of 1%. The growth in the number of passengers during the periods under review was backed by higher economic activity in the Baltic Sea Region and Tallinn's attractiveness as a tourist destination. The number of passenger vessel calls also increased during both 2016 and 2017, and the replacement of vessel M/V Superstar with the vessel M/V Megastar, which has a larger gross tonnage, led to higher revenues for the Group.

The percentage of the Group's total consolidated revenue derived from the Passenger Harbours segment increased from 2015 to 2016 as a result of revenues from the Passenger Harbours segment increasing while revenues from the Cargo Harbours segment decreased. The percentage of the Group's total consolidated revenue derived from the Passenger Harbours segment decreased from 2016 to 2017 due to the introduction of the Ferry segment, as discussed below in Part VIII (Operating and Financial Review), section 5 (Major Factors Affecting Consolidated Financial Results) subsection C (Revenue model and mix). The customers of the Passenger Harbours segment are mainly international ferry and cruise ship operators.

(i) International Ferry Operations

For international ferry operations, the number of passenger vessel calls increased from 4,916 in 2015 to 5,400 in 2017 (reflecting a CAGR of 4.8% from 2015 to 2017), and the number of ferry passengers increased from 9,295,000 in 2015 to 9,994,000 passengers in 2017 (reflecting a CAGR of 3.7% from 2015 to 2017). The Management Board believes that the demand for international ferry services correlates with gross domestic product and population growth in Finland and Estonia and the popularity of the Baltic Sea and the Group's harbour locations as tourist destinations. The increase in the number of vessel calls and passengers from 2015 to 2017 was largely supported by growth in Estonia's GDP by approximately 4.8% in 2017 (according to the Bank of Estonia), the increased social and economic integration between Estonia and Finland, and a growing inflow of Asian tourists visiting countries around the Baltic Sea. The number of passenger vessel calls increased at a greater rate than the increase in the number of passengers because international ferry operators increased the number of vessel calls on the Tallinn-Helsinki route in order to expand their respective market shares in the growing market.

In 2017, the Group's largest international ferry customers were Tallink, Viking Line and Eckerö Line.

The Tallinn-Helsinki route is the most popular international ferry route for the Group, with passengers increasing from 8,186,000 in 2015 to 8,798,000 in 2017 (reflecting a CAGR of 3.7% from 2015 to 2017). This growth was largely due to the continued increase of social and economic interaction between Estonia and Finland, with the majority of passengers travelling between Tallinn and Helsinki for work, day trips or shopping, as well as the introduction of new and additional vessels into the servicing of the route which included a larger and more modern LNG ferry operated by Tallink and a high-speed catamaran operated by Viking Line for the summer season in 2017. The Tallinn-Helsinki route accounted for 88% of the Group's total international ferry route passengers in 2017. The high-speed catamaran that was operated by Viking Line for the summer season in 2017, which accounted for 472 of the vessel calls on the Tallinn-Helsinki route in 2017, will not operate in 2018. Eckerö Line has increased the number of vessels calls on the Tallinn-Helsinki route in 2018 as compared to 2017.

The Tallinn-Stockholm route is the second most popular international ferry route for the Group, with passengers increasing from 931,000 in 2015 to 1,013,000 in 2017 (reflecting a CAGR of 4.3% from 2015 to 2017). The Tallinn-Stockholm line accounted for 10% of the Group's total international ferry route passengers in 2017.

The Tallinn-Stockholm-Helsinki-St. Petersburg route had 83,000 passengers in 2017, accounting for 1% of the Group's total international ferry route passengers. The number of passengers on the Tallinn-Stockholm-Helsinki-St. Petersburg route decreased by 80,000 passengers, or 49%, from 163,000 passengers in 2016 as a result of a change in the operator of the route and a corresponding decrease in the number of vessel calls. The Management Board believes that the potential for growth in the Tallinn-Stockholm-Helsinki-St. Petersburg route is supported by Russia's up to 72 hours visa-free visiting option of St. Petersburg for passengers arriving by sea.

The Management Board believes that growth in the number of international ferry passengers is supported by the high quality infrastructure and facilities, the perceived quality (value for money) and general price levels at the destination cities/countries. For example, the Management Board believes that the growth in the number of international ferry passengers in Estonia is due to lower prices in Estonia compared to Finland, including prices for services such as healthcare, wellness, dining, entertainment and accommodations, as a result of lower labour costs and asset prices. Furthermore, while taxes on alcohol in Estonia increased during the periods under review, there were also increases in taxes on alcohol in Finland, rendering the relative price levels between Estonia and Finland largely unchanged.

Furthermore, the number of visitors to Estonia from China increased at a CAGR of 25.5% from 2012 to 2016 (according to the Estonian Central Bank), fuelled by robust economic and population growth in the Asia-Pacific region, as well as investments into flight connections between the regions. The Management Board believes that Estonia and Finland are well-positioned to capture a significant portion of the strong increase in demand from visitors from Asia. The international passenger ferry operators are actively marketing their respective services to target a growing number of Asian passengers visiting the countries around the Baltic Sea Region through initiatives such as attending fairs on Asian tourism and coordinating with the international tourism agency in Finland that covers marketing to Asian visitors.

The Group's international ferry passenger flows are also supported by ongoing initiatives such as the Group's cooperation with the Port of Helsinki and other major Baltic Sea ports via projects funded by the European Union such as the TWIN-PORT projects which are focused on the development and harmonisation of operations at the West Harbour in Helsinki and the Old City Harbour in Tallinn, and the Green Cruise Port project for cruise developments in the Baltic Sea Region. Under the first TWIN-PORT project, from 2012 to 2015 the infrastructure of Old City Harbour and the Western Port of Helsinki were further developed as part of the North-South transport corridor, with investments in Old City Harbour related to improving the traffic scheme in the harbour area and developing roads connecting Old City Harbour with the city of Tallinn. TWIN-PORT 2 is a follow-on project pursuant to which the Port of Helsinki has constructed a new Western Terminal, Tallink replaced the vessel M/V Superstar with the LNG vessel M/V Megastar (which has a larger gross tonnage than M/V Superstar) on the Tallinn-Helsinki route, and the Group further invested in the development of infrastructure in Old City Harbour. The TWIN-PORT 2 project commenced in 2014 and was expected to complete in 2018, but management expects to submit a request to the European Commission to extend the project period through the end of 2020. For more information on the TWIN-PORT projects see Note 18 to the Audited Financial Statements for the year ended 31 December 2017.

In addition, the Management Board believes that the new ferries (in particular the M/V Megastar), modernised passenger terminals and automated processes in the port facilities contributed to perceived quality and comfort of travel for international ferry passengers. During the period under review, in order to facilitate growth in the number of international ferry passengers through increased operational efficiency and perceived quality, the Group has continued to digitalise its port facilities processes to enable efficient servicing of passengers. For example, the Group has introduced the SmartPort hardware and software application which facilitates traffic (movement of embarking/disembarking passenger cars and trucks) in the harbour area through an automated harbour entrance, line and traffic management. The SmartPort system is already in use in Terminal A in Old City Harbour and is expected to be implemented in Terminal D during the month of May.

(ii) Cruise Operations

For cruise ship operations, the number of cruise ship calls per season (mainly May to September) increased from 281 in 2015 to 316 in 2017 (reflecting a CAGR of 6.0% from 2015 to 2017), and the number of cruise passengers increased from 497,000 in 2015 to 566,000 in 2017 (reflecting a CAGR of 6.7% from 2015 to 2017) as a result of an increase in the number of cruise ship calls and an increase in the size and capacity of the cruise ships calling at the Group's harbours. For Old City Harbour, the number of cruise ship calls increased from 276 cruise ship calls in 2015 to 311 in 2017 (reflecting a CAGR of 6.2% from 2015 to 2017), and the number of cruise ship passengers increased from 494,000 in 2015 to 564,000 in 2017 (reflecting a CAGR of 6.9% from 2015 to 2017). Saaremaa Harbour had 5 cruise ship calls in 2015 and 2017 (reflecting a CAGR of 0.0% from 2015 to 2017) and the number of passengers decreased from 3,600 in 2015 to 1,500 in 2017 (reflecting a CAGR of negative 35.5% from 2015 to 2017) due to a significant decrease in the average size of the visiting vessels. The number of cruise passengers at the Old City Harbour increased at a greater rate from 2015 to 2017 than the number of cruise ship calls during that same period as a result of growth in the average size and capacity of the visiting cruise ships.

Demand for cruise ship calls and services correlates with changes in consumer preferences for sea travel over other forms of leisure, and the popularity of the Baltic Sea Region and the Group's cruise harbour locations as tourist destinations. It is estimated that more than 80 mega cruise ships are to be incorporated into the global market over the next five years (according to Royal HaskoningDHV). The total number of cruise passengers in the Baltic Sea Region has increased at a CAGR of 7.0% in the past decade to 5.1 million in 2017 (according to Royal HaskoningDHV), with the Group's Old City Harbour serving as a destination in the typical Baltic Sea cruise itineraries. Demand may also be affected by the levels of disposable income available for leisure travel, which is influenced by global economic conditions.

The increase in the number of cruise ship calls and passengers from 2015 to 2017 (as well as a CAGR of 4.9% in the number of cruise passengers from 0.4 million in 2009 to 0.6 million in 2017) also demonstrates a strong consumer interest in cruise activities generally and was further supported given the position of the Old City Harbour as a strategic stop for non-residents that visit Estonia while travelling to St. Petersburg. In response to the growing numbers of cruise passengers, the Management Board expects to begin the construction of a cruise terminal in late 2018 at the Old City Harbour in order to facilitate the continued growth in the number of cruise passengers.

Furthermore, the Tallinn airport's passenger terminal was renovated and its runway was extended in 2017 in order to make it suitable for larger aircrafts and to support a growing number of travellers. The Management Board believes that the Tallinn airport runway extension will facilitate the reintroduction of the Group's turnaround port service (see Part VIII (Operating and Financial Review), section 5 (Major Factors Affecting Consolidated Financial Results), subsection C (Revenue model and mix) for more information) and continue to support the Group's international cruise operations at the Old City Harbour.

(b) Cargo Harbours

The following table shows the cargo volumes for the years indicated:

	For the three month period ended 31 March				For the year ended 31 December					
	2018	**% of Total**	**2017**	**% of Total**	**2017**	**% of Total**	**2016**	**% of Total**	**2015**	**% of Total**
						(Amounts in '000 of tonnes)				
Liquid Bulk	2,218	44.2%	2,365	47.3%	7,447	38.8%	9,443	46.9%	12,835	57.2%
Liquid bulk - ship[(2)]…………..	1,114	22.2%	1,670	33.4%	4,790	25.0%	6,686	33.2%	7,007	31.2%
Liquid bulk - rail[(2)]……………..	1,104	22.0%	695	13.9%	2,658	13.9%	2,757	13.7%	5,829	26.0%
Dry bulk	851	17.0%	786	15.7%	4,146	21.6%	3,745	18.8%	2,942	13.1%
Container................	449	8.9%	464	9.3%	1,907	9.9%	1,778	8.8%	1,741	7.8%
Ro-ro[(1)]	1,319	26.3%	1,187	23.7%	5,066	26.4%	4,563	22.7%	4,330	19.3%
Other general cargo	182	3.6%	197	3.9%	615	3.2%	589	2.9%	583	2.6%
Total cargo	**5,019**	**100.0%**	**5,000**	**100.0%**	**19,182**	**100%**	**20,118**	**100%**	**22,431**	**100%**

Notes: (1) Includes 1.0 million and 1.0 million tonnes of cargo from passenger harbours in the three month periods ended 31 March 2017 and 2018, respectively, and 3.8 million, 4.0 million and 4.3 million tonnes of cargo from passenger harbours for in 2015, 2016 and 2017 respectively.

(2) Allocation between liquid bulk-ship and liquid bulk-rail estimated based on the volume of liquid bulk arriving by vessel.

The Group has two main cargo harbours, Muuga Harbour and Paldiski South Harbour, with operations that accounted for 77% of the Group's cargo volume in 2017. The Old City Harbour has limited cargo operations (due to its location in the city centre), such as roll-on roll-off ("**ro-ro**") cargo that is transported on-board the passenger vessels (through cargo trucks, trailers, buses, and other vehicles), but the revenue is included as cargo charges in the Passenger Harbours segment. Ro-ro cargo (including that relating to Old City Harbour) accounted for 26% of the Group's cargo volume in 2017. In October 2017, the vessel M/V Sea Wind was transferred from Old City Harbour (in the Passenger Harbours segment) to Muuga Harbour (in the Cargo Harbours segment), resulting in a decrease in ro-ro cargo volumes, cargo charges, vessel calls and vessel dues attributable to the M/V Sea Wind for the Passenger Harbours segment and a corresponding increase in the Cargo Harbours segment. The Cargo Harbours segment also generates limited passenger revenues for drivers and passengers of trucks, trailers, buses and other vehicles that transport ro-ro cargo on ro-ro cargo lines that use the Group's harbours. In addition, Paljassaare Harbour has minimal ongoing cargo operations (the harbour is mainly used for ship repair services provided by private shipyards) but is in the process of being divested.

Revenue from the Cargo Harbours segment represented 47.9%, 43.4% and 32.8% of the Group's total consolidated revenues in 2015, 2016 and 2017, respectively. Revenue from the Cargo Harbours segment decreased from €44.9 million in 2015 to €39.8 million in 2017 (reflecting a CAGR of negative 5.9% from 2015 to 2017), which was driven by a decline in the volumes of liquid bulk cargo as a result of the loss of Russian fuel oil shipments in recent years. This decline was partly offset by growth in the volumes of all other types of cargo. The decrease in the share of revenues from the Cargo Harbours segment from 2015 to 2017 was due to the decrease in cargo volumes coupled with the introduction of the Group's Ferry segment, which altered the Group's revenue mix, as discussed below in Part VIII (Operating and Financial Review), section 5 (Major Factors Affecting Consolidated Financial Results), subsection C (Revenue Model and Mix). Liquid bulk showed signs of stabilisation in the fourth quarter of 2017 (reflecting an increase of 7.6% as compared to the fourth quarter of 2016), with the volume of liquid bulk also increasing in the fourth quarter of 2017 as compared to the third quarter of 2017 (increase of 17.2%) and in the first quarter of 2018 as compared to the fourth quarter of 2017 (increase of 28,1%).

In 2017, imports into, and exports from, Estonia and transit cargo accounted for 21%, 27% and 52% of the cargo throughput of the Group, respectively. The volume of Estonian imports and exports increased by 0.8 million tonnes, or 9%, and the volume of transit goods decreased by 1.7 million tonnes, or 15%, from 2016 to 2017 as a result of a decrease in the volume of liquid bulk cargo (mainly transit from Russia). The Group has a strategic focus to transition towards an export/import driven, diversified cargo portfolio and to reduce the percentage of the Group's total cargo volume that is represented by Russian transit cargo. In 2009, 83% of the Group's total cargo volumes was transit cargo, whereas only 52% of the Group's total cargo volumes was transit cargo in 2017. In 2009, 70% of the Group's total cargo volume was Russian transit cargo (or 84% of total transit cargo), whereas in 2017 only 36% of the Group's total cargo volume was Russian transit cargo (or 69% of total transit cargo). Thus, both the volume and share of Russian related transit cargo has decreased.

The Group's cargo harbours are partly driven by the demand for cargo transit in the highly competitive Eastern Baltic Sea Region, which is largely determined by rates of economic growth, political and legal conditions and commodity and raw material prices. Economic growth across Estonia's key trading partners (Sweden, Finland, Latvia and Lithuania) is expected to exceed the average rate of growth of the European Union and the GDP of Estonia is forecasted to expand at a CAGR of 3.5% from 2016 to 2020 (according to The Economist Intelligence Unit).

The Group has a diversified cargo mix, including liquid bulk cargo, ro-ro cargo, dry bulk cargo, containers, and other general cargo. The Group's diversified cargo mix helps to promote the stabilisation of the Group's revenue from the Cargo Harbours segment when the volumes of certain types of cargo decline.

The Group handled 22.4 million, 20.1 million, and 19.2 million tonnes of cargo in 2015, 2016 and 2017, respectively, reflecting a decrease of 14.5% from 2015 to 2017. The decrease in cargo volumes from 2015 to 2017 was due to a decrease in the volume of liquid bulk cargo, which represented 38.8% of the Group's total cargo volumes in 2017 and was still the largest type of cargo handled by the Group, as compared to

46.9% in 2016 and 57.2% in 2015 (decreasing from 12.8 million tonnes in 2015 to 9.4 million tonnes in 2016 and 7.4 million tonnes in 2017, respectively). The decrease in the volume of liquid bulk cargo was mainly caused by the diversion of Russian-origin cargo into Russian-owned ports as well as low oil prices, although the Management Board does not expect the liquid bulk cargo volumes to continue to decrease in 2018 given that oil prices have begun to improve and the Group's dependence on Russian-origin transit cargo has decreased significantly over recent years. The loss of liquid bulk volumes were partly offset by increase in high-value containerised goods and dry bulk.

During the period under review, cargo ship calls increased from 1,682 in 2015 to 1,791 in 2016 (reflecting a 6.5% increase from 2015 to 2016), before reverting back to 1,677 in 2017. The increase in 2016 was a result of increase in the call of dry bulk vessels due to increased cargo volumes which in 2017 was offset by a sharp decrease in the number of calls by tankers due to a continuous decrease in the volume of liquid bulk handled at the Group's harbours. The cargo volumes decreased from 22.4 million in 2015 to 20.1 million in 2016 despite an increased number of calls by dry bulk vessels as these vessels were approximately three times smaller than the tankers. The number of cargo ship calls have decreased from 2.7 thousand in 2009 to 1.7 thousand in 2017 as a result of a decrease in cargo volumes.

The volume of liquid bulk cargo decreased from 23.0 million tonnes in 2009 to 7.4 million tonnes in 2017 (reflecting a CAGR of negative 13.2%). The volumes of liquid bulk have generally been in decline since 2011, when liquid bulk volumes were 26.3 million tonnes; however, the volume of liquid bulk has shown signs of stabilisation as mentioned above. The volume of liquid bulk decreased from 12.8 million tonnes in 2015 to 7.4 million tonnes in 2017 (reflecting a decrease of 42% from 2015 to 2017) as a result of high competition among the Baltic Sea ports and Russia continuing to prefer its own ports for shipping cargo originating from Russia. The volume of liquid bulk has demonstrated signs of stabilisation, increasing from 1.48 million tonnes in the third quarter of 2017 to 1.73 million tonnes in the fourth quarter of 2017 (reflecting an increase of 17%) and to 2.22 million tonnes in the first quarter of 2018 (reflecting an increase of 28%) as a result of recovering oil prices and substituting Russian origin cargo with cargoes originating from other countries.

While the volumes of liquid bulk decreased from 2015 to 2017, the volumes of all other types of cargo increased during the same period.

The volume of dry bulk cargo decreased from 4.4 million tonnes in 2009 to 4.1 million tonnes in 2017 (reflecting a CAGR of negative 0.7%), with the highest volume of dry bulk being 5.5 million tonnes in 2010 and the lowest volume of dry bulk being 2.8 million tonnes in 2014 during that period. The hike in 2010 was due to volumes of fertilisers, scrap metal, grain and crushed stone, with volumes of dry bulk thereafter decreasing from 2010 to 2012 partly as a result of coal shipments decreasing due to Russia diverting Russian-origin coal shipments to its own ports. There was also a decline in the volume of dry bulk from 3.2 million in 2013 to 2.9 million in 2015 that was partly driven by a decrease in fertiliser shipments and scrap metal. The volume of dry bulk increased from 2.9 million tonnes in 2015 to 4.1 million tonnes in 2017 (reflecting an increase of 41% from 2015 to 2017) as a result of increased shipments of fertilisers, grain and scrap metal.

The volume of containerised cargo increased from 1.2 million tonnes in 2009 to 1.9 million tonnes in 2017 (reflecting a CAGR of 5.9%). The volume of containers increased from 1.7 million tonnes in 2015 to 1.9 million tonnes in 2017 (reflecting an increase of 10% from 2015 to 2017) as a result of consumption growth due to improvements in the economic environment and an increase in Estonian imports and exports, and a growing trend in the trade sector to deliver goods in containers.

The volume of ro-ro cargo increased from 2.7 million tonnes in 2009 to 5.1 million tonnes in 2017 (reflecting a CAGR of 8.3%). The volume of ro-ro cargo increased from 4.3 million tonnes in 2015 to 5.1 million tonnes in 2017 (reflecting an increase of 17% from 2015 to 2017) as a result of improvements in the economic environment, and as the majority of ro-ro cargo volumes result from Estonia's cooperation with Finland and other Nordic countries, these shipments are much less dependent on Russia and less affected by the geopolitical environment.

The volume of other general cargo increased from 0.3 million tonnes in 2009 to 0.6 million tonnes in 2017 (reflecting a CAGR of 9.1%). The volume of other general cargo increased slightly from 0.58 million tonnes in 2015 to 0.62 million tonnes in 2017 (reflecting an increase of 5% from 2015 to 2017) as a result of handling increased volumes of packaged goods (including fertilisers, paperwood and steel) and packaged waste.

In the near future, the dynamics of liquid bulk cargo will depend on the utilisation of Russia's port capacities, while ro-ro and containerised cargo are primarily driven by the region's economic environment. Estonia's geographical position provides favourable conditions for servicing certain East-West transit cargo flows, and the Management Board believes that the continued development of the East-West transportation routes through multiple large scale initiatives equalling an investment of €115 billion is likely to improve the logistics corridor between Europe, China and the rest of Asia and enhance regional cargo traffic via the Group's harbours. For example, the One Belt and One Road project is aimed at creating a network of railways, roads, ports, pipelines, and utility grids that would link China with its main trading partners, including Europe. In addition, the HSR Eurasia is a high-speed railway that will connect Berlin to Beijing through Poland, Belarus, Russia and Kazakhstan and is expected to be completed by 2035 (according to Dispatch News Desk and the Chinese Ministry of Transport). The new proposed route is 10,000 kilometres in length and is expected to cut transport time from 17 days to 10 days, with 5,000 China-Europe high-speed trains expected by 2020. The inclusion of Estonia in the route has not yet been decided; however, the development of these links would provide, for example, new opportunities for the Group for the servicing of cargo moving between the Nordic countries and China. By 2050, it is expected that more than 20 million tonnes of cargo will be transported and more than 37 million passenger trips will be taken per annum (according to Dispatch News Desk and the Chinese Ministry of Transport).

Estonia's geographical position also results in the transit cargo flows of Russia and other Commonwealth of Independent States ("**CIS**") countries accounting for a significant portion of the total cargo flows of the Group. The transit of Russia-related cargo (consisting primarily of liquid bulk and dry bulk (fertilisers)) through the Group's harbours represented 48%, 46% and 36% of the Group's total cargo volumes handled for the years ended 31 December 2015, 2016 and 2017, respectively. In 2017, Russia-related transit cargo amounted to 6.9 million tonnes. The volume of transit cargo flows between the Group's harbours and Russia is also dependent on general economic and political conditions in Russia and international sanctions imposed against Russia. For example, in 2017 the transit of Russian liquid bulk cargo constituted approximately 62% of the Group's total liquid bulk cargo volumes handled, which would be significantly affected if sanctions against Russia restricted the flow of liquid bulk cargo from or to Russia. In addition, in recent years the Russian Government has directed export flows of liquid bulk cargo into Russian own ports, which together with a decrease in oil prices, resulted in a decrease in the Group's liquid bulk handling volumes from 12.8 million tonnes in 2015 to 7.4 million tonnes in 2017. There is a similar risk that in the next 3 to 5 years the Russian Government may also direct Russian fertiliser exports into Russian ports once these ports have constructed the necessary infrastructure, which would similarly result in a decrease in the Group's handling volumes for Russian fertilisers.

The Management Board believes that Estonia has a healthy relationship with Russia, which may lead to increased cargo activities for the surrounding region if the economic conditions in Russia improve. Estonia is pursuing active communication with Russia in order to gradually improve the relationship between Estonia and Russia and facilitate cooperation. For example, Estonia and Russia signed an agreement in 2017 to cooperate on transportation, in particular with respect to improving the speed of the Tallinn-Moscow passenger train that travels through St. Petersburg.

In addition to the competition between ports, there is also competition between the transit corridors. For example, the Caspian-Black Sea corridor provides competition for the Baltic Sea corridor. The success of a corridor depends on the cost, speed, effectiveness and level of customer service across the logistics chain. During the period under review, there has been a downward trend in East-West cargo flows, with the exception of Russian-owned ports, where the cargo volumes have been increasing (including at the expense of the ports of neighbouring countries). As a result, while the Management Board believes that the continued development of the East-West transportation routes is likely to enhance regional cargo traffic via the Group's harbours, the Management Board also believes that focusing on the development of opportunities to service North-South cargo flows from the Nordic region to Central, Western and Southern Europe has notable potential based on the geographical location of Estonia, taking into account the planned Rail Baltica railway connection with a beginning and a sorting station planned at Group’s Muuga Harbour. Furthermore, the Group's North-South cargo flows are supported by ongoing initiatives such as the Group's cooperation with the Port of Helsinki and other major Baltic Sea ports and national railway cargo operator initiatives. For more information on the Group's strategic initiatives see Part X (Business), section 3 (The Group's Strategy), subsection A (Using broad range of attractive strategic initiatives to maximise existing portfolio value - Cargo harbours).

The Group is also exploring opportunities to further diversify its cargo mix and increase cargo volumes such as by developing infrastructure in the areas adjacent to Muuga Harbour and Paldiski South Harbour in order to offer cargo harbour infrastructure to a broader customer base and by signing a contract with a cargo operator for the development of a liquefied natural gas ("**LNG**") terminal in Muuga Harbour. The project is in the preparation phase and is to be developed in phases, initially by constructing a small scale terminal with a capacity of 4,000 m^3. Pursuant to the project plan, the Group expects to provide the land for the terminal and access to an existing quay. Furthermore, the Group possesses land, infrastructure assets and operational headroom to accommodate up to two to three times higher cargo volumes with limited additional investments (subject to specific cargo type and any special requirements). For example, Muuga Harbour and Paldiski South Harbour currently have the capacity to handle significantly higher volumes of cargo (a combined 40-60 million tonnes annually, subject to cargo operator’s specific requirements).

(c) Ferry

In October 2016, a domestic passenger ferry service between Estonia's mainland and the two major islands of Estonia (Saaremaa (through Muhumaa) and Hiiumaa, on two routes) was commenced by the Group as a new business segment pursuant to the ten-year Passenger Transport Public Service Contract on Rohuküla-Heltermaa and Virtsu-Kuivastu Ferry Lines (also referred to as the Ferry Service Agreement) with the Republic of Estonia (through the ERA), resulting in revenue from the sale of ferry tickets in the amount of €1.9 million and ferry services government support in the amount of €4.4 million in 2016. To service the routes, the Group commissioned the construction of four ferries in 2014, which were not completed by their contractual deadlines in the end of summer/beginning of early autumn 2016. As a result, the Group also received €6.9 million as penalty income in 2016 from the shipyards constructing the new ferries to be used for the Ferry segment, which was partially offset by amounts paid by the Group to charter temporary replacement ferries. In addition, the Group incurred penalty costs of €0.4 million in 2016 due to inadequate fulfilment of the Ferry Service Agreement (as a result of the temporary replacement ferries being at smaller capacity than required pursuant to the terms of the Ferry Service Agreement). The total project investment was equal to €124 million.

In 2017, the Ferry segment accounted for 22% of the Group's total consolidated revenues. Revenue from the sale of ferry tickets totalled €10.8 million and ferry services government support totalled €15.8 million in 2017. The Group also received €3.8 million as penalty income in 2017 from the shipyards constructing the new ferries. The Ferry segment serviced 2.2 million passengers and 1.0 million vehicles in 2017. The Ferry segment currently operates with five ferries, four of which were newly constructed specifically for these routes and were delivered in late 2016 – early 2017 and function as the main ferries servicing the two routes. The fifth ferry, which was purchased used, serves as a back-up in the event that any of the four main ferries cannot operate for any reason. The Group has also entered into an agreement with the Republic of Estonia (through the ERA) to provide additional ferry capacity at peak times for the 2018 summer months (June-August) in addition to the capacity of the regularly used vessels.

The Republic of Estonia (through the ERA) sets the number of voyages under the Ferry Service Agreement and decided to increase the number of voyages in the three month period ended 31 March 2018 as compared to the three month period ended 31 March 2017, contributing to an increase in revenue (together with the combined effect of indexation of fees) from the Ferry segment from the three month period ended 31 March 2017 to the three month period ended 31 March 2018.

The Management Board estimates that more than 30% of the domestic ferry passengers were permanent residents on Saaremaa and Hiiumaa Islands in 2017.

(d) Other

Revenue in the Other segment is driven by demand for services provided by ice-breaker Botnica (owned by the Group), which may include ice-breaking orsupport in oil drilling or other maritime support services. While the Group derives revenue from an ice-breaking contract with the Estonian Maritime Administration (the "**EMA**"), decreases in the price of oil and the international sanctions placed on the Russian oil sector by the United States and the European Union have adversely affected the offshore services market and resulted in a lack of utilisation of the Botnica in the ice-free season (typically May to November) since 2015.

See Part XVIII (Additional Information), section 1 (Material Contracts - Ice-Breaking Services Contract with the EMA) for more information on the Group's ice-breaking contract.

B) Capital Investments into Infrastructure

The Group has made significant investments over the last fifteen years. The Management Board believes these historical investments provide a strong platform for the Group to accommodate revenue growth using existing infrastructure, and therefore the Group does not expect to make significant expansions to the infrastructure in the Cargo Harbours or Ferry segment over the next four to five years, limiting the need for substantial capital expenditures in these segments during that period. Due to the continuing trend of decreasing capital expenditure levels during the period under review and the Group's strategy to maximise the utilisation of significant historical investments with a diversified revenue structure, the Management Board believes that the Group's Adjusted Cash Conversion supports a strong dividend profile.

Real estate projects impacting the Passenger Harbours segment are expected to commence at Old City Harbour in 2018/2019, including the construction of a cruise terminal in response to the growing number of cruise passengers (expected to commence at the end of 2018 and to be completed in 2019 or in the first half of 2020), along with a promenade to generate additional revenue through renting cruise terminal space for retail and catering services, including during the off-peak season and integrating the port area with the city by establishing an all-year-round open venue and promenade for public use. The Group is also planning to enhance the amenities available to international ferry passengers, including the expansion of Terminal D (with completion expected by June 2020), the construction of a new pedestrian bridge between its two passenger terminals A and D (with completion expected in June 2019), and in 2020 the construction of parking house next to Terminal D to generate additional revenue.

The Group has also committed to co-finance the construction of Reidi tee (Reidi road) in the amount of up to €3.3 million in order to facilitate the smooth flow of passengers and vehicles between Reidi road and Old City Harbour.

See Part VII (Operating and Financial Review), section 11 (Capital Expenditures) below for more information on the Group's capital expenditures during the period under review and opportunities the Group is exploring to further develop infrastructure.

C) Revenue model and mix

The Group renders port services in the capacity as landlord with no concession renewal limitations for its harbours, and utilises a business model that aims to benefit from a diversified portfolio of operations. The Group's financial results during the periods under review were largely driven by the mix of service lines in operation. The addition of new service lines, the discontinuation of existing service lines or an increase or decrease in demand for one or more service lines could have a significant effect on the Group's revenue mix and operating margins.

The Group's total revenue increased from €93.8 million in 2015 to €121.3 million in 2017 (reflecting a CAGR of 13.7% from 2015 to 2017). The decline in revenues from the Cargo Harbours segment, largely due to the loss of Russian fuel oil shipments, was offset by the introduction of the Ferry segment. The increase in revenue from 2015 to 2017 was further supported by growth in the Passenger Harbours segment in 2016.

The Group's Adjusted EBITDA increased from €62.5 million in 2015 to €66.5 million in 2017 (reflecting a CAGR of 3.2%), which was driven by growth in the Passenger Harbours segment and the introduction of the Ferry segment in 2016. The Group's Adjusted EBITDA Margin decreased from 66.7% in 2015 to 54.8% in 2017, which was driven by the evolving mix of operations following the introduction of the Ferry segment as ferry operations are intrinsically more cost-intensive than the Group's landlord port activities.

The Group's profit for the period decreased from €30.9 million in 2015 to €26.4 million in 2017, which was largely driven by an increase in income tax expense from €8.4 million in 2015 to €12.0 million in 2017 as the dividend distribution increased from €31.2 million in 2015 to €48.0 million in 2017. The Group's net profit margin decreased from 32.9% in 2015 to 21.8% in 2017. The Group's Adjusted EBITDA Margin decreased from 66.7% in 2015 to 54.8% in 2017, which was driven by the evolving mix of operations following the introduction of the Ferry segment as ferry operations are intrinsically more cost-intensive than the Group's landlord port activities.

The Group's total expenses (operating expenses, personnel expenses, depreciation, amortisation and impairment, and other expenses) consisted of 90.0%, 88.2% and 86.8% fixed costs and 10.0%, 11.8% and 13.2% variable costs for the years ended 31 December 2015, 2016 and 2017, respectively. The Management Board believes that given the Group's largely fixed cost structure and capacity for additional volume, increases in the Group revenues in the Passenger Harbours, Cargo Harbours and Other segments are likely to provide support for increases in the Group's profit margins.

The following table sets forth the Group's fixed and variable cost structure for the periods indicated:

	For the year ended 31 December		
	2015	2016 (Adjusted)	2017
Total fixed costs	90.0%	88.2%	86.8%
Material, services and other operational expenses	21.9%	27.6%	26.5%
Labour costs (including social taxes)	21.0%	22.6%	19.6%
Depreciation	38.0%	27.7%	28.8%
Other costs	1.4%	0.9%	0.4%
Fuel, oil and electricity costs	7.8%	9.5%	11.5%
Total variable costs	10.0%	11.8%	13.2%
Mooring services	1.9%	1.9%	1.2%
Reception/discharge of ship-generated waste	2.8%	2.9%	2.2%
Other semi-variable costs	5.2%	7.0%	9.8%
Total Group costs(1)	100.0%	100.0%	100.0%

Note: (1) Consists of operating expenses, personnel expenses, depreciation, amortisation and impairment, and other expenses.

(a) Passenger Harbours

The Group maintains an attractive competitive position as the main passenger port in Tallinn. The Group's revenue from the Passenger Harbours segment is primarily derived from vessel dues (representing 55.1% of the Group's revenue from the Passenger Harbours segment in 2017) that are based on the gross tonnage of the vessel and calculated separately for each vessel call, and passenger fees (representing 34.0% of the Group's revenue from the Passenger Harbours segment in 2017) based on the number of passengers aboard the vessels. The Old City Harbour also has limited cargo operations (due to its location in the city centre), such as ro-ro cargo that is transported using passenger vessels (through cargo trucks, trailers, buses, and other vehicles), and the revenue is included as cargo charges in the Passenger Harbours segment (representing 3.2% of the Group's revenue from the Passenger Harbours segment in 2017).

The tariffs for passenger fees and vessel dues are set and published by the Group. The Group establishes different tariffs for international ferry passengers and cruise passengers. The Group maintains the right to adjust the tariffs. In practice, the Group evaluates the tariffs on an annual basis and may decide to adjust the tariffs based on factors such as the Estonian Consumer Price Index ("**CPI**"), fluctuations in the costs of providing the port services for the Passenger Harbours segment and the effects of market competition.

The Passenger Harbours segment renders port services in the capacity of a landlord port, which mainly constitutes owning and maintaining infrastructure for servicing passenger vessels and the related facilities for servicing passengers (such as passenger terminals and galleries). As a result, the operating costs for the Passenger Harbours segment are mostly fixed costs that are expected to increase in line with inflation (excluding depreciation and amortisation) and depend on various factors such as fluctuations in the prices of different services purchased (such as energy costs, fees for the dredging of harbours aquatories, costs incurred for repairing the corrosion of quays and cleaning fees for territories), fluctuations in factors affecting labour costs, and the extent of specific works carried out for technical maintenance and repairs of non-current assets. The fixed cost structure of the Passenger Harbours segment provides support to increasing profit margins as passenger volumes increase and decreasing profit margins as passenger volumes decrease. The Management Board expects a low single-digit percentage decrease in the Group's revenue per passenger in 2018 before stabilising in 2019. Variable costs, which represent a much smaller portion of the Group's operating expenses than fixed costs, largely depend the number of vessel calls (and therefore the number of passengers) and include mooring service costs and reception/discharge of ship-generated waste. From 2005 to 2017, the passenger yield (reflecting revenue from the Passenger Harbours segment divided by the number of total passengers) increased by 50% mainly due to annual tariff increases and an increase in the average gross tonnage of the vessels per passenger.

Unlike the Ferry segment, revenue in the Passenger Harbours segment is significantly impacted by the number of passengers, with passenger fees representing 34.0% of total revenue from Passenger Harbours in 2017. Vessel dues are also impacted by the number of passengers as a decrease in the number of passengers over an extended period could result in a decrease in the number of vessel calls. The Passenger Harbour segment has demonstrated resilience to economic cycles from 2009 to 2017. The number of international ferry passengers and cruise passengers experienced a CAGR of 4.9% and 4.0% respectively, and the number of vessel calls from international ferries and cruise ships experienced a CAGR of 3.7% and 0.2%, respectively, from 2009 to 2017.

The Group also offers progressive discounts to vessel operators based on the cumulative number of calls a passenger vessel makes at the Group's harbours in a calendar year. Revenue from vessel dues in the Passenger Harbours segment decreased by €0.4 million, or 7.2%, from €4.9 million in the three month period ended 31 March 2017 to €4.5 million in the three month period ended 31 March 2018 in part due to the transfer of M/V Sea Wind from Old City Harbour into Muuga Harbour in October 2017 (effectively transferring revenue from the Passenger Harbours segment into the Cargo Harbours segment for 2018). Also, the replacement of the M/V Superstar with the M/V Megastar in February 2017 had a one-off positive effect on passenger vessel dues in the three month period ended 31 March 2017. The discounts to passenger vessel tonnage dues increase with the cumulative number of vessel calls made during a calendar year by each individual passenger vessel. In 2018 M/V Megastar is expected to make an equal number of calls that it made together in combination with M/V Superstar in 2017, thereby earning higher discounts on tonnage dues.

Adjusted EBITDA for the Passenger Harbours segment has increased from €30.5 million in 2015 to €33.3 million in 2017 (reflecting a 4.5% CAGR from 2015 to 2017). The Adjusted EBITDA Margin in 2017 was impacted by the cost in connection with the Masterplan for the Old City Harbour (see Part VII (Operating and Financial Review), section 11 (Capital Expenditures)) and costs for the dredging of the aquatory for the Old City Harbour.

(b) Cargo Harbours

The Cargo Harbours segment renders port services in the capacity of a landlord port, which mainly constitutes owning and maintaining infrastructure for servicing cargo vessels and terminal operators. As a result, the operating costs for the Cargo Harbours segment are mostly fixed costs that are expected to increase in line with inflation (excluding depreciation and amortisation) and depend on various factors such as fluctuations in the prices of services purchased, fluctuations in factors affecting labour costs, and the extent of specific works carried out for technical maintenance and repairs of non-current assets. The fixed cost structure of the Cargo Harbours segment leads to increasing profit margins as cargo volumes increase and decreasing profit margins as cargo volumes decrease. The Management Board expects a low single-digit CAGR in the revenue per tonne of cargo handled over the next several years. Variable costs, which represent a much smaller portion of the operating expenses than fixed costs, largely depend the number of vessel calls (and therefore the volume of cargo) and include mooring service costs and reception/discharge of ship-generated waste.

The Group's revenue from the Cargo Harbours segment is primarily derived from vessel dues (representing 46.2% of the Group's revenue from the Cargo Harbours segment in 2017) that are largely based on the gross tonnage of the vessel, cargo charges (representing 16.1% of the Group's revenue from the Cargo Harbours segment in 2017) that are agreed separately from operator to operator and based on pre-agreed tariffs per the volume/number of units handled by the cargo operators, and fixed lease income from operators using the Group's land (representing 23.7% of the Groups revenue from the Cargo Harbours segment in 2017) that is also agreed separately with individual terminal operators.

The Group is entitled to receive volume/unit based contractual penalties if cargo operators fail to handle the minimum amount of cargo set out in their respective agreements. The penalty amount is typically charged at the end of the calendar year and is calculated based on (i) the difference between the minimum contractual volume set for the specified period (usually a calendar year) and the actual cargo volume that was handled, *multiplied by* the cargo tariffs established under to the contract. Despite the availability of contractual penalties if cargo operators fail to handle the minimum amount of cargo set out in their respective agreements, decreases in cargo volumes typically result in decreases in the amount of revenue from the Cargo Harbours segment as a decrease in cargo volumes will typically result in a decrease in vessel dues (due to fewer vessel calls). Cargo operators do not have an obligation to meet any minimum thresholds in the number of port calls made by vessels calling at their cargo terminals.

Generally, the agreements with cargo operators are not subject to annual review and can be terminated if one of the parties fails to perform an obligation or performs an obligation improperly. However, given that cargo volumes can be volatile, occasionally the terms of the agreements, including the minimum cargo volumes and penalty amounts, are re-negotiated with the cargo operators.

The Adjusted EBITDA for the Cargo Harbours segment decreased from €29.3 million in 2015 to €23.3 million in 2017 (reflecting a CAGR of negative 10.8% from 2015 to 2017), which was driven by a decrease in revenues following a decline in liquid bulk volumes. The Adjusted EBITDA Margin for the Cargo Harbours segment decreased from 65.2% in 2015 to 58.7% in 2017 which was driven by declining cargo volumes coupled with a significant fixed cost base.

(c) Ferry

On 1 October 2016, the Group commenced domestic ferry services between Estonia's mainland and its two largest islands, Saaremaa (through Muhumaa) and Hiiumaa (on two routes), pursuant to the ten-year Ferry Service Agreement with the Republic of Estonia (through the ERA) that is set to expire in the third quarter of 2026.

Unlike the Group's revenue from the Passenger Harbours segment, the Group's revenue from the Ferry segment is not dependent on the number of domestic ferry passengers as a result of the terms of the Ferry Service Agreement. The Ferry segment provides contractual income comprised of three components: (i) a fixed fee that is an annual amount established at the signing of the contract covering the cost of capital and interest, (ii) a variable fee that covers fixed operating costs and is indexed to the Estonian CPI (65% of the variable fee) and the Estonian wage inflation index (35% of the variable fee), and (iii) a voyage fee that covers variable operating costs (mainly fuel) and is indexed to fuel prices (90% of the voyage fee) and the Estonian CPI (10% of the voyage fee). The fixed fee and the variable fee are used by the Group to cover the costs related to owning and maintaining the domestic passenger ferries and related passenger servicing systems, and do not depend on the number of voyages. The voyage fee is used to cover variable costs that depend on the number of voyages (such as fuel cost and passenger fee paid in ports), made according to the route schedule determined by the ERA. The fixed fee, variable fee and voyage fee comprised 48%, 31% and 21%, respectively, of the amounts due to the Group under the Ferry Service Agreement in 2017, and the Management Board does not expect significant deviations in the proportions of these fees over the remainder of the Ferry Service Agreement. However, the Management Board expects a slight step-up in 2018 revenues associated with the additional voyages during the summer peak months which are beyond the capacity of the exisiting four main vessels.

Payments under the Ferry Service Agreement are received monthly. In preparing its bid on the public tender for the domestic ferry services, for the fixed fee the Group took into consideration the acquisition costs of the Ferry segment's assets, the expected useful life of those assets (25 years) and the required rate of return. Altough the variable fee is annually indexed to the underlying factors that drive costs, is not dependent on the Group's actual operating costs. Therefore, the profitability of the variable fee will largely depend on the operational efficiency of the Group. The operating costs of the Ferry segment in 2016 and 2017 included amounts paid by the Group to charter temporary replacement ferries, and as a result the Management Board expects high single-digit decreases in the operating costs of the Ferry segment in 2018 given that the new ferries have been completed and delivered to the Group with an expected step-up in operating costs associated with the addition of sixth ferry for the summer peak months. The voyage fee is indexed quarterly, and as a result the profitability of the voyage fee can be affected by fluctuations in fuel costs and consumption and passenger fees paid in ports. For example, if fuel costs increase during the quarter, the profitability of the voyage fee would be negatively affected given that the new, higher voyage fee would not take effect until the following quarter. Alternatively, if fuel costs decrease during the quarter, the profitability of the voyage fee would be positively affected given that the new, higher voyage fee would not take effect until the following quarter. Furthermore, the operating costs of the Ferry segment generally increase with inflation (excluding depreciation and amortisation).

To the extent that the revenue from domestic ferry ticket sales does not cover the contractual income due under the Ferry Service Agreement, the ERA will provide the Group with a subsidy in the amount of the difference between the contractual income owed and the revenue generated from ticket sales. In 2017, revenue from ticket sales was equal to 41% of total due to the Group under the Ferry Service Agreement, with the remaining 59% being paid to the Group in the form of a subsidy. Given that the ERA/Ministry establishes the price per ferry ticket, these relative percentages could fluctuate in the future if the ERA/Ministry sets a new price per ticket.

Adjusted EBITDA for the Ferry segment increased from negative €0.1 million in 2015 (reflecting start-up costs that could not be capitalised) to €8.4 million in 2017. The Adjusted EBITDA Margin for the Ferry segment (31.0% in 2017, the first full year of operations) was lower than the Adjusted EBITDA Margin for Passenger Harbours (66.8% in 2017) and Cargo Harbours (58.7% in 2017), as the Ferry segment is intrinsically a more cost-intensive business line than Passenger Harbours and Cargo Harbours as a result of higher operating expenses (such as fuel and crew) compared to the cost of asset ownership (which is the main (capital) cost element in both Passenger and Cargo Harbours).

The Group incurred significant additional costs from the third quarter of 2016 through the third quarter of 2017 on the rental of replacement ferries given that the shipyards did not complete the construction of the new ferries by the agreed contractual deadlines and in penalties under the Ferry Service Agreement given that the temporary replacement ferries had smaller capacities, which resulted in a breach in the conditions of the Ferry Service Agreement.

(d) Other

The Group also derives revenue from services rendered with the multi-functional icebreaker Botnica according to an ice-breaking contract with the EMA, which expires in April 2022 and each year covers the period from 20 December through to 20 April. The revenue is based on a fixed daily rate and the option exercisable by both parties to amend the price annually on the basis of Estonian CPI (80% of the change), but not more than 3% per year, although the Management Board does not expect significant deviations in the rates from 2017 to 2018. Pursuant to the ice breaking contract, the daily rate is fixed at €38,250 as at the date of this Prospectus, yielding an annual revenue of €4.7 million for the Group. For more information, see Part XVIII (Additional Information), section 1 (Material Contracts), subsection C (Ice-Breaking Services Contract with the EMA).

The costs related to owning and operating Botnica are mainly fixed, such as labour costs and expenditures on the technical maintenance and repairs of the vessel, and generally increase with inflation (excluding depreciation and amortisation). The fuel for Botnica during the ice-breaking period is provided by the EMA, which has also typically been the case for other Botnica chartering contracts for summer months. The fixed cost structure leads to increasing profit margins as the Botnica is utilised more, for example a potential step-up in revenue from any summer use of Botnica, and decreasing profit margins as Botnica is utilised less. From 2015 to 2017, the Other segment recognised an operating loss following the loss of revenue from the termination of the long-term summer-time charter agreement for Botnica due to international economic sanctions imposed on Russia, prohibiting the Group from rendering the maritime services in the charter agreement, as well as corresponding impairment losses in 2015 and 2017 following a decrease in Botnica's fair market value as a result of weakened demand for the charter of offshore/maritime support vessels.

The Adjusted EBITDA of the Other segment decreased from €2.9 million in 2015 to €1.5 million in 2017 (reflecting a CAGR of negative 28.1% from 2015 to 2017). Following the termination of the long-term summer-time charter agreement, the Group received one-off penalty income of €3.0 million (recorded as other income), which increased the Adjusted EBITDA for 2015. In 2016, significant cost-cutting measures (such as reducing the energy consumption of the vessel, decreasing docking costs through the negotiation of an extension on the next scheduled docking of the vessel and managing labour costs) were implemented due to the continued downturn in the offshore services market but these could not compensate for the penalty income received in 2015 but not received in 2016 and thus resulted in a decrease of 2016 Adjusted EBITDA which also continued into 2017.

The Group has a 51% share in joint venture AS Green Marine. The Group does not consolidate revenues from AS Green Marine, but instead accounts for the profit or loss attributable to the 51% shareholding. The Group's share of the profit of AS Green Marine represented €0.3 million in 2017. AS Green Marine is specialised on providing environmental services, especially waste management for ports and ships. Most of its revenues are derived from waste management services provided to vessels calling in the Group's harbours.

For more information on the Group's revenue see Part VIII (Operating and Financial Review), section 6 (Components of Results of Operations), subsection A (Revenue) below.

D) Seasonality

The Cargo Harbours segment experiences limited seasonality in cargo volumes as the Group's harbours have minimal ice and are navigable and easily accessible throughout the year; however, the volume of cargo may be influenced by extended cold weather which causes shipping routes on the Gulf of Finland to freeze and as a result the required ice-breaking operations may slow down vessel and cargo traffic. The last time there was considerable ice in the Gulf of Finland impacting also Group’s harbours was 2013. Monthly variances in cargo volumes are typically driven by idiosyncratic shipments.

The Passenger Harbours segment experiences highly seasonal passenger flows that are driven by holiday periods. The winter season reduces the demand for passenger services while the peak is at the summer. For example, revenue from the Passenger Harbours segment for the three month period ended 31 March 2017 was €9.3 million, which represented only 18.7% of total revenues from the Passenger Segment for 2017. The number of international ferry liner port calls and the passenger volumes are generally lower during the months of January to March than at other times of the year. The main season for traditional cruise vessels and passengers is between May and October.

While the number of passengers serviced and number of voyages made in the domestic ferry business is higher during the summer period as a result of vacations and increased travelling to islands, the revenue from the Ferry segment is not subject to seasonal fluctuations to the same extent as variable income from voyage fees represent only 20% of the revenue due from the Ferry Service Agreement, with the remainder of the fees earned through the domestic ferry service being fixed.

Furthermore, while the Group is able to utilise its multi-functional ice-breaker Botnica to provide support for oil drilling and other maritime services during the ice-free season (typically May to November), decreases in the price of oil and the international sanctions placed on the Russian oil sector by the United States and the European Union have adversely affected the offshore services market and resulted in a lack of utilisation of the Botnica vessel during the ice-free season.

E) Taxation

(a) Dividend tax

There is no corporate income tax on profits for the period when they are earned and retained in the Republic of Estonia. Instead, profits and/or retained earnings are subject to a dividend income tax when they are distributed to the shareholders. This has the same effect as if the corporate income tax rate were nil for retained taxable profits, but a higher rate if part or all of profit and/or retained earnings is paid out as a dividend distribution.

Dividends distributed from retained earnings are generally subject to dividend income tax rate that is calculated as 20/80 of the net dividend distribution (equal to 20% of gross distributed profit). As of 2018 (with gradual introduction period of three years), lower income tax rate of 14/86 (equal to 14% of gross distributed profit) applies to regularly distributed dividends. However, in case of the lower tax rate, a withholding tax may apply if the recipient of the dividend is an individual (resident or non-resident). Additionally, a non-resident investor may be subject to income tax in Estonia from the gain received from the sale of company's shares. See Part XIV (Taxation), section 1 (Estonian Tax) for more detailed overview of the relevant Estonian tax rules.

(b) Excise, VAT and other taxes

The harmonisation of excise taxes, value added taxes ("**VAT**"), as well as other taxes and duties between Estonia, Finland and Sweden, and amended regulations for sales on-board, may have a negative impact on the passenger activities on key international ferry routes, including the Tallinn-Helsinki route and the Tallinn-Stockholm route which accounted for 93% of the total number of passengers of the Group in 2015, 2016 and 2017, and lead to a decrease in the number of passengers. The Estonian excise tax rate on alcohol 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. The Estonian parliament has in recent years significantly increased excise tax on alcohol according to the current redaction to the excise duty law, different rates apply to different types of alcohol, for example from 1 February 2018 excise tax rate for beer has increased from €15.52 per unit (per one percentage of ethanol content in 100 litres of alcohol) to €16.92 per unit, for wine with the ethanol content up to 6% the increase was from €77.44 per unit to €84.41 per unit for wine with the ethanol content exceeding 6% the increase was from €123.18 per unit to €147.82 per unit. Other excise duty rates have experienced increase as well. Excise tax collected in 2017 was lower than predicted, at slightly over 70% of what was estimated, according to the Ministry of Finance (indications may vary as the predictions on tax revenue were changed by the state in the middle of year 2017). In 2017, the Estonian Parliament decided to reduce the increase in excise tax on alcohol by half what was planned earlier (see current rates above). Any additional rise in alcohol excise tax rates in the future may result in a decrease in passenger numbers on key routes, such as Tallinn - Helsinki and Tallinn - Stockholm. The future of excise taxation in Finland and Sweden may also impact the relative price levels.

There is currently an extensive free zone in the Muuga Harbour which grants more flexible customs procedures for companies rendering transit and distribution services. For more information see Part X (Business), section 6 (Overview of Operations), subsection B (Cargo harbours).

6. COMPONENTS OF RESULTS OF OPERATIONS

A) Revenue

The Group reports revenue across its four reportable segments: Passenger Harbours, Cargo Harbours, Ferry and Other. The following types of revenue are based on Note 2 of the Audited Financial Statements as of and for the year ended 31 December 2017.

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

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

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

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

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

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

(a) Vessel dues

Vessel dues are calculated and collected either after each port call or twice a month and consist of the following:

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

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

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

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

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

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

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

(b) Cargo charges

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

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

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

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

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

(c) Passenger fees

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

(d) Sale of electricity

The Group derives revenue from the sale of electricity. Fees from the sale of electricity are collected monthly, in the month following the month of consumption. Prices are fixed per unit of electricity consumed. As the customers simultaneously receive and consume the benefits provided, the delivery of these services takes place over a period of time.

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

The Group has both electricity sales and electricity network licenses. Electricity network charges are regulated by the Estonian Competition Authority, while electricity sales prices are unregulated.

(e) Sale of ferry services - revenue from ticket sales

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

(f) Revenue from other sources

(i) Rental income

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

(ii) Charter fees

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

(iii) Sale of ferry services - government support

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

B) Other income

Other income consists of penalties and interest on arrears recognised for the delayed delivery of new passenger ferries which were under construction, income from other government grants which are not related to the Ferry Services Agreement, gains on the sale of non-current assets, and other income. Other income is recognised when the receipt of income is probable and the amount of income can be measured reliably. Penalties for delayed completion of ferries under construction have been recognised on an accrual basis taking into account the penalty rates stated in the construction contracts and the number of days overdue.

For the year ended 31 December 2015, contractual penalties received from cargo operators that failed to meet the minimum contractual volumes or units handled were classified as "other income", before being reclassified as "cargo revenue" beginning with the year ended 31 December 2016. See Part VIII (Operating and Financial Review), section 8 (Consolidated Results of Operations), subsection A (Revenue) above.

C) Operating Expenses

Operating expenses consists of expenses related to the Group's operating activities, including fuel, oil and energy costs, technical maintenance and repairs of non-current assets, services purchased for the Group's infrastructure, tax expenses (such as land tax), consultation and development expenses (such as research and development expenses considering the environmental, construction and economic feasibility of various projects), services purchased (such as mooring services, the discharge of ship-generated waste and vessel dues and fees), the acquisition and maintenance of insignificant items, advertising expenses, rental expenses (such as chartering vessels), insurance expenses and other operating expenses (such as the Group's allowance for doubtful receivables).

In addition, the allowance for doubtful receivables related to penalties received from cargo operators that failed to meet the minimum contractual volumes or units handled were classified as an "other expense" for the year ended 31 December 2015, before being reclassified as an "operating expense" beginning with the year ended 31 December 2016. See Part VIII (Operating and Financial Review), section 8 (Consolidated Results of Operations) below.

D) Personnel Expenses

The Group's personnel expenses consist of wages and salaries and social security charges.

E) Depreciation, amortization and impairment

The Group's depreciation, amortization and impairment expense consists of depreciation and amortisation of non-current assets, as well impairments and write-offs related to non-current assets.

F) Other Expenses

The Group's other expenses consist of miscellaneous smaller expenses that do not relate directly to core operations. In addition, penalty costs incurred due to the Group's inadequate fulfilment of the Ferry Service Agreement (as a result of the temporary replacement ferries being at smaller capacity than required pursuant to the terms of the Ferry Service Agreement) were recognised as other expenses.

In addition, the allowance for doubtful receivables related to penalties due from cargo operators that failed to meet the minimum contractual volumes or units handled were classified as an "other expense" for the year ended 31 December 2015, before being reclassified as an "operating expense" beginning with the year ended 31 December 2016. See Part VIII (Operating and Financial Review), section 8 (Consolidated Results of Operations) below.

G) Finance income

The Group's finance income consists of interest income from bank accounts, term deposits and loans, profit from the sale of financial assets, foreign exchange net gains, and amounts receivable under finance leases.

H) Finance expenses

The Group's finance expenses consist of interest expenses on loans and borrowings and derivatives, losses arising from changes in the fair value of assets classified as financial assets, foreign exchange net losses, and amounts payable under finance leases.

I) Share of profit from equity method investee

AS Green Marine is a waste management entity that was established as a joint venture in 2003, and the Group's revenues from AS Green Marine consist of the Group's share in the profit or loss of AS Green Marine.

J) Income tax expenses

Income tax expenses consist of tax on dividends that have been declared.

7. RECENT DEVELOPMENTS

On 5 April 2018, the Government Shareholder increased the share capital of the Company by contributing certain real estate as non-monetary payment in the amount of €2,392,000 by the Company issuing 2,392,000 new shares with a nominal value of €1 each. The increase of the share capital was registered in the Estonian Commercial Register on 20 April 2018 with the new share capital of the Company being €187,595,032.

The Group has entered into an agreement with the Republic of Estonia (through the ERA) to provide additional ferry capacity at peak times only for the 2018 summer months (June-August) which is beyond the capacity of the regularly used four main vessels. The fees to be received by the Group will be in addition to the fees received pursuant to the Ferry Service Agreement for the use of the regular four ferries. The additional fees will be used to cover the increased operating expenses, which are mainly the increased charter cost for a temporary additional vessel and the cost of additional crew. The Group is in the process of securing a lease for an additional ferry to fulfil the amended Ferry Service Agreement.

On 26 March 2018, Hamburger Hafen und Logistik AG ("**HHLA**"), an international terminal operator of several container terminals, as part of its international growth strategy, acquired 100% of the shares of Transiidikeskuse AS, which operates the biggest Estonian container terminal in Muuga Harbour. The Management Board estimates that the acquisition will provide support for an increase in containerised cargo volumes over the long term based on HHLA's broad network of terminals for containerised cargo and relationships with shipping lines.

On 27 March 2018, AHL Logistic acquired the combined plant and warehouse of a former galvanising plant situated at Muuga Harbour and has indicated its intention to use the 30,000 square metre building to store and handle dry and general cargoes and desire to initiate production within the plant. This has resulted in the use of an otherwise idle building, and the Management Board expects that the new cargo handling activities of AHL Logistic will provide support for an increase in cargo volumes in Muuga Harbour.

8. CONSOLIDATED RESULTS OF OPERATIONS

The following table sets out the main components of the Group's consolidated statement of profit or loss and other comprehensive income for the period indicated:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 (Adjusted)	2015
	(unaudited)		(audited)		
	(EUR '000)				
Revenue:					
Passenger Harbours	8,843	9,310	49,854	47,454	44,326(5)
Cargo Harbours	10,473	10,822	39,757	44,755	44,890(5)
Ferry	6,655	6,342	27,100	6,330	-(5)
Other	3,443	3,375	4,584	4,613	4,577(5)
Total revenue	**29,414**	**29, 849**	**121,295**	**103,152**	**93,793**
Other income	203	3,898	4,808	8,099	5,824
Operating expenses	(7,584)	(10,163)	(41,041)	(30,327)	(23,514)
Personnel expenses	(4,189)	(4,057)	(17,957)	(14,121)	(12,416)
Depreciation, amortisation, and impairment losses	(5,403)	(4,550)	(26,430)	(17,358)	(22,513)
Other expenses	(102)	(251)	(358)	(550)	(810)
Operating profit	**12,339**	**14,726**	**40,317**	**48,895**	**40,365**
Finance income	-	4	33	32	40
Finance costs	(511)	(475)	(2,318)	(1,075)	(1,328)
Net finance costs	**(511)**	**(471)**	**(2,285)**	**(1,043)**	**(1,288)**
Profit from investments in joint venture under equity method of accounting …	-	51	348	376	162
Profit before income tax	**11,828**	**14,306**	**38,380**	**48,228**	**39,239**
Income tax expense	-	-	(11,955)	(8,750)	(8,371)
Profit for the period	**11,828**	**14,306**	**26,425**	**39,478**	**30,868**
Consolidated statement of comprehensive income					
Profit for the period	11,828	14,306	26,425	39,478	30,868
Other comprehensive income					
Revaluation of hedging instruments	64	168	399	(177)	(84)
Total comprehensive income for the period	11,892	14,474	**26,824**	**39,301**	**30,784**
Operating profit margin (unaudited)(1)	**41.9%**	**49.3%**	**33.2%**	**47.4%**	**43.0%**
Net profit margin (unaudited) (2)	**40.2%**	**47.9%**	**21.8%**	**38.3%**	**32.9%**
Adjusted EBITDA (unaudited) (3)	**17,603**	**19,197**	**66,521**	**66,068**	**62,515**
Adjusted EBITDA Margin (unaudited) (4)	**59.8%**	**64.3%**	**54.8%**	**64.0%**	**66.7%**

Notes: (1) Operating profit margin represents operating profit divided by revenue, expressed as a percentage

(2) Net profit margin represents profit for the period divided by revenue, expressed as a percentage

(3) Adjusted EBITDA is a non-IFRS measure. The Group defines Adjusted EBITDA as profit for the period plus depreciation, amortisation and impairment, finance income and cost (net) and income tax expense less amortisation of grants received. A reconciliation of profit for the period to Adjusted EBITDA is calculated in footnote 3 to the table included under Part VII (Selected Financial Information), section 6 (Additional Financial Information).

(4) Adjusted EBITDA Margin is a non-IFRS measure, and represents Adjusted EBITDA divided by total revenue.

A reconciliation of Adjusted EBITDA Margin to Net profit Margin is calculated in footnote 4 to the table included under Part VII (Selected Financial Information), section 6 (Additional Financial Information).

(5) Figures are unaudited and have been derived from management accounts.

A) Revenue

The following tables set out the principal components of the Group's revenues on a segmental basis for the periods indicated:

	For the three-month period ended 31 March 2018				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Vessel Dues	4,530	4,989	-	-	9,519
Cargo Charges	368	1,338	-	-	1,706
Passenger Fees	3,123	24	-	-	3,147
Sale of Electricity	242	1,604	-	-	1,846
Sale of Ferry Services - Revenue From Ticket Sales	-	-	1,598	-	1,598
Sale of Other Services	205	274	16	-	495
Rental Income	375	2,244	84	-	2,703
Charter Fees	-	-	-	3,443	3,443
Sale of Ferry Services - Government Support	-	-	4,957	-	4,957
Total Segment Revenue	**8,843**	**10,473**	**6,655**	**3,443**	**29,414**

	For the three-month period ended 31 March 2017				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Vessel Dues	4,884	5,213	-	-	10,097
Cargo Charges	398	1,600	-	-	1,998
Passenger Fees	3,134	8	-	-	3,142
Sale of Electricity	199	1,349	-	-	1,548
Sale of Ferry Services - Revenue From Ticket Sales	-	-	1,676	-	1,676
Sale of Other Services	200	254	11	-	465
Rental Income	495	2,398	56	-	2,949
Charter Fees	-	-	-	3,375	3,375
Sale of Ferry Services - Government Support	-	-	4,599	-	4,599
Total Segment Revenue	**9,310**	**10,822**	**6,342**	**3,375**	**29,849**

	For the year ended 31 December 2017				
	Passenge r Harbours	Cargo Harbours	Ferry	Other	Total
	(audited) (EUR '000)				
Vessel Dues	27,475	18,371	-	-	45,846
Cargo Charges	1,593	6,398	-	-	7,991
Passenger Fees	16,956	48	-	-	17,004
Sale of Electricity	703	4,610	-	-	5,313
Sale of Ferry Services - Revenue From Ticket Sales	-	-	10,789	-	10,789
Sale of Other Services	1,136	909	18	-	2,063

Rental Income	1,991	9,421	483	-	11,895
Charter Fees	-	-	-	4,584	4,584
Sale of Ferry Services - Government Support	-	-	15,810	-	15,810
Total Segment Revenue	**49,854**	**39,757**	**27,100**	**4,584**	**121,295**

	For the year ended 31 December 2016 (Adjusted)				
	Passenger Harbours	**Cargo Harbours**	**Ferry**	**Other**	**Total**
			(audited)		
			(EUR '000)		
Vessel Dues	25,764	21,294	-	-	47,058
Cargo Charges	1,490	7,832	-	-	9,322
Passenger Fees	16,395	36	-	-	16,431
Sale of Electricity	750	4,726	-	-	5,476
Sale of Ferry Services - Revenue From Ticket Sales	-	-	1,883	-	1,883
Sale of Other Services	823	888	-	-	1,711
Rental Income	2,232	9,979	28	-	12,239
Charter Fees	-	-	-	4,613	4,613
Sale of Ferry Services - Government Support	-	-	4,419	-	4,419
Total Segment Revenue	**47,454**	**44,755**	**6,330**	**4,613**	**103,152**

	For the year ended 31 December 2015				
	Passenger Harbours(1)	**Cargo Harbours(1)**	**Ferry(1)**	**Other(1)**	**Total(2)**
			(EUR '000)		
Vessel Dues	27,284	23,370	-	-	**50,654**
Cargo Charges	1,321	5,898	-	-	**7,219**
Passenger Fees	11,743	21	-	-	**11,764**
Sale of Electricity	725	4,702	-	-	**5,427**
Sale of Ferry Services - Revenue From Ticket Sales	-	-	-	-	**-**
Sale of Other Services	909	806	-	2	**1,717**
Rental Income	2,344	10,093	-	-	**12,437**
Charter Fees	-	-	-	4,575	**4,575**
Sale of Ferry Services - Government Support	-	-	-	-	**-**
Total Segment Revenue	**44,326**	**44,890**	**-**	**4,577**	**93,793**

Notes: (1) Figures are unaudited and have been derived from management accounts.
(2) Figures are audited.

(a) Total revenue for the Group

The Group's revenue decreased by €0.4 million, or 1.5%, from €29.8 million in the three month period ended 31 March 2017 to €29.4 million in the three month period ended 31 March 2018. Revenue from vessel dues decreased by €0.6 million, or 5.7%, from €10.1 million in the three month period ended 31 March 2017 to €9.5 million in the three month period ended 31 March 2018 and revenue from cargo charges decreased by €0.3 million, or 14.6%, from €2.0 million in the three month period ended 31 March 2017 to €1.7 million in the three month period ended 31 March 2018. These decreases were partially offset by an increase in revenues from the Ferry segment of €0.3 million, or 4.9%, from €6.3 million in the three month period ended 31 March 2017 to €6.7 million in the three month period ended 31 March 2018 and an increase in revenues from the sale of electricity of €0.3 million, or 19.3%, from €1.5 million in the three month period ended 31 March 2017 to €1.8 million in the three month period ended 31 March 2018.

The Group's revenue increased by €18.1 million, or 17.6%, from €103.2 million in 2016 to €121.3 million in 2017, largely due to a €20.8 million increase in revenues from the Ferry segment as a result of the domestic ferry services that commenced in October 2016, as well as a €2.4 million increase in revenues from the Passenger Harbours segment. These increases were partially offset by a €5.0 million decrease in revenues from the Cargo Harbours segment.

The Group's revenue increased by €9.4 million, or 10.0%, from €93.8 million in 2015 to €103.2 million in 2016, with €6.3 million relating to an increase in ferry ticket sales (€1.9 million) and ferry government support (€4.4 million) as a result of the introduction of domestic ferry services in October 2016, and €3.1 million relating to an increase in revenue from the Passenger Harbours segment. The Group also reclassified €2.8 million of cargo penalties from "other income" to "cargo charges" in 2016 as a result of a change in accounting policies related to the implementation of IFRS 15 as described below in Part VIII (Operating and Financial Review), section 14 (Adoption of new and revised IFRS standards).

(b) Revenue from Passenger Harbours segment

Revenue from the Passenger Harbours segment decreased by €0.5 million, or 5.0%, from €9.3 million in the three month period ended 31 March 2017 to €8.8 million in the three month period ended 31 March 2018 mainly due to a decrease in vessel dues by €0.4 million, or 7.2%, from €4.9 million in the three month period ended 31 March 2017 to €4.5 million in the three month period ended 31 March 2018. This decrease was in part a result of progressive discounts that vessel operators receive based on the annual cumulative number of calls a vessel has made at the Group's harbours. In particular, the replacement of the M/V Superstar with the M/V Megastar in February 2017 had a one-off positive effect on passenger vessel dues in the three month period ended 31 March 2017. The discounts to passenger vessel tonnage dues increase with the cumulative number of vessel calls made during a calendar year by each individual passenger vessel. In 2018 M/V Megastar is expected to make an equal number of calls that it made together in combination with M/V Superstar in 2017, thereby earning higher discounts on tonnage dues. In addition, although the number of calls of several passenger vessels increased, the total number of vessel calls to passenger harbours decreased as a result of the vessel M/V Sea Wind being transferred from Old City Harbour (in the Passenger Harbours segment) to Muuga Harbour (in the Cargo Harbours segment) in October 2017, which further resulted in a decrease in vessel dues in the Passenger Harbours segment. Rental income also decreased by €0.1 million, or 24.2%, from €0.5 million in the three month period ended 31 March 2017 to €0.4 million in the three month period ended 31 March 2018 due to the expiration of agreements related to buildings that were no longer designated for commercial purposes following the reconstruction of the traffic areas in Old City Harbour.

Revenue from the Passenger Harbours segment increased by €2.4 million, or 5.1%, from €47.5 million in 2016 to €49.9 million in 2017. This increase was largely driven by a €1.7 million, or 6.6%, increase in vessel dues, from €25.8 million in 2016 to €27.5 million in 2017, mainly as a result of growth in the number of vessel calls driven by increased economic activity and a growing number of international ferry and cruise passengers. Vessel dues increased 6.6% while the number of passengers increased 3.8% as a result of an increase in the gross tonnage of vessels calling at the Group's harbours. For example, in 2017, the passenger ferry M/V Superstar was replaced by the M/V Megastar (which had a larger gross tonnage), an additional seasonal passenger ferry was added by Viking Line, and the average size of traditional cruise vessels continued to increase. Rental income decreased by €0.2 million, or 10.8%, from €2.2 million in 2016 to €2.0 million in 2017 largely due to warehouses and other commercial rental spaces being demolished following the reconstruction/expansion of the traffic areas in Old City Harbour.

Revenue from the Passenger Harbours segment increased by €3.1 million, or 7.1%, from €44.3 million in 2015 to €47.5 million in 2016. This increase was largely driven by a €4.7 million, or 39.6%, increase in passenger fees from €11.7 million in 2015 to €16.4 million in 2016. The increase in passenger fees in 2016 was partially offset by a €1.5 million, or 5.6%, decrease in revenue from vessel dues due to a tariff decrease for line passenger vessels as a result of a technical change between tariffs recognised as passenger fees and tariffs recognised as vessel dues (tariffs for passenger fees increased while tariffs for vessel dues decreased).

Overall, the Group's passenger numbers increased by 0.4 million, or 3.9%, from 9.79 million passengers in 2015 to 10.17 million passengers in 2016, reflecting the growing interconnection between countries in the region with respect to tourism and business. The percentage increase of total revenue from the Passenger Harbours segment was higher than the percentage increase in the number of passengers due to the fact that passenger revenues are in large part based on the gross tonnage of the passenger vessels, and the tonnage of the passenger vessels that utilised the Group's harbours also increased from 2015 to 2016.

(c) Revenue from Cargo Harbours segment

Revenue from the Cargo Harbours segment decreased by €0.3 million, or 3.2%, from €10.8 million in the three month period ended 31 March 2017 to €10.5 million in the three month period ended 31 March 2018 largely due to a decrease in cargo charges by €0.3 million, or 16.4%, from €1.6 million in the three month period ended 31 March 2017 to €1.3 million in the three month period ended 31 March 2018 and a decrease in vessel dues by €0.2 million, or 4.3%, from €5.2 million in the three month period ended 31 March 2017 to €5.0 million in the three month period ended 31 March 2018. This decrease in vessel dues and cargo charges was largely the result of a decrease in the volume of liquid bulk cargo (decreased by 0.2 million tonnes, or 6.0%, from 2.4 million tonnes in the three month period ended 31 March 2017 to 2.2 million tonnes in the three month period ended 31 March 2018) and containerised cargo (decreased by 15,000 tonnes, or 3.2%, from 0.5 million tonnes, or alternatively by 2,900, or 5.2% in TEUs, in the three month period ended 31 March 2017 to 0.4 million tonnes in the three month period ended 31 March 2018), leading to a decrease in the number of vessel calls. The decrease in revenue from liquid bulk and containerised cargo was partially offset by additional revenue from M/V Sea Wind, which was transferred from Old City Harbour (in the Passenger Harbours segment) to Muuga Harbour (in the Cargo Harbours segment) in October 2017. Rental income decreased by €0.2 million, or 6.4%, from €2.4 million in the three month period ended 31 March 2017 to €2.2 million in the three month period ended 31 March 2018 as a result of the termination of rental agreements with Muuga Coal Terminal in the second half of 2017 following its bankruptcy. Revenues from the sale of electricity increased by €0.3 million, or 18.9%, from €1.3 million in the three month period ended 31 March 2017 to €1.6 million in the three month period ended 31 March 2018 as a result of an increase in the price of electricity coupled with colder weather in 2018.

Revenue from the Cargo Harbours segment decreased by €5.0 million, or 11.2%, from €44.8 million in 2016 to €39.8 million in 2017. This was caused primarily by a €2.9 million, or 13.7%, decrease in vessel dues from €21.3 million in 2016 to €18.4 million in 2017 and a €1.4 million, or 18.3%, decrease in cargo charges from €7.8 million in 2016 to €6.4 million in 2017 as a result of a decrease in cargo volumes due to the decline of liquid bulk volume and the effect of the bankruptcy of the Muuga Coal Terminal and the ceasing of related penalty and rental income. The Group experienced increases in all other cargo types, including dry bulk (increased by 0.4 million tonnes, or 10.7%, from 3.7 million in 2016 to 4.1 million in 2017), ro-ro cargo (increased by 0.5 million tonnes, or 11.0%, from 4.6 million in 2016 to 5.1 million in 2017), containerised cargo (increased by 0.1 million tonnes, or 7.2%, from 1.8 million in 2016 to 1.9 million in 2017), although these increases were not large enough to offset the decrease in liquid bulk cargo. Rental income decreased by €0.6 million, or 5.6%, from €10.0 million in 2016 to €9.4 million in 2017 largely due to a merger of operators in Paldiski South Harbour resulting in a return of potential development areas to the Group, as well as the discontinuation of rental payments from the Muuga Coal Terminal following its bankruptcy.

Revenue from the Cargo Harbours segment remained stable, decreasing by €0.1 million, or 0.3% from €44.9 million in 2015 to €44.8 million in 2016; however, €2.9 million of the revenue from the Cargo Harbours segment in 2016 was the result of cargo penalties being reclassified from "other income" to "cargo charges" in 2016 as a result of a change in accounting policies related to the implementation of IFRS 15 as described in this Part VIII (Operating and Financial Review), section 14 (Adoption of New and Revised IFRS Standards). Cargo volumes decreased by 2.3 million tonnes, or 10.3%, from 22.4 million tonnes in 2015 to 20.1 million tonnes in 2016. In particular, in recent years the Russian Government has directed export flows of liquid bulk cargo into Russian-owned ports, which together with a decrease in oil prices, resulted in a decrease in the Group's liquid bulk handling volumes from 12.8 million tonnes in 2015 to 9.4 million tonnes in 2016. The Group experienced increases in all other cargo types, including dry bulk (increased by 0.8 million tonnes, or 27.3%, from 2.9 million in 2015 to 3.7 million in 2016), ro-ro cargo (increased by 0.2 million tonnes, or 5.4%, from 4.3 million in 2015 to 4.6 million in 2016), containerised cargo (increased by 0.04 million tonnes, or 2.1%, from 1.7 million in 2015 to 1.8 million in 2016), although these increases were not large enough to offset the decrease in liquid bulk cargo given that liquid bulk had the largest proportion of the Group's total cargo volume. Growth in the volumes of ro-ro cargo and containerised cargo coincided with an increase in consumption in the area along the east coast of the Baltic Sea from 2015 to 2016, which has been fostered by a growing trend in the trade sector to deliver goods in containers.

(d) Revenue from Ferry segment

The Group introduced a domestic ferry service in October 2016 as a new business segment through its wholly-owned subsidiary TS Laevad OÜ between Estonia's mainland and Saaremaa Island (via Muhumaa) and Hiiumaa Island (in total on two routes) pursuant to the Ferry Service Agreement.

Revenue from the Ferry segment increased by €0.3 million, or 4.9%, from €6.3 million in the three month period ended 31 March 2017 to €6.7 million in the three month period ended 31 March 2018 as a result of the combined effect of an increase in tariffs due to the indexation of the tariffs to Estonian CPI and wage inflation, and the decision of the Republic of Estonia to increase the number of voyages under the Ferry Service Agreement.

Revenue from the Ferry segment totalled €27.1 million in 2017 (reflecting the first full year of domestic ferry services), whereas revenue from the Ferry segment totalled €6.3 million in the three month period ended 31 December 2016 (reflecting the three-month period that the Group operated its domestic ferry services in 2016), consisting of the sale of ferry tickets for €1.9 million and public transport support in the amount of €4.4 million.

(e) Revenue from Other segment

Revenue from the Other segment remained stable at €3.4 million in the three month period ended 31 March 2017 and the three month period ended 31 March 2018, consisting of charter income according to the ice-breaking service contract with the Republic of Estonia.

Total other revenue remained largely stable for the Group at €4.6 million in from 2015 to 2017, consisting of charter income according to the ice-breaking service contract with the Republic of Estonia.

B) Other income

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 (Adjusted)**	**2015**
	(unaudited)		(audited)		
	(EUR '000)				
Gains on sale of non-current assets	-	-	2	146	-
Penalties, interest on arrears	15	3,768	3,903	7,010	5,359
Income from government grants	188	130	890	647	445
Other income	-	-	13	296	20
Total other income	**203**	**3,898**	**4,808**	**8,099**	**5,824**

Other income decreased by €3.7 million, or 94.8%, from €3.9 million in the three month period ended 31 March 2017 to €0.2 million in the three month period ended 31 March 2018 mainly due to €3.8 million of penalty income from the shipyards for delays in delivering the four new ferries to be used in the Group's domestic ferry services that was recognised in the three month period ended 31 March 2017.

Other income decreased by €3.3 million, or 40.6%, from €8.1 million in 2016 to €4.8 million in 2017 largely as a result of a decrease in penalty income recognised from shipyards for delays in delivering the four newly constructed ferries to be used in the Group's domestic ferry services from €6.9 million in 2016 to €3.8 million in 2017.

Other income increased by €2.3 million, or 39.1%, from €5.8 million in 2015 to €8.1 million in 2016. This increase was largely due to €6.9 million in penalty income from the shipyards for delays in delivering the four new ferries to be used in the Group’s domestic ferry services. The shipyards were not able to deliver the four newly constructed ferries prior to October 2016, and on 1 October 2016, the Group began rendering the domestic ferry service with temporarily rented replacement ferries. The increased operating expenses due to rental expenses on the temporary replacement ferries were covered by the penalty income payable by the shipyards.

The increase due to the recognised penalty income from shipyards was partially offset by the reclassification of contractual penalties from cargo operators from "other income" in 2015 to "cargo revenue" in 2016. In 2015, the Group recognised €2.2 million of "other income" in the form of contractual penalties from cargo operators, while in 2016 the Group recognised €2.8 million in "cargo revenue" in the form of contractual penalties from cargo operators. See Part VIII (Operating and Financial Review), section 8 (Consolidated Results of Operations), subsection A (Revenue - Revenue from Cargo Harbours segment) above. In 2015, the Group also recognised one-off penalty income of €3.0 million from the early cancellation of a long-term charter agreement for the ice-breaker Botnica, related to employment as a maritime support services vessel during the icebreaking off-season.

C) Operating expenses

The following table sets out the principal components of the Group's operating expenses for the periods indicated:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 (Adjusted)**	**2015**
	(unaudited)		**(audited)**		
	(Amounts in EUR '000)				
Fuel, oil and energy costs	3,009	2,770	10,551	5,935	4,626
Technical maintenance and repairs of non-current assets	873	846	5,963	4,509	7,488
Services purchased for infrastructure	699	653	3,278	3,529	2,160
Tax expense	827	797	3,136	3,095	3,020
Consultation and development expenses	162	61	1,346	501	416
Services purchased	942	964	5,184	3,472	2,854
Acquisition and maintenance of insignificant items	324	339	1,270	1,050	557
Advertising expenses	94	70	338	191	217
Rental expenses	110	2,986	7,065	5,716	405
Insurance expenses	188	155	715	414	411
Other operating expenses[(1)]	356	522	2,195	1,915	1,360
Total	**7,584**	**10,163**	**41,041**	**30,327**	**23,514**

Notes: (1) "Other operating expenses" consist of costs for software licenses, allowance for doubtful receivables and other non-material expenses.

Operating expenses for the Group decreased by €2.6 million, or 25.4%, from €10.2 million in the three month period ended 31 March 2017 to €7.6 million in the three month period ended 31 March 2018 largely due to a decrease in rental expenses by €2.9 million, or 96.3%, from €3.0 million in the three month period ended 31 March 2017 to €0.1 million in the three month period ended 31 March 2018 as a result of the Group no longer incurring charter fees for temporary replacement ferries for domestic ferry services following the completion of the newly constructed ferries by the respective shipyards. This was partially offset by an increase in fuel, oil and energy costs of €0.2 million, or 8.6%, from €2.8 million in the three month period ended 31 March 2017 to €3.0 million in the three month period ended 31 March 2018, which was caused by colder weather in 2018.

Operating expenses for the Group increased by €10.7 million, or 35.3%, from €30.3 million in 2016 to €41.0 million in 2017. The increase was mostly related to domestic ferry services that were carried out for the first full year in 2017. Fuel, oil and energy expenses increased by €4.6 million, or 77.8%, from €5.9 million in 2016 to €10.6 million in 2017, services purchased increased by €1.7 million, or 49.3%, from €3.5 million in 2016 to €5.2 million in 2017 largely due to port dues expense related to the provision of domestic ferry services at the domestic islands visited, and rental expenses increased by €1.3 million, or 23.6%, from €5.7 million in 2016 to €7.1 million in 2017 due to chartering cost (included in rental expense) of temporary replacement ferries given that the newly constructed ferries were not completed and delivered by the respective shipyards on time prior to October 2016. Expenses for the technical maintenance and repairs of non-current assets increased by €1.5 million, or 32.2%, from €4.5 million in 2016 to €6.0 million in 2017, largely associated with the Group's landlord port activities. Consultation and development expenses also increased by €0.8 million, or 168.7%, from €0.5 million in 2016 to €1.3 million in 2017, with the preparation of the Masterplan for the Old City Harbour being the largest single consultation project.

Operating expenses for the Group increased by €6.8 million, or 29.0%, from €23.5 million in 2015 to €30.3 million in 2016, with €1.1 million of this increase relating to the allowance for doubtful receivables for penalty income from cargo operators being reclassified from "other expenses" to "operating expenses" in order to be consistent with the nature of the related revenues reclassified from “other income” to “cargo charges” based on the IFRS 15 adjustment for the cargo penalty fee, and with €5.2 million relating to chartering cost (included in rental expense) of temporary replacement ferries given that the newly constructed ferries were not completed and delivered by the respective shipyards on time prior to October 2016. In addition, the increase of €1.3 million, or 28.3%, in fuel, oil and energy cost from €4.6 million in 2015 to €5.9 million in 2016, the increase of €1.4 million, or 63.4%, in services purchased for infrastructure from €2.2 million in 2015 to €3.5 million in 2016, and the increase of €0.6 million, or 21.7%, in services purchased, from €2.9 million in 2015 to €3.5 million in 2016 were also mainly related to domestic ferry services, which began as a new business line on 1 October 2016. The decrease in technical maintenance and repairs of non-current assets by €3.0 million, or 39.8%, from €7.5 million in 2015 to €4.5 million partially offset the increase in other operating expenses and was largely the result of a decrease in repair costs incurred in landlord port operations and the ice-breaker Botnica as a result of the Group's implementation of cost reduction measures following a decrease in operating volumes and revenues from Botnica charter fees.

The increased operating expenses related to domestic ferry services, largely due to rental expenses for the replacement ferries, were covered by the penalty income (recorded as "other income") from shipyards as the ferries were not completed by their agreed contractual deadline.

D) Personnel expenses

The personnel expenses of the Group increased by €0.1 million, or 3.3%, from €4.1 million in the three month period ended 31 March 2017 to €4.2 million in the three month period ended 31 March 2018 largely due to growth in the Ferry segment.

The personnel expenses of the Group increased by €3.8 million, or 27.2%, from €14.1 million in 2016 to €18.0 million in 2017, as a result of the domestic ferry service operating for the first full year in 2017.

The personnel expenses of the Group increased by €1.7 million, or 13.7%, from €12.4 million in 2015 to €14.1 million in 2016, largely due to the additional employees hired as a result of the introduction of the domestic ferry services, which started on 1 October 2016.

E) Depreciation, amortisation, and impairment losses

Depreciation, amortisation, and impairment losses for the Group increased by €0.9 million, or 18.7%, from €4.6 million in the three month period ended 31 March 2017 to €5.4 million in the three month period ended 31 March 2018. This increase was largely attributable to the domestic ferry service. Construction of the last two new ferries was completed in the first quarter of 2017, but amortisation began in the second quarter of 2017 and thus there was no amortisation cost on the last two new ferries in the first quarter of 2017.

Depreciation, amortisation, and impairment losses for the Group increased by €9.1 million, or 52.3%, from €17.4 million in 2016 to €26.4 million in 2017, largely due to the impairment loss on icebreaker Botnica of €5.9 million and the commencement of depreciation on the new ferries as they started operations.

Depreciation, amortisation and impairment losses decreased by €5.2 million, or 22.9%, from €22.5 million in 2015 to €17.4 million in 2016 due to impairment losses on non-current assets that were recognised in 2015, in particular a €5.0 million impairment of Botnica following a decrease in Botnica's fair market value as a result of weakened demand for charter of offshore/maritime support vessels.

F) Other expenses

Other expenses for the Group decreased by €0.1 million, or 59.4%, from €0.3 million in the three month period ended 31 March 2017 to €0.1 million in the three month period ended 31 March 2018, largely due to penalty costs incurred in the three month period ended 31 March 2017 as a result of a breach in the conditions of the Ferry Service Agreement due to the use of substitute ferries with smaller capacities until the delivery of the newly constructed ferries.

Other expenses for the Group decreased by €0.2 million, or 34.9%, from €0.6 million in 2016 to €0.4 million in 2017, largely due to incurred penalties of €0.4 million as a result of a breach in the conditions of the Ferry Service Agreement due to the use of substitute ferries with smaller capacities until the delivery of the newly constructed ferries. In 2017, the Group incurred a lesser penalty of €0.1 million as the newly constructed ferries were gradually delivered and placed into service.

Other expenses decreased by €0.3 million, or 32.1%, from €0.8 million in 2015 to €0.6 million in 2016, largely due to a decrease in "other expenses" (primarily related to sponsorship support provided for local sports, culture and projects of local authorities) by €0.6 million, or 84.4%, from €0.7 million in 2015 to €0.1 million in 2016, which was partially offset by an increase of €0.4 million in penalties and interest on arrears from €0 million in 2015 to €0.4 million in 2016 as a result of penalties incurred under the Ferry Services Agreement due to the use of substitute ferries with smaller capacities in 2016.

While the Group had €0 million of other expenses related to allowances for doubtful receivables in 2015, the Group reclassified €1.1 million of an allowance for doubtful receivables for penalty income from cargo from "other expenses" to "operating expenses" in 2016 in order to be consistent with the nature of the related revenues reclassified from “other income” to “cargo charges” based on the IFRS 15 adjustment for the cargo penalty fee.

G) Operating Profit

The Group's operating profit decreased by €2.4 million, or 16.2%, from €14.7 million in the three month period ended 31 March 2017 to €12.3 million in the three month period ended 31 March 2018 largely as a result of the decrease in the penalty income from shipyards for delays in delivering the new ferries being only partially offset by the corresponding decrease in operating expenses in the Ferry segment related to the cost of chartering replacement ferries as described in Part VIII (Operating and Financial Review) section 18 (Consolidated Results of Operations) subsections B (Other income) and C (Operating Expenses).

The Group's operating profit in 2017 was €40.3 million, an €8.6 million or 17.5% decrease from €48.9

million in 2016 as growth in the Group's expenses exceeded growth in the Group's revenue and other income. In 2017, €5.95 million of impairment losses were recognised whereas €0.3 million of impairment losses were recognised in 2016. The remainder of the decrease in operating profit from 2016 to 2017 was largely driven by the €5.0 million decrease in revenues from the Cargo Harbours segment.

The Group's operating profit in 2016 was €48.9 million, an €8.5 million or 21.1% increase from €40.4 million in 2015 as a result of the foregoing factors, and was largely driven by the addition of the domestic ferry service, cost-cutting measures implemented in the Cargo Harbours segment as a result of decreasing cargo volumes, and a reduction in the expenses incurred on Botnica.

H) Net finance costs

Net finance costs for the Group remained stable at €0.5 million in the three month period ended 31 March 2017 and the three month period ended 31 March 2018.

Net finance costs for the Group increased by €1.2 million, or 119.1%, from €1.0 million in 2016 to €2.3 million in 2017, primarily because the interest expense capitalised in 2016 during the construction period of the newly constructed ferries was higher than the interest capitalised in 2017 (€1.0 million in 2016 and €0.1 million in 2017).

Net finance costs for the Group decreased by €0.2 million, or 19.0%, from €1.3 million in 2015 to €1.0 million in 2016, largely due to a decrease in interest rates. Interest costs related to the construction of new ferries were capitalised increased by €0.3 million, or 53.2%, from €0.6 million in 2015 to €1.0 million in 2016.

I) Profit from investments in joint venture under equity method of accounting

The Group had one equity method investee, AS Green Marine, which is a waste management entity that was established as a joint venture in 2003. Although the Group holds 51% of ownership interest in the joint venture, this does not constitute control over the joint venture, although the Group has joint control over AS Green Marine. AS Green Marine's business lines include management of waste generated in ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of the ports' aquatory and harbour premises.

AS Green Marine also invoices the Group for the services provided to its harbours, with the expense being recognised in the Group's Financial Statements under "services purchased."

In 2017, AS Green Marine distributed dividends of €0.35 million, of which the Group received €0.18 million.

The following table shows the changes in the Group's investment in AS Green Marine for the years indicated:

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 (Adjusted)	2015
	(unaudited)		(audited)		
	(Amounts in EUR '000)				
Carrying value at beginning of period	1,256	1,086	1,086	710	548
Share in profit under the equity method	-	51	348	376	162
Dividends paid	-	-	(178)	-	-

Carrying value at end of period ..	**1,256**	**1,137**	**1,256**	**1,086**	**710**

The Group's share in profit under the equity method decreased by €51,000, or 100.0%, from €51,000 in the three month period ended 31 March 2017 to €0 in the three month period ended 31 March 2018 as a result of a decrease of the profit of AS Green Marine, largely due to an increase in operating expenses.

The Group's share in profit under the equity method increased €0.2 million, or 114.8%, from €0.2 million in 2015 to €0.3 million in 2017 as a result of growth of the profit of AS Green Marine due to an increase in the sales price of reprocessed oily waste and other waste and scrap that can be sold after sorting and/or reprocessing.

J) Income tax expense

The income tax expense for the Group increased by €3.2 million, or 36.6%, from €8.8 million in 2016 to €12.0 million in 2017, as the dividend distribution increased from €35 million in 2016 to €48 million in 2017 (the largest dividend distributed by the Group to date).

The income tax expense for the Group increased by €0.4 million, or 4.5%, from €8.4 million in 2015 to €8.8 million in 2016. The increase was primarily due to a €1.0 million income tax expense incurred as a result of dividend distributions increasing from €31.2 million in 2015 to €35 million in 2016. The income tax expense in 2015 also included a €0.6 million income tax penalty on the €3.0 million penalty income received from the early cancellation of a long-term charter agreement for maritime support services that were to be provided by Botnica.

K) Profit for the period

The Group's profit for the period decreased by €2.5 million, or 17.3%, from €14.3 million in the three month period ended 31 March 2017 to €11.8 million in the three month period ended 31 March 2018.

The Group's profit for the period decreased by €13.1 million, or 33.1%, from €39.5 million in 2016 to €26.4 million in 2017.

The Group's profit for the period increased by €8.6 million, or 27.9%, from €30.9 million in 2015 to €39.5 million in 2016.

L) Adjusted EBITDA

	For the three-month period ended 31 March		**For the year ended 31 December**		
	2018	**2017**	**2017**	**2016 (Adjusted)**	**2015**
	(Amounts in EUR '000)				
Adjusted EBITDA	17,603(1)	19,197(2)	66,521(3)	66,068(4)	62,515(5)
Passenger Harbours	5,480(1)	6,2542)	33,299(3)	33,620(4)	30,451(5)
Cargo Harbours....................................	6,713(1)	7,290(2)	23,331(3)	28,412(4)	29,262(5)
Ferry	2,738(1)	3,311(2)	8,398(3)	2,772(4)	(92)(5)
Other	2,672(1)	2,342(2)	1,493(3)	1,264(4)	2,894(5)
Adjusted EBITDA Margin(4)...................	59.8%	64.3%	54.8%	64.0%	66.7%
Passenger Harbours(4)	62.7%	67.2%	66.8%	70.8%	68.7%
Cargo Harbours(4).................................	64.1%	67.4%	58.7%	63.5%	65.2%
Ferry(4)	41.1%	52.2%	31.0%	43.8%	-
Other(4)	77.6%	69.4%	32.6%	27.4%	63.2%

Notes: (1) The reconciliation of Adjusted EBITDA to operating profit is as follows:

	For the three-month period ended 31 March 2018				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Operating profit	**4,150**	**4,661**	**1,336**	**2,192**	**12,339**
plus:					
Depreciation, amortisation, and impairment loss	1,354	2,167	1,402	480	5,403
Amortisation of the government grants (included in other income)	(24)	(115)	-	-	(139)
Profit/loss from investments in joint venture under equity method of accounting .	-	-	-	-	-
Adjusted EBITDA	5,480	6,713	2,738	2,672	17,603

(2) The reconciliation of Adjusted EBITDA to operating profit is as follows:

	For the three-month ended 31 March 2017				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Operating profit	5,225	5,236	2,554	1,711	14,726
plus:					
Depreciation, amortisation, and impairment loss	1,042	2,171	757	580	4,534
Amortisation of the government grants (included in other income)	(13)	(117)	-	-	(130)
Profit/loss from investments in joint venture under equity method of accounting	-	-	-	51	51
Adjusted EBITDA	6,254	7,290	3,311	2,342	19,197

(3) The reconciliation of Adjusted EBITDA to operating profit is as follows:

	For the year ended 31 December 2017				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Operating profit	**28,765**	**15,144**	**3,482**	**(7,074)**	**40,317**
plus:					
Depreciation, amortisation, and impairment loss	4,642	8,653	4,916	8,219	26,430
Amortisation of the government grants (included in other income)	(108)	(466)	-	-	(574)
Profit/loss from investments in joint venture under equity method of accounting	-	-	-	348	348
Adjusted EBITDA	33,299	23,331	8,398	1,493	66,521

(4) The reconciliation of Adjusted EBITDA to operating profit is as follows:

	For the year ended 31 December 2016 (Adjusted)				
	Passenger Harbours	Cargo Harbours	Ferry	Other	Total
	(EUR '000)				
Operating profit	**28,925**	**18,935**	**2,504**	**(1,469)**	**48,895**
plus:					
Depreciation, amortisation, and impairment loss	4,774	9,959	268	2,357	17,358
Amortisation of the government grants (included in other income)	(79)	(482)	-	-	(561)
Profit/loss from investments in joint venture under equity method of accounting	-	-	-	376	376
Adjusted EBITDA	33,620	28,412	2,772	1,264	66,068

(5) The reconciliation of Adjusted EBITDA to operating profit is as follows:

	For the year ended 31 December 2015				
	Passenger Harbours*	Cargo Harbours*	Ferry*	Other*	Total
	(EUR '000)				
Operating profit	**25,997**	**19,628**	**(92)**	**(5,169)**	**40,365**
plus:					
Depreciation, amortisation, and impairment loss	4,492	10,120	-	7,900	22,513
Amortisation of the government grants (included in other income)	(38)	(486)	-	-	(524)
Profit/loss from investments in joint venture under equity method of accounting	-	-	-	163	163

Adjusted EBITDA	30,451	29,262	(92)	2,894	62,515

Notes: * Figures are unaudited and have been derived from management accounts.

(6) Adjusted EBITDA Margin represents Adjusted EBITDA divided by total revenue.

The Group's operating profit decreased by €2.4 million, or 16.2%, from €14.7 million in the three month period ended 31 March 2017 to €12.3 million in the three month period ended 31 March 2018. The Group's Adjusted EBITDA decreased by €1.6 million, or 8.3%, from €19.2 million in the three-month period ended 31 March 2017 to €17.6 million in the three-month period ended 31 March 2018, and Group's Adjusted EBITDA Margin decreased by 4.5 percentage points, from 64.3% in the three-month period ended 31 March 2017 to 59.8% in the three-month period ended 31 March 2018, as a result of the decrease in the penalty income from shipyards for delays in delivering the new ferries being only partially offset by the corresponding decrease in operating expenses in the Ferry segment related to the cost of chartering replacement ferries as described in Part VIII (Operating and Financial Review) section 18 (Consolidated Results of Operations) subsections B (Other income) and C (Operating Expenses). The decrease in Adjusted EBITDA and Adjusted EBITDA Margin was less than the decrease in operating profit because operating profit was impacted by an increase in depreciation, amortisation and impairment as described in Part VIII (Operating and Financial Review) section 18 (Consolidated Results of Operations) subsection E (Depreciation, Amortisation, and Impairment Losses), which is excluded from Adjusted EBITDA and Adjusted EBITDA Margin.

The Group's operating profit decreased by €8.6 million, or 17.5%, from €48.9 million in 2016 to €40.3 million in 2017. The Group's Adjusted EBITDA increased by €0.5 million, or 0.7%, from €66.1 million in 2016 to €66.5 million in 2017. Adjusted EBITDA increased from 2016 to 2017 while operating profit decreased from 2016 to 2017 as a result of the increase in depreciation, amortisation and impairment losses in 2017 as compared to 2016, which was driven by the impairment loss on Botnica of €5.9 million in 2017 as well as an increase in the amount of depreciation as a result of the new domestic ferries in 2017 (the first full year of domestic ferry services) as compared to 2016.

The Group's Adjusted EBITDA Margin decreased by 9.2 percentage points, from 64.0% in 2016 to 54.8% in 2017, largely due to the higher proportionate impact of the lower margin domestic ferry services in 2017 (the first full year of domestic ferry services) than in 2016 (where the domestic ferry services only operated for the fourth quarter). Due to a different business model, the provision of the domestic ferry service is more cost intensive, with higher operating expenses than landlord port operations, resulting in lower margins than the Cargo Harbours and Passenger Harbours segments.

The Group's operating profit increased by €8.5 million, or 21.1%, from €40.4 million in 2015 to €48.9 million in 2016. The Group's Adjusted EBITDA increased by €3.6 million, or 5.7%, from €62.5 million in 2015 to €66.1 million in 2016. The percentage increase in Adjusted EBITDA from 2015 to 2016 was less than the percentage increase in operating profit from 2015 to 2016 as a result of the impact that the decreased depreciation, amortisation and impairment losses had on operating profit in 2015 compared to 2016 due to a €5.0 million impairment in 2015 of Botnica following a decrease in Botnica's fair market value as a result of weakened demand for the charter of offshore/maritime support vessels.

The Group's net profit margin increased by 5.4 percentage points from 32.9% in 2015 to 38.3% in 2016. The Group's Adjusted EBITDA Margin decreased by 2.7 percentage points, from 66.7% in 2015 to 64.0% in 2016, which was driven by the evolving mix of operations following the introduction of the Ferry segment as the domestic ferry operations are more cost-intensive than the Group's landlord port activities. The Group's net profit margin increased while the Group's Adjusted EBITDA Margin decreased largely due to the impairment cost of €5.0 million related to Botnica, which did not impact the Adjusted EBITDA Margin but resulted in a decrease in profit for the period in 2015.

(a) Passenger Harbours

The operating profit for the Passenger Harbours segment decreased by €1.1 million, or 20.6%, from €5.2 million in the three-month period ended 31 March 2017 to €4.2 million in the three-month period ended 31 March 2018. The Adjusted EBITDA for the Passenger Harbours segment decreased by €0.8 million, or 12.4%, from €6.3 million in the three-month period ended 31 March 2017 to €5.5 million in the three-month period ended 31 March 2018, and the Adjusted EBITDA Margin for the Passenger Harbours segment decreased by 5.2 percentage points from 67.2% in the three-month period ended 31 March 2017 to 62.0% in the three-month period ended 31 March 2018, largely due to a decrease in revenues from vessel dues as described in Part VIII (Operating and Financial Review) section 18 (Consolidated Results of Operations) subsection A (Revenue), coupled with an increase in operating costs that included additional costs of materials and equipment related to the implementation of the reconstructed traffic areas of Old City Harbour and growth in maintenance and repair costs.

The operating profit for the Passenger Harbours segment decreased by €0.2 million, or 0.6%, from €28.9 million in 2016 to €28.8 million in 2017. The Adjusted EBITDA for the Passenger Harbours segment decreased by €0.3 million, or 1.0%, from €33.6 million in 2016 to €33.3 million in 2017 and the Adjusted EBITDA Margin for the Passenger Harbours segment decreased by 4.0 percentage point, from 70.8% in 2016 to 66.8% in 2017. Adjusted EBITDA and Adjusted EBITDA Margin decreased as the growth of costs was greater than the growth of revenues from the Passenger Harbours segment due to costs in connection with the Masterplan for the Old City Harbour (see Part VIII (Operating and Financial Review), section 11 (Capital Expenditures) for more information) and costs for the dredging of the aquatory for the Old City Harbour.

The operating profit for the Passenger Harbours segment increased by €2.9 million, or 11.3%, from €26.0 million in 2015 to €28.9 million in 2016. The Adjusted EBITDA for the Passenger Harbours segment increased by €3.2 million, or 10.4%, from €30.5 million in 2015 to €33.6 million in 2016 and Adjusted EBITDA Margin increased by 2.1 percentage points, from 68.7% in 2015 to 70.8% in 2016, as revenues from the Passenger Harbours segment increased largely due to increases in the number of vessel calls and the average size of the vessels, while costs for the Passenger Harbours segment remained stable.

(b) Cargo Harbours

The operating profit for the Cargo Harbours segment decreased by €0.6 million, or 11.0%, from €5.2 million in the three-month period ended 31 March 2017 to €4.7 million in the three-month period ended 31 March 2018. The Adjusted EBITDA for the Cargo Harbours segment decreased by €0.6 million, or 7.9%, from €7.3 million in the three-month period ended 31 March 2017 to €6.7 million in the three-month period ended 31 March 2018, and the Adjusted EBITDA Margin for the Cargo Harbours segment decreased by 3.3 percentage points from 67.4% in the three-month period ended 31 March 2017 to 64.1% in the three-month period ended 31 March 2018, as a result of a decrease in revenues from vessel dues and cargo charges mainly due to a decrease in the volumes of liquid bulk and containerised cargo, coupled with an increase in energy costs due to colder weather in 2018.

The operating profit for the Cargo Harbours segment decreased by €3.8 million, or 20.0%, from €18.9 million in 2016 to €15.1 million in 2017. The Adjusted EBITDA for the Cargo Harbours segment decreased by €5.1 million, or 17.9%, from €28.4 million in 2016 to €23.3 million in 2017 and the Adjusted EBITDA Margin for the Cargo Harbours segment decreased by 4.8 percentage points, from 63.5% in 2016 to 58.7% in 2017, which was largely due to a decrease of revenues from the Cargo Harbours segment of €5.0 million, coupled with a large portion of the operating costs for the Cargo Harbours being fixed.

The operating profit for the Cargo Harbours segment decreased by €0.7 million, or 3.5%, from €19.6 million in 2015 to €18.9 million in 2016. The Adjusted EBITDA for the Cargo Harbours segment decreased by €0.9 million, or 2.9%, from €29.3 million in 2015 to €28.4 million in 2016, which was largely due to some increase of costs together with slight decrease of revenues of the segment. The Adjusted EBITDA Margin for the Cargo Harbours segment decreased by 1.7 percentage points, from 65.2% in 2015 to 63.5% in 2016, which was largely driven by the decrease in cargo volumes, in particular liquid bulk volumes, coupled with a large portion of the operating costs for the Cargo Harbours being fixed.

(c) Ferry

The operating profit for the Ferry segment decreased by €1.2 million, or 47.7%, from €2.6 million in the three-month period ended 31 March 2017 to €1.3 million in the three-month period ended 31 March 2018.

The Adjusted EBITDA for the Ferry segment decreased by €0.6 million, or 17.3%, from €3.3 million in the three-month period ended 31 March 2017 to €2.7 million in the three-month period ended 31 March 2018, and the Adjusted EBITDA Margin for the Ferry segment decreased by 11.1 percentage points, from 52.2% in the three-month period ended 31 March 2017 to 41.1% in the three-month period ended 31 March 2018, as a result of the discontinued income from shipyards in the form of penalties, which was only partially offset by the decrease in operating expenses arising from the discontinued charter costs of renting temporary replacement ferries.

The operating profit for the Ferry segment increased by €1.0 million, or 39.1%, from €2.5 million in 2016 to €3.5 million in 2017. The Adjusted EBITDA for the Ferry segment was €2.8 million in 2016, whereas Adjusted EBITDA for the Ferry segment was €8.4 million in 2017, given that 2017 was the first full year of domestic ferry services, compared to only one quarter in 2016. In 2017 EBITDA was affected by the cost of substitute vessel Hiiumaa which was only partly offset by penalty income of €3.75 million from shipyards due to delivery delays. In 2016, there was a one-time penalty income of €6.9 million from shipyards due to delivery delays, which caused a sharp increase in the Adjusted EBITDA for the Ferry segment.

The operating profit and Adjusted EBITDA Margin for the Ferry segment was negative €0.1 million in 2015 as there were only start-up costs incurred, while the operations were started and revenues earned from 1 October 2016 onward.

(d) Other

The operating profit for the Other segment increased by €0.5 million, or 28.1%, from €1.7 million in the three-month period ended 31 March 2017 to €2.2 million in the three-month period ended 31 March 2018. The Adjusted EBITDA for the Other segment increased by €0.3 million, or 14.1%, from €2.3 million in the three-month period ended 31 March 2017 to €2.7 million in the three-month period ended 31 March 2018, and the Adjusted EBITDA Margin for the Other segment increased by 8.2 percentage points, from 69.4% in the three-month period ended 31 March 2017 to 77.6% in the three-month period ended 31 March 2018 largely as a result of lower repair and maintenance costs in the three-month period ended 31 March 2018. Adjusted EBITDA for the three month period ended 31 March 2017 of €2.3 million was greater than the Adjusted EBITDA of €1.5 million for the year ended 2017 because nearly all of the revenue from Botnica is recognised in the first quarter of the year (given that Botnica operates during the winter months), while costs were incurred on Botnica for the entire duration of the year causing Adjusted EBITDA to decrease during the second, third and fourth quarters of 2017.

The operating profit for the Other segment decreased by €5.6 million, or 381.6%, from negative €1.5 million in 2016 to negative €7.1 million in 2017. The Adjusted EBITDA for the Other segment increased by €0.2 million, or 18.1%, from €1.3 million in 2016 to €1.5 million in 2017 and the Adjusted EBITDA Margin for other services increased by 5.2 percentage points, from 27.4% in 2016 to 32.6% in 2017. This increase was largely because the effects of the cost-cutting measures that were implemented throughout 2016 in connection with Botnica due to the continued downturn in the offshore services market. Operating profit decreased while Adjusted EBITDA and Adjusted EBITDA Margin increased largely due to the impairment loss on icebreaker Botnica of €5.9 million, the effects of which was excluded from Adjusted EBITDA and Adjusted EBITDA Margin.

The operating profit for the Other segment increased by €3.7 million, or 71.6%, from negative €5.2 million in 2015 to negative €1.5 million in 2016. The Adjusted EBITDA for the Other segment decreased by €1.6 million, or 56.3%, from €2.9 million in 2015 to €1.3 million in 2016, which was largely due to a decrease of other income (penalty fee for early termination of a long-term charter contract) that exceeded the effect of cost saving measures put in place. The Adjusted EBITDA Margin for other segment decreased by 35.8 percentage points, from 63.2% in 2015 to 27.4% in 2016, as a result of €3.0 million in penalty income from the early cancellation of a long-term charter agreement for the ice-breaker Botnica. Operating profit increased while Adjusted EBITDA and Adjusted EBITDA Margin decreased largely due to a €5.0 million impairment of Botnica in 2015 following a decrease in Botnica's fair market value as a result of weakened demand for charter of offshore/maritime support vessels, the effects of which were excluded from Adjusted

EBITDA and Adjusted EBITDA Margin.

M) Cash flows

The following table sets forth the Group's cash flows for the periods indicated.

	For the three-month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 (Adjusted)	2015
	(unaudited)		(audited)		
	(Amounts in EUR '000)				
Cash flows from operating activities	22,637	11,010	43,426	50,458	59,320
Cash used in investing activities	(3,114)	(12,956)	(25,447)	(38,826)	(63,256)
Cash from/(used in) financing activities	(6,289)	(3,790)	(60,943)	12,384	17,967
Net cash flow	13,234	(5,736)	(42,964)	24,016	14,031
Cash and cash equivalents at the end of the period	**20,188**	**44,182**	**6,954**	**49,918**	**25,902**

(a) Cash flow from operating activities

Cash flow from operating activities in the three month period ended 31 March 2018 was a net inflow of €22.6 million, reflecting an increase of €11.6 million, or 105.6%, from the €11.0 million of net cash inflow from operating activities in the three month period ended 31 March 2017. This increase largely reflected a decrease of €8.7 million, or 100%, in the amount of income tax paid on dividends from €8.7 million in the three month period ended 31 March 2017 to €0 million in the three month period ended 31 March 2018 as a result of income tax payments made on dividends declared in 2016 and the beginning of 2017 and a decrease of €2.7 million, or 23.2%, in payments to suppliers from €11.7 million in the three month period ended 31 March 2017 to €9.0 million in the three month period ended 31 March 2018.

Cash flow from operating activities in 2017 was a net inflow of €43.4 million, reflecting a decrease of €7.0 million, or 13.9%, from the €50.5 million of net cash inflow from operating activities in 2016. This decrease largely reflected an increase of €12.8 million, or 165.5%, in the amount of income tax paid on dividends from €7.8 million in 2016 to €20.6 million in 2017 as a result of dividend income tax payments in 2017 consisting of the dividend income tax expense related to 2017 and 2016, while the payment made in 2016 represented only the income tax on dividends declared and paid out in 2015. Other major factors contributing to the decrease of cash flow from operating activities were an €11.3 million, or 30.3%, increase in payments made to suppliers from €37.3 million in 2016 to €48.7 million in 2017 as a result of growth in operating expenses mostly related to domestic ferry services as a new business line and a €2.9 million, or 24.2%, increase in the amounts paid to and on behalf of employees from €11.9 million in 2016 to €14.8 million in 2017 as a result of growth in expenses also largely due to the start of domestic ferry services. These increases in cash outflows were partially offset by an increase of €20.4 million, or 19.0%, in cash receipts from the sale of goods and services from €107.4 million in 2016 to €127.8 million in 2017, mainly due to growth of revenue related to the start of domestic ferry services.

Cash flow from operating activities in 2016 was a net inflow of €50.5 million, reflecting a decrease of €8.9 million, or 14.9%, from the €59.3 million of net cash inflow from operating activities in 2015. This decrease largely reflected a €7.8 million cash payment in 2016 for income tax on dividends paid in December 2015 and a €4.4 million increase in the amount of cash paid to suppliers due mainly to growth of operating expenses related to domestic ferry services as a new business line, starting from 1 October 2016. These increased outflows were in part offset by an increase in the cash receipts related to the start of domestic ferry services as a new business line.

(b) Net cash used in investing activities

Net cash flows used in investing activities in the three month period ended 31 March 2018 were €3.1 million, reflecting a decrease of €9.8 million, or 76.0%, from the €13.0 million of net cash flow used in investing activities in the three month period ended 31 March 2017, largely reflecting a decrease of €10.0 million, or 77.0%, in the amount of cash spent on purchases of property, plant and equipment from €13.0 million in the three month period ended 31 March 2017 to €3.0 million in the three month period ended 31 March 2018 as a result of no investments into new passenger ferries in the three month period ended 31 March 2018 as their construction was completed in the three month period ended 31 March 2017.

Net cash flows used in investing activities in 2017 were €25.4 million, reflecting a decrease of €13.4 million, or 34.5%, from the €38.8 million of net cash used in investing activities in 2016. This decrease in the amount of cash used in investing activities was mainly due to the €14.0 million, or 35.8%, decrease in the amount of cash spent on purchases of property, plant, and equipment from €39.2 million in 2016 to €25.2 million in 2017 as a result of smaller investments into new passenger ferries, as their construction was completed in the first quarter of 2017 and the final instalments were partially offset by the penalties receivable from the shipyards for the delays in the ferry deliveries.

Net cash flows used in investing activities in 2016 were €38.8 million, reflecting a decrease of €24.4 million, or 38.6%, from the €63.3 million net cash used in investing activities in 2015. This decrease in the amount of cash used in investing activities was mainly due to a €26.0 million, or 39.9%, decrease in the amount of cash used for the acquisition of property, plant and equipment (including the prepayments for the construction of the new ferries) from €65.2 million in 2015 to €39.2 million in 2016. The decrease was mainly due to the decrease in the prepayments for the four new ferries under construction where the majority of the instalments were made in the beginning of the project in 2014 and largely in 2015.

(c) Net cash generated (used in)/from financing activities

Net cash flows used in financing activities increased by €2.5 million, or 65.9%, from €3.8 million in the three month period ended 31 March 2017 to €6.3 million in the three month period ended 31 March 2018. The amount of cash used in financing activities was largely due to a €2.6 million overdraft repayment on its maturity date in the three month period ended 31 March 2018.

Net cash flows generated from financing activities decreased by €73.3 million, or 592.1%, from €12.4 million of net cash received from financing activities in 2016 to €60.9 million of net cash used in financing activities in 2017. The amount of cash used in financing activities was largely due to an increase of €108.8 million in cash outflow for the redemption of bonds from €2.5 million in 2016 to €111.3 million in 2017, as well as a €13.0 million increase in the amount of dividends paid from €35.0 million in 2016 to €48.0 million in 2017. These increases in the amount of cash used in financing activities were partially offset by an increase of €30.0 million in the amount of cash received from the issuance of bonds from €75.0 million in 2016 to €105.0 million in 2017, as well as a €16.4 million decrease in the amount of cash outflow for the repayment of loans from €23.2 million in 2016 to €6.8 million in 2017 as a result of a decrease in the refinancing of loans. The Group issued €105.0 million in bonds in 2017 largely in order to pay for the Group's bonds that matured in 2017.

Net cash flows generated from financing activities decreased by €5.6 million, or 31.1%, from €18.0 million in 2015 to €12.4 million in 2016. This decrease was largely due to an increase of €1.8 million in the amount of cash used for the repayment of loans and an increase of €3.8 million in the amount of dividends paid in 2016, as compared to 2015. The Group issued €60.0 million in bonds in 2015 mostly in order to finance investing activities (prepayments for the new ferries) and €75.0 million of bonds in 2016 in order to finance investing activities and to refinance maturing loans.

(d) Change in cash and cash equivalents

The Group's net cash and cash equivalents increased from €7.0 million as of the end of 2017 to €20.2 million as of the end of the three month period ended 31 March 2018, an increase of 190.3%. This was largely due to a reduction in the amount of cash used for the acquisition of property, plant and equipment.

The Group's net cash and cash equivalents decreased from €49.9 million as of the end of 2016 to €7.0 million as of the end of 2017, a decrease of 86.1%. This was largely due to a decrease of net cash flows from financing activities.

The Group's net cash and cash equivalents increased from €25.9 million as of the end of 2015 to €49.9 million as of the end of 2016, an increase of 92.7%. This was largely due to the reduction in the amount of cash used for the acquisition of property, plant and equipment from 2015 to 2016.

9. LIQUIDITY AND CAPITAL RESOURCES

The Group has historically used financing through loans and bonds in connection with its investments. In the periods under review, the Group has met most of its liquidity needs out of operating activities and financings such as bank loans and debt securities and financial leases, and the Group expects that these will continue to be the principal sources of the Group's liquidity in the mid-term future. The Group has incurred long-term loans and borrowings amounting to €210.6 million and current loans and borrowings amounting to €19.4 million as at 31 March 2018 in order to sustain operations.

Debt covenants may limit the Group's ability to finance additional expansion through borrowings, which could limit the Group's scope for expansion or force the Group to pass over certain opportunities. The Group has two financial covenants including: debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA maximum 4.5 times) and equity to total assets (40 or 50%) under the loan agreements with European Investment Bank (EIB), Nordic Investment Bank (NIB), and the bonds subscribed by Nordea Bank AB (publ) and Swedbank AS, as applicable. For more information, see Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection Q (Additional indebtedness could have an adverse effect on the Group's operations and financial condition).

10. CONTRACTUAL OBLIGATIONS

See Part VIII (Operating and Financial Review), section 12 (Quantitative and Qualitative Disclosures about Market Risk - Liquidity risk) for a detailed breakdown of the Group's financial liabilities by contractual maturity as at 31 December 2017. Furthermore, see Part VIII (Operating and Financial Review), section 11 (Capital Expenditures) for contractual commitments as at 31 March 2018 related to the acquisition of property, plant and equipment, repairs, and research and development expenditures.

In addition, the Group is also subject to the following rentals payables in subsequent periods under non-cancellable operating leases as at 31 December 2017:

	Amount Payable in EUR '000
Less than 1 year	447
From 1 to 5 years	628
More than 5 years	12
Total	1,087

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

11. CAPITAL EXPENDITURES

The table below sets forth the Group's capital expenditures for the periods indicated.

	For the three-month period ended 31 March	For the year ended 31 December		
	2018	2017	2016	2015
	(unaudited)		(audited)	
		(Amounts in EUR '000)		
Total capital expenditures.........................	1,923	35,847	42,544	65,281

In the three-month period ended 31 March 2018, the Group's capital expenditures totalled €1.9 million related mainly to the reconstruction of traffic areas and the implementation of automatic traffic management systems in the Old City Harbour.

In 2017, the Group's capital expenditures totalled €35.8 million, consisting of €20.1 million for the construction of ferries (mainly final instalments on delivery) and passage systems required for the domestic ferry services and €15.8 million for constructing new infrastructure (including €8.2 million into Old City Harbour's new traffic areas and automated traffic management system), the acquisition of non-current assets (including €1.8 million for the purchase of car ramps) and the improvement of the Group's existing infrastructure (including €1.5 for the reconstruction of quay 1A in Muuga Harbour). Major infrastructure investments were made in the Old City Harbour in the amount of €11.0 million for the improvement of passenger services and the vessel reception facilities, the construction of utility networks and various traffic solutions. Investments in the Group's other harbours were much less significant in 2017 and were made mostly to reconstruct quays and utility networks.

In 2016, the Group's capital expenditures totalled €42.5 million, consisting of €27.7 million for the construction of ferries and passage systems required for the domestic ferry services and €14.9 million for new infrastructure, the acquisition of non-current assets and the improvement of the Group's existing infrastructure. Major investments into the Group's infrastructure included an €11.2 million investment in the Old City Harbour for the improvement of passenger service facilities and the vessel reception, the construction of utility tunnels and various traffic solutions. Investments in the Group's other harbours were much less significant in 2016 and were made mostly to reconstruct quays and berths and utility tunnels.

In 2015, the Group's capital expenditures totalled €65.3 million, consisting of mostly prepayments in the amount of €53.3 million for the ferries under construction for the domestic ferry services. Other major investments consisted of €7.7 million to develop vessel accommodation and passenger service facilities, and communications and traffic solutions in the Old City Harbour. Investments in the Group's other harbours (a total amount of €4.3 million) were much less significant in 2015 and were made mostly to reconstruct quays.

As at 31 March 2018, the Group's contractual commitments related to the acquisition of property, plant and equipment, repairs, and research and development expenditures totalled €2.1 million. In addition to contractual obligations, the Group has committed to co-finance the construction of Reidi tee (Reidi road) in the amount of up to €3.3 million in accordance with a memorandum of understanding entered into with the City of Tallinn in 2016. The co-financing is intended to provide for improved connections between Reidi road and Old City Harbour in order to facilitate the smooth flow of passengers and vehicles.

The Group is also developing real estate initiatives at its harbours, including real estate development plans impacting the passenger harbours and cargo harbours.

As described above in Part VIII (Operating and Financial Review), section 5 (Major Factors Affecting Consolidated Financial Results), subsection B (Capital Investments in Infrastructure), the Group is also planning to enhance the amenities available to international ferry passengers and real estate projects impacting Passenger Harbour segment are expected to commence at Old City Harbour in 2018/2019.

The Group's capital expenditures for ongoing maintenance and developments to enhance its existing infrastructure is expected to be between €20 to €30 million per annum (including an estimated €15 million for regular maintenance) for 2018 and the next few years. Approximately €23 million of the capital expenditures planned for 2018 will be spent on improving passenger service at the Old City Harbour, including the construction of a cruise terminal, reconstruction of Terminal D, and construction of a new pedestrian bridge between its two passenger terminals A and D. At its discretion, the Group may make capital expenditures from time to time that are not currently budgeted based on the needs of its operations and the additional opportunities that the Group is exploring to enhance its current infrastructure and operations. The Group does not have any significant planned investments to net working capital as at the date of this Prospectus. The Management Board expects an increase in expenditures in the Ferry segment for the additional ferry as compared to the three month period ended 31 March 2018, which will be financed with the additional revenue received under the Ferry Services Agreement for operating the additional ferry (in addition to the four main vessels).

Furthermore, the Old City Harbour Masterplan was delivered to the Group in December 2017. The Masterplan is a development plan initiated by the Group and sets out an opportunity to develop prime real estate covering a total land area of 16.2 hectares at the Old City Harbour in Tallinn's city centre. The Masterplan itself and its implementation are subject to revisions, and the Masterplan does not grant the Group legal ground to perform the development. Based on the Masterplan a new detailed planning process covering the Old City Harbour area has been started and is expected to last a minimum of three to five years. After the detailed plans are finally approved by the city of Tallinn, the Group will have legal grounds to perform the development based on the conditions and requirements set forth in the approved detailed plans.

For cargo harbours, the Group is exploring opportunities to develop infrastructure in the areas adjacent to Muuga Harbour and Paldiski South Harbour. See Part X (Business), section 3 (The Group's Strategy), subsection A (Strengths - Using a broad range of strategic initiatives to maximise existing portfolio value) for more information.

12. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The most significant risks facing the Group are discussed below.

A) Interest rate risk

The Group's interest rate risk results from long-term loans and borrowings. Term deposit contracts are made at fixed interest rates and do not expose the Group to any cash flow interest rate risk. Floating interest rate loans and borrowings expose the Group to interest rate risk. The Group's policy is to maintain a portion of its debt portfolio in fixed rate instruments by using floating-to-fixed interest rate swaps, when appropriate.

As at 31 December 2017, 2016 and 2015, the proportion of loans and borrowings with rates fixed through derivative transactions was 20%, 22%, and 30%, respectively, of the portfolio. Thus, 80%, 78%, and 70% of the loans and borrowings that are not hedged were exposed to interest rate risk as at 31 December 2017, 2016 and 2015, respectively.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings for the years ended 31 December 2017 and 2016 are as follows:

	As at 31 December 2017	**% of total loans**	**As at 31 December 2016**	**% of total loans**
		(amounts in EUR'000)		
Variable rate borrowings	**188,593**	**80%**	**193,043**	**78%**

Fixed rate borrowings - repricing date				
Less than 6 months	-	-	-	-
From six to 12 months	8,407	4%	-	-
From 1 to 5 years	38,600	16%	53,010	22%
Total fixed rate borrowings	**47,007**	**20%**	**53 010**	**22%**
Total loans and borrowings	**235,600**		**246,053**	

To assess the Group's exposure to interest rate risk, sensitivity analysis is used which describes the impact of interest rate risk exposure on the Group's profits through estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2017, 2016 and 2015 had been higher/lower by 100 basis points (1%), the Group's profit for the financial year would have been bigger/smaller by €1.9 million, €1.9 million and €1.4 million, respectively, assuming all other variables remained constant.

B) Credit risk

Credit risk exposure results mainly from trade receivables, cash and cash equivalents and derivative transactions. The Group's maximum exposure to credit risk totalled €14.9 million, €58.5 million and €35.0 million as at 31 December 2017, 2016 and 2015, respectively.

	As at 31 December		
	2017	**2016**	**2015**
		(unaudited)	
		(amounts in EUR '000)	
Current accounts and bank deposits with original maturities of less than 3 months	6,898	49,886	25,895
Receivables from customers[1]	6,909	7,796	7,299
Other receivables	1,125	809	1,756
Total	14,932	58,491	34,950

Notes: (1) Impairment losses are deducted from receivables from consumers

Cash and cash equivalents are considered as a low credit risk financial asset at 31 December 2017, as they are held with reputable international banking institutions.

To reduce customer related credit risk exposure, advances or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, due diligence is performed prior to concluding any major contracts. Other methods for managing customer-related credit risk exposure include day-to-day monitoring of customers' payment behaviour and prompt application of appropriate measures. As at 31 December 2017, a loss allowance for credit impaired receivables was recognised. Further details on the credit quality of financial assets are disclosed in Note 6.2 to the Audited Financial Statements as of and for the year ended 31 December 2017. Credit risk exposure in financial transactions is mitigated by using financial institutions with high credit ratings on performing investment or derivative instrument transactions. Receivables not past due as at 31 December 2017 amounted to 75.5% of total receivables from customers and credit loss for trade receivables amounted to 5.5% of the total trade receivables. Further details on receivables from customers are disclosed in Note 8 to the 2017 Audited Financial Statements.

For all trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The measurement principles are described in Note 2 to the 2017 Audited Financial Statements.

The following table shows the Group's provisions for trade receivables as at 31 December 2017:

	Days past due					
	Not past due	0-30	31-60	61-90	>90	Total
	(amounts in EUR '000)					
Expected credit loss rate	5.1%	1.5%	3.0%	40.0%	100.0%	
Total gross carrying amount	7,015	180	47	49	2,002	9,293
Lifetime expected credit loss	(358)	(3)	(1)	(20)	(2,002)	(2,384)
Total						6,909

In 2017, a partial loss allowance for a customer at the amount of €0.3 million was recognised in the category "not past due" as subsequent to 31 December 2017 the customer contested a receivable by the Group related to unmet minimum cargo volume penalty.

In 2016, loss allowance for a customer with a gross carrying amount of €1.1 million was recognised in the category "not past due" as subsequent to 31 December 2016 the company declared bankruptcy.

The allowance for these two customers is presented as credit impaired in the below table.

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

	Collectively assessed not credit-impaired(1)	Credit-impaired	Total
	(amounts in EUR '000)		
Balance as at 1 January 2016 under IAS 39	-	555	555
Adjustments upon application of IFRS 9	-	-	-
Balance as at 1 January 2016 restated	-	555	555
Transfer to credit impaired	-	1,131	1,131
Amounts recovered	-	(107)	(107)
Balance as at 31 December 2016 restated	-	1,579	1,579
Balance as at 1 January 2017 under IAS 39	-	*1,579*	*1,579*
Adjustments upon application of IFRS 9	-	-	-
Transfer to credit impaired	-	809	809
Amounts written off	-	(2)	(2)
Amounts recovered	-	(63)	(63)
Change in loss allowance due to new trade receivables	61	-	61
Balance as at 31 December 2017	**61**	**2,323**	**2,384**

Notes: (1) There are no individually assessed not credit impaired lifetime expected credit loss trade receivables in 2017 and 2016.

Other receivables are assessed with a 12-month expected credit loss method. As at 31 December 2017, there had not been a significant increase in credit risk of these financial assets and therefore no additional provision is needed. As at 31 December 2017, the majority of other receivables amount consist of the approved insurance indemnity.

C) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasted and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The liquidity reserve to meet the Group's obligations arising from prompt settlement of liabilities incurred in the ordinary course of business is €5.0 million on average, which is available on short notice. The reserve comprises of cash and cash equivalents, term deposits at banks with original maturities of less than 3 months and available credit lines. Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the Group's liquidity reserve and if the liquidity reserve falls under the required level, short-term external financing in the form of various debt instruments is used. The minimum level on liquidity shall be €2.0 million at any time.

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

The following table sets forth the Group's financial liabilities as of 31 December 2017. The balances shown in the table are contractual undiscounted cash flows, which consist of the principal and accrued interest for interest-bearing loans and borrowings. The table includes both interest and principal cash flows. On calculating interest accrued on interest bearing loans and borrowings (bank loans and issued debt securities), the forward looking yield curve of interest rate swap transactions from market information providers have been used as the basis for the EURIBOR forecast.

	Payments due by period					
	Carrying value	**Total cash outflow due to contracts**	**0 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
			(audited) **(Amounts in EUR '000)**			
Loans outstanding	55,693	58,744	5,987	3,573	28,846	20,338
Debt securities issued......	179,900	201,663	1,636	12,061	44,244	143,722
Trade and other payables.	7,810	7,561	7,561	-	-	-
Derivatives	609	421	57	174	190	-
Total...............................	244,012	268,387	15,240	15,807	73,280	164,060

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

D) Price risk

As at 31 December 2017, the Group has no investments in equity instruments on the consolidated statement of financial position that would expose the Group to market price risk arising from financial instruments.

E) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the Group's financial instruments or in cash flows arising from movements in foreign exchange rates. The Group has no material liabilities or receivables denominated in any other currency different from its functional currency (euro). All outstanding long-term loans and borrowings are denominated in euros.

For the years ended 31 December 2017, 100% of the receipts and 99.9% of expenditures were denominated in euros. Because nearly all receipts and payments are denominated in euros, the Group can be considered not exposed to currency risk.

F) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 16 of the Audited Financial Statements for the year ended 31 December 2017 offset by cash and cash equivalents) and equity of the Group (comprising share capital, reserves and retained earnings). In the long-term and based on the current pipeline of future projects, the Management Board aims to achieve and maintain net debt below 3 times Adjusted EBITDA over the applicable most recent rolling twelve-month period.

The Group is not subject to any externally imposed capital requirements.

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

The following table shows the Group's equity to assets figures as at the dates indicated:

	As at 31 March	As at 31 December		
	2018	2017	2016	2015
	(unaudited)	(audited)		
		(amounts in EUR '000)		
Total equity	337,684	325,792	346,968	342,667
Total assets	606,377	597,137	638,708	581,084
Equity to assets ratio	**56%**	**55%**	**54%**	**59%**

As at 31 March 2018, the equity to assets ratio (the ratio of total equity to total assets) of the Group was 56%, reflecting a 1 percentage point increase from 31 December 2017 due to an increase of 4% in equity and an increase of 2% in assets.

As at 31 December 2017, the equity to assets ratio of the Group was 55% reflecting a 1 percentage point increase from 31 December 2016, due to a decrease of 6% in equity and a decrease of 7% in assets.

As at 31 December 2016, the equity to assets ratio of the Group was 54% reflecting a 5 percentage point decrease from 31 December 2015, due to an increase of 1% in equity and an increase of 10% in assets.

13. CRITICAL ACCOUNTING POLICIES

The Group's accounting policies are integral to understanding the financial condition and results of operations presented in the Financial Statements. The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other relevant factors the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Management reviews the estimates regularly and any change in the estimates is recognised prospectively or in the period to which the change in an estimate relates. The areas involving a higher degree of judgement or complexity, or areas in which assumptions and estimates have significant effect on the consolidated financial statements are disclosed in Note 5 to the 2017 Audited Financial Statements and are as follows:

A) Classification of leased assets

The Group owns land and buildings within the ports and has made no investments outside the port's service area. Management has assessed whether the leased-out land and buildings should be classified as property, plant and equipment or investment property. The Group has classified all such assets as property, plant and equipment because the assets are held for the purpose of earning income in the port's core operations through increasing cargo or passenger flows or in activities supporting core operations. Therefore, according to the Group's estimates, the main objective of holding such assets is not to earn rental income; such assets are primarily held to help increase income earned from operating activities. Accordingly, the main income attributable to those assets is not received from rentals.

Property that cannot be directly attributable to the Group's core operations through increasing cargo or passenger flows or in activities supporting core operations, and that cannot be sold or leased out under a finance lease, is recognised as investment property if less than 10% of the asset is used for providing services or for administrative purposes. As at 31 March 2018, the Group did not own such assets recognised as investment property.

B) Useful life and residual value of property, plant and equipment

The Group owns a large amount of high value infrastructure items of property, plant and equipment with very long expected useful lives (up to 50 years). The useful lives of property, plant and equipment are based on the Management Board's estimates as to their period of actual use. The net value of the Group's property, plant and equipment amounted €577.1 million, €568.5 million and €544.2 million as at 31 December 2017, 2016 and 2015, respectively. The depreciation expense was €20.0 million, €16.5 million and €17.0 million for the years ended 31 December 2017, 2016 and 2015, respectively. If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by €2.0 million, €1.6 million and €1.7 million, respectively, for the years ended 31 December 2017, 2016 and 2015, respectively. Useful lives and residual values of assets are reviewed at each reporting date. If new estimates differ significantly from the previous ones, changes are accounted for as changes in accounting estimates.

C) Impairment of property, plant and equipment

The Group assesses whether there is any indication that any item of property, plant and equipment may be impaired. The fair value can be derived based on the recent transactions by the Group involving similar assets or estimated with the help of professional valuators using the market information available to them. If the value of the asset has been impaired, the recoverable amount of the asset is assessed and compared with its carrying amount recognised in the Group's statement of financial position. The recoverable amount of an asset is the higher of its fair value less the costs required to sell the asset and its value in use. If the fair value of an asset cannot be determined reliably, a future cash flow model is developed to calculate its value in use. Such calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo volumes and/or passenger volumes and the prices of the services being sold. If circumstances change in the future, either an additional impairment is recognised or the previously recognised impairment loss is reversed either in part or in full.

Assets are tested for impairment at the end of each reporting period when circumstances indicate that assets might be impaired or events that led to a previous write-down of assets might have ceased. Information about impairment losses incurred is disclosed in Note 10 of the 2017 Audited Financial Statements.

D) Revenue recognition

For recognising revenue on a monthly and/or quarterly basis the Group must make significant estimates about the expected annual vessel calls and/or cargo volumes. Such estimates are made based on the latest information available from the clients combined with the latest market updates available to the Group. See Note 2 to the of the Audited Financial Statements for the year ended 31 December 2017 for more information.

E) Classification of AS Green Marine as a joint venture

Although AS Tallinna Sadam owns a 51% interest in the joint venture AS Green Marine, this does not constitute operational control over the joint venture. Pursuant to the Articles of Association of AS Green Marine the members of the supervisory board of AS Green Marine are elected with an affirmative vote of the shareholders holding at least 2/3 of the shares present at the general meeting of shareholders. Furthermore, AS Tallinna Sadam does not currently have any nominees on the management board of AS Green Marine (which consists of the nominees of the other joint venture partners, being experts in the waste management industry). Although AS Tallinna Sadam holds 51% of the ownership interests and voting rights of AS Green Marine, the Group does not have the ability to direct AS Green Marine's relevant activities. Accordingly, AS Green Marine is classified as a joint venture of the Group. See Note 9 to the 2017 Audited Financial Statements.

F) Classification of the Ferry Service Agreement

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

14. ADOPTION OF NEW AND REVISED IFRS STANDARDS

On 1 January 2017, the Group adopted IFRS 15 and IFRS 9.

A) IFRS 9 (Financial Instruments)

IFRS 9 (*Financial Instruments*) introduces new requirements for the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and general hedge accounting. The Group applied IFRS 9 (*Financial Instruments*) in advance of its effective date (1 January 2018) excluding the requirements for general hedge accounting, which have been applied from 1 January 2018.

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

The change in measurement category of the different financial assets had no impact on the respective carrying amounts of the Group's financial assets on 1 January 2017 (the date the Group assessed its existing financial assets and financial liabilities under the requirements of IFRS 9), as compared to the carrying values under International Accounting Standard ("**IAS**") 39. There were no financial assets or financial liabilities that the Group previously measured at fair value through profit or loss under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities that the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liability that the Group has elected to measure at fair value through profit or loss as at 1 January 2017.

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

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements of the Group. If a material impact had been identified, the adjustment would have been applied retrospectively. Because the impact was not material, no restatements to the prior year balances were required with respect to IFRS 9. The classification and measurement of the Group's financial assets and liabilities under IAS 39 and IFRS 9 as at 1 January 2017 is presented in the following table:

	Measurement under IAS 39		Measurement under IFRS 9	
	Category	**Carrying amount**	**Category**	**Carrying amount**
	(amounts in EUR '000)			
Interest rate swaps	Derivatives designated as hedging instruments	(1,008)	Derivatives designated as hedging instruments	(1,008)
Trade receivables	Loans and receivables	7,796	Financial assets at amortised cost	7,796
Cash and cash equivalents	Loans and receivables	49,918	Financial assets at amortised cost	49,918
Borrowings	Financial liabilities at amortised cost	(246,053)	Financial liabilities at amortised cost	(246,053)

B) IFRS 15 (Revenue from Contracts with Customers)

The Group applied IFRS 15 for the year ended 31 December 2017 in advance of its effective date. IFRS 15 introduces a principles-based five-step model for recognising revenue that focuses on the transfer of goods and services rather than the transfer of risks and rewards.

The Group applied IFRS 15 in accordance with the fully retrospective transitional approach using the practical expedients that allow an entity (a) to not restate contracts that (i) began and ended within the same reporting period and (ii) were completed before the beginning of the earliest period presented; (b) to not estimate variable consideration for completed contracts; (c) to reflect the aggregate effect of all contract modifications occurring before the earliest period presented when identifying performance obligations, determining transaction price and allocating transaction price; and (d) to not disclose the amount of the transaction price allocated to remaining performance obligations for all reporting periods presented before the date of the initial application, which was 1 January 2017.
Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group other than the adjustments described below. The amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the year ended 31 December 2016 is illustrated below.

	As previously reported	Adjustment	As adjusted
	(amounts in EUR '000)		
Vessel dues	47,058	-	47,058
Cargo charges	6,474	2,848	9,322
Passenger Fees	16,431	-	16,431
Sale of electricity	5,476	-	5,476
Sale of ferry services - revenue from ticket sales	1,883	-	1,883
Sale of other services	1,711	-	1,711
Total revenue from contracts with customers	**79,033**	**2,848**	**81,881**

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

15. AMENDMENTS OR NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 distinguishes leases and service contracts on the basis of whether the customer controls an identified asset. Distinctions of operating leases and finance leases are replaced by a model where a right-of-use asset and a corresponding liability are recognised by lessees for all leases except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurements of the lease liability. The lease liability is initially measured at the present value of the unpaid lease payments at the measuring date. Subsequently, the lease liability is adjusted for, among other things, interest and lease payments and the impact of lease modifications. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

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

As at 31 December 2017, the Group has non-cancellable operating lease commitments of €1.1 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 12. A preliminary assessment indicates that although these arrangements will meet the definition of a lease under IFRS 16, the majority of the commitments qualify for low value or short-term leases upon the application of IFRS 16 and therefore, the new requirement to recognise a right-of-use asset and a related lease liability is expected to have no significant impact on the amounts recognised in the Group’s consolidated financial statements.

Additionally, the Group as a lessor has a long term time charter agreement for Botnica, which includes the right to control the use of Botnica under IFRS 16 and a service component for ship management and crew support services. The Group will elect to apply the practical expedient that allows an entity not to separate non-lease components from lease components, and therefore, management will continue to recognize the time charter agreement as a single lease component and does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements. See Note 2 to the Audited Financial Statements for the year ended 31 December 2017 for more information.

16. BORROWINGS

The following table sets forth the Group's loans and borrowings and debt securities obligations as at 31 March 2018.

Loans and borrowings type	Company name	Currency	Maturity	Interest type	Principal (€ '000's)	Amount outstanding as at 31 March 2018 (€ '000's)
Term loan agreement	European Investment Bank	EUR	13/03/2024	6M Euribor	40,000	24,000

				+margin		
Term loan agreement	European Investment Bank	EUR	25/11/2025	6M Euribor +margin	9,191	6,127
Term loan agreement	Nordic Investment Bank	EUR	17/01/2028	6M Euribor +margin	25,000	20,000
Unsecured and unsubordinated 10-year serial bond	Nordea Bank AB	EUR	19/11/2018	6M Euribor +margin	25,600	3,650
Unsecured and unsubordinated 10-year serial bond	Swedbank	EUR	26/10/2026	3M Euribor +margin	75,000	71,250
Unsecured and unsubordinated 10-year serial bond	Swedbank	EUR	22/11/2027	6M Euribor +margin	105,000	105,000
Finance lease	Rent-a-car	EUR	21/09/2018	Fixed Rate	15	7
					279,806	230,034

The following table sets forth the Group's outstanding indebtedness as of 31 March 2018:

	As at 31 March 2018
	(amounts in EUR '000)
Current financial liabilities:	
Loans and borrowings	6,766
Debt securities	12,650
Finance lease liabilities	7
Total	**19,423**
Non-current loans and borrowings:	
Loans and borrowings	43,361
Debt securities	167,250
Finance lease obligations	-
Total	**210,611**
Short & Long-term Total	**230,034**

A) Debt securities

Three debt securities with a total remaining value of €105.0 million matured in 2017. In 2017, the Group refinanced through Swedbank AS with a new 10-year debt security with a nominal value of €105.0 million. The new debt carries a floating interest rate with the base interest rate of 6 month Euribor, plus an appropriate margin; half of the value amortising straight line over 10 years and the remainder redeemable in 2027.

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

See Part XVII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements) for more information on the Group's outstanding debt securities. The Group's debt securities are not listed on any securities exchanges. Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 March 2018 was 0.677%.

Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the Group's debt securities was 0.779%, 0.805% and 0.676% as at 31 December 2015, 2016 and 2017, respectively.

B) Loan facilities

The Group's loan agreements are denominated in euros and based on a floating interest rate (the base interest is 6 month Euribor). At 31 March 2018, the weighted average interest rate on drawn loans was 0.693%. Considering the effect of derivative transactions used to hedge the interest rate risk, the average interest rate on loans as at 31 March 2018 was 1.650%.

The loans are unsecured, and the Group is in compliance with all contractual obligations stipulated in loan agreements which concern meeting special terms, the obligation of notice and minimum requirements set to the company's financial ratios as at the date of this Prospectus.

The final maturities of drawn loans are from 2024 to 2028. See Part XVII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements) for more information on the Group's outstanding loan facilities.

C) Off-Balance Sheet Transactions and Contingent Obligations and Liabilities

Upon the expiration of certain leases, the Group is obligated to compensate the lessee's cost of construction for infrastructure built by the lessee or improvements that the lessee has made to the land. Given the length of these leases, in particular with agreements carrying a right of superficies, and the fact that the construction consists largely of special-purpose facilities (such as port terminals), estimations as to the future fair market value of the construction and improvements are very difficult to ascertain and such amounts may be more or less than estimated in the Financial Statements.

As described in Part X (Business), section 7 (Overview of Operations), subsection J (Legal Proceedings), the Company is one of the creditors in connection with AS Coal Terminal's bankruptcy declared on 2 May 2017. The trustees of the estate has not presented any claims with respect to the value to be compensated for the aforementioned assets. The Group estimates that the compensation to be paid can be recovered by the proceeds from the sale of those assets.

In addition, as also described in Part X (Business), section 7 (Overview of Operations), subsection J (Legal Proceedings) and Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection E *(*the Group is subject to several on-going legal proceedings), a claim for damages in the amount of €23.8 million was lodged against TS Laevad OÜ and TS Shipping OÜ in October 2017 in relation to the alleged unjustified use of a business secret.

Furthermore, as also described Part X (Business), section 7 (Overview of Operations), subsection J (Legal Proceedings), due to a significant decrease in cargo volumes handled, Vesta Terminal Tallinn OÜ has lodged a claim with the aim to declare select conditions in long-term agreement concluded between the Group and the customer as void from 1 January 2017.

The unrestricted equity as at 31 March 2018 of AS Tallinna Sadam amounted to €134.5 million. Consequently, the maximum possible dividend income tax liability which would become payable if unrestricted equity were to be fully distributed would be €33.6 million.

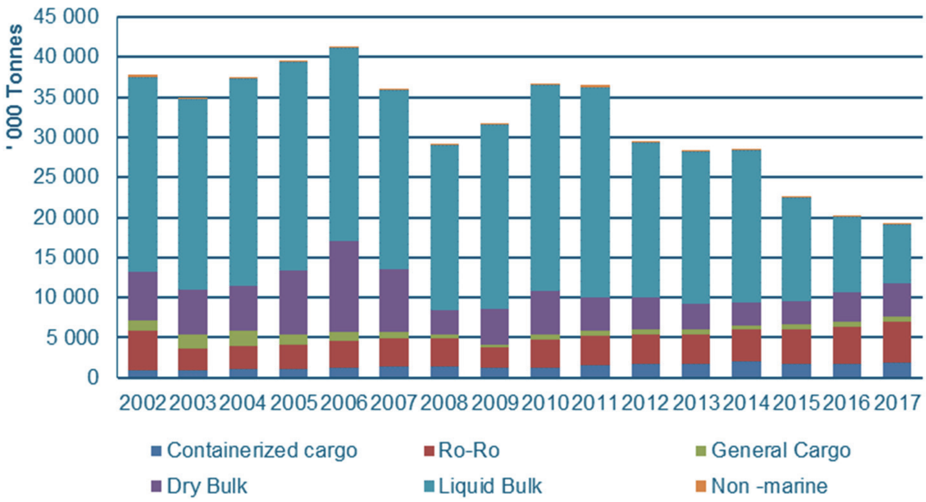
Certain of the Group's loan agreements and debt securities contain covenants that could result in an event of default under the existing loan agreement or debt instrument if breached, which include a maximum debt to EBITDA ratio (Consolidated Total Borrowings to Consolidated EBITDA maximum 4.5 times), a minimum Adjusted EBITDA of €20 million, and equity to total assets (40-50%). See Part XVII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements).

PART IX. INDUSTRY OVERVIEW

*The following information includes extracts from and references to information, statistical data and studies publicly released by officials or by third parties. The following information has been reproduced from a report dated 10 April 2018 prepared by Royal Haskoning DHV ("**Royal Haskoning**") as specified in this section, or from public or other sources the Company believes to be reliable. The Company accepts responsibility for extracting and reproducing accurately such information, statistical data and studies. Such information, statistical data and studies may be approximations or rounded numbers. As far as the Company is aware, no facts have been omitted that would render such information, statistical data and studies misleading, but the Company accepts no further responsibility in respect of such information, statistical data and studies.*

1. REGIONAL CONTEXT

The below table sets out the Group's historic cargo traffic volumes by type of cargo handled. Further below, we set out the discussion with respect to the main types of cargo handled in the Baltic Sea Region.



Source: *the Company*

A) The Baltic Sea

The Baltic Sea Region is about 1,610 kilometres long, an average of 193 kilometres wide, and an average of 55 metres deep. The maximum depth is 459 metres. The surface area is about 377,000 km^2. There is approximately 8,000 kilometres of coastline.

On average, the Baltic Sea Region is covered in ice during winter for roughly half of its surface area. However, the Baltic proper, or central Baltic Sea, does not normally freeze at all with the exception of sheltered bays and shallow lagoons (such as the Courland Lagoon). The ice reaches a maximum extent in February or March.

The Baltic Sea Region drainage basin is roughly four times the surface area of the sea itself. About 48% of the region is forested, with Sweden and Finland containing the majority of the forest. About 20% of the land is used for agriculture and pasture, mainly in Poland and around the edge of the Baltic Sea Region, in Germany, Denmark and Sweden. About 17% of the basin is unused open land with another 8% of wetlands. The rest of the land is heavily populated.

About 85 million people live in the Baltic drainage basin, 15 million within 10 kilometres of the coast and 29 million within 50 kilometres of the coast. Around 22 million live in cities of over 250,000, with 90% of these concentrated in the 10 kilometre band around the coast.

The table below highlights the countries in the Baltic Sea Region, with their respective total populations and additional information.

	Population, 2017	Value of Exports (US$bn)	Value of Imports (US$bn)	Capital City	Population	World Ranking of Economy
Russia	143.3	282	180	Moscow	12.0	16th
Germany	82.6	1,320	1,050	Berlin	3.5	3rd
Poland	38.1	196	186	Warsaw	1.7	19th
Sweden	9.9	135	139	Stockholm	0.9	26th
Denmark	5.7	82.2	83.3	Copenhagen	1.3	31st
Finland	5.5	55.1	58.3	Helsinki	0.7	38th
Lithuania	3.0	24.9	27.2	Vilnius	0.5	48th
Latvia	2.0	11.4	13.0	Riga	0.6	63rd
Estonia	1.3	13.9	14.9	Tallinn	0.4	57th

Royal Haskoning citing Oxford Economics, Observatory of Economic Complexity (OEC)

2. REGULAR PASSENGER AND CRUISE MARKET OVERVIEW

A) Top Passenger Ports

Scandinavia, Finland and the Baltic countries are connected with well-developed ferry routes that enable large numbers of passengers to move between the countries. Passenger numbers have increased for a number of years and expectations for growth to continue will support increased investment into the sector.

The port of Helsinki is one of the busiest passenger ports in Europe. Total passengers (cruise and ferry) handled in 2017 was over 12.3 million, an increase is 3.4% compared to 2016 volumes. Stockholm handled 12.0 million passengers in 2017, a 3.0% increase compared to the previous year. The Port of Tallinn has witnessed a continued increase in the number of passengers handled to over 10.6 million in 2017, and increase of 3.9% compared to 2016.

Top 5 Passenger ports in North Europe (Cruise + Ferry) (Millions of passengers)

Rank	Port	City	Country	Passengers 2017	Passengers 2016	% change
1	Port of Helsinki	Helsinki	Finland	12.3	11.9	3.4%
2	Port of Stockholm	Stockholm	Sweden	12.0	11.7	3.0%
3	Port of Dover	Dover	UK	11.7	12.1	-3.3%
4	Port of Tallinn	Tallinn	Estonia	10.6	10.2	3.9%
5	Port of Calais	Calais	France	9.0	9.1	-1.1%

Royal Haskoning citing Baltic Transport Journal/Company/Port websites

B) Top Baltic Ferry Passenger Ports

Helsinki handled over 11.7 million ferry passengers during 2017. This is an increase of 1.8% year on-year. The route with the largest number of passengers is Helsinki-Tallinn which handled 8.8 million. A new passenger terminal in Helsinki and a new Tallink ferry helped boost numbers.

Stockholm recorded an increase of an estimated 1.0% in total ferry passengers during 2017 to 11.1 million. In a recent passenger survey, the Port of Stockholm investigated arriving and departing passengers. Turku/Naantali was the main route with over 3.0 million passengers, followed by Mariehamn, with 2.5 million passengers, Helsinki with 2.2 million passengers, Gotland with 1.1 million passengers, Estonia with nearly 1.0 million passengers. Other routes to Latvia, Russia and Poland make up the balance of passenger movements.

The total ferry passengers handled by Port of Tallinn during 2017 reached 10.0 million, an increase of 3.0% compared to 2016. The main route is to Helsinki (8.8 million passengers), followed by Stockholm (1.0 million passengers). Tallink's new LNG-fuelled ferry – Megastar – was delivered in early-2017 – which helped increase passenger throughput.

The route with the most passengers is Tallinn-Helsinki, which has one of the highest concentrations of passenger movements in Europe. Volumes on this route have been growing year-on-year reaching 8,798,048 passengers in 2017 (CAGR of 4.8% for the period 2007-2017). Three ferry lines currently operate this service; Eckerö Line AB OY, Viking Line ABP and Tallink.

One of the main driving forces behind the large number of passengers travelling from Finland to Estonia is the attraction of good value services and products (incl. food and alcohol) that Estonia can provide compared to similar services and products in Finland. Outbound flows from Tallinn to Helsinki correspond mainly to workers and people travelling for holidays.

C) Cruise Passengers

There are 37 cruise lines that operated 80 ships in the Baltic Sea Region during 2017. An estimated 5.1 million passengers utilised Baltic cruise ports during the year. The cruise industry in the Baltic Sea Region has shown exceptional growth in the past decade with the total number of cruise passengers increased at a CAGR of 7%, and is forecast to continue to expand as cruising becomes a more popular form of holidaying. The sector is of major importance to the wealth of cities as increasing numbers of passengers take in the experiences that the cities in the Baltic Sea Region provide. In addition, new cruise vessels are increasingly utilised on these routes. The cruise industry in the Baltic Sea Region is another success story for the companies and countries involved. This growth has mainly been driven by the general increase in the popularity of the cruise industry and the 'pull' of St. Petersburg (the most popular destination in the Baltic Sea Region). All of the cruise lines that call at St Petersburg also stop at Tallinn.

St. Petersburg has recorded a 19.2% increase in cruise passengers, rising to 581,422 during 2017. During the cruise season 319 vessels called at the dedicated cruise terminal, which can accommodate up to seven cruise liners. The port is planning to extend the cruises season with new attractions such as the Festival of Lights and the Festival of Ice Breakers. The majority of calls into St. Petersburg are overnight, which helps to drive the excursion programmes. The port does not have any turnaround business, and the port is keen to break into the homeport market. This can only occur when the government removes existing barriers to entry for foreign citizens. There are plans to introduce electric 72-hour visas.

Port of Tallinn shows a strong trend in increasing numbers of cruise passengers to over 565,793 during 2017 (excluding overnight cruises), an increase of 19.4% compared to 2016. In total there were 316 calls from 70 different vessels. Aida Cruises made 40 calls, Viking Cruises made 24 calls, and Royal Caribbean made 21 calls. In total there were 16 different cruise companies that called at the port.

Helsinki cruise passengers have increased by 16.8% to 477,666 passengers during 2017. A small number of passengers were turnaround passengers (around 10,000). The number of cruise vessel calls increased to 266 compared to 240 during 2016.

Top 10 Baltic Sea Region's cruise passengers ports (No. of passengers)

City	2013	2014	2015	2016	2017	% Change 2016-2017
Copenhagen	800,500	739,000	677,000	740,000	850,000	14.9%
Rostock/ Warnemunde	483,000	509,000	485,000	553,000	641,000	15.9%
Stockholm	485,581	470,000	530,229	500,000	600,000	20.0%
St. Petersburg	523,525	512,543	505,359	487,648	581,422	19.2%
Tallinn(1)	513,058	471,350	497,492	473,821	565,793	19.4 %
Kiel	363,476	354,050	458,771	485,497	513,909	5.9%
Helsinki	420,000	420,000	436,500	409,000	478,000	16.9%
Oslo	298,403	234,000	199,000	171,480	195,000	13.7%
Kristiansand	105,000	120,000	69,221	100,000	109,000	9.0%
Riga	66,968	58,972	67,687	71,400	85,923	20.3%

Royal Haskoning citing Cruise Baltic/Cruise Europe/Baltic Transport Journal/Company

Notes:

(1) Excluding overnight cruise passengers.

3. EASTERN BALTIC SEA CARGO COMPETITIVE LANDSCAPE

A) Baltic Sea Trades

Overall trade within the Baltic region increased in 2016 to 881.3 million tonnes. This is the largest trade recorded in the region. Russia has the highest total freight throughput accounting for 26% of all cargo in the region.

However, Russian Baltic ports have a declining share of the country's total exports as the regional ports accounted for 32.8% of Russia port throughput in 2016, falling to 31.5% of the country's total 787 million tonnes in 2017. The Baltic port share is also impacted by growth in trade being directed to Estonian and Latvian ports, however, this trend is set to reverse in the coming years. In Estonia, the total transit went down by 2.2 million tonnes during 2016. This was followed by another decline during 2017 by 0.9 million tonne (-4.7%).

Russian Baltic Sea ports rely on liquid cargo accounting for 57.6% of throughput at 142.4 million tonnes. Overall Russian ports in the Baltic Sea Region recorded an increase in throughput of 2.5%, to 236.5 million tonnes with two-thirds from liquids and one-third from dry bulk.

During 2016, Estonia and Latvia were the only two countries which experienced a decrease in port throughputs, given their exposure to Russian transit cargo. In 2017, however, Estonia recorded a positive growth while Latvia kept its negative growth. To re-balance the falling Russian exports new trades from other CIS countries are being sought.

B) Top Baltic Ports

The top three largest ports for handling cargo in 2016 were Russian, Ust-Luga, Primorsk and St. Petersburg. All three maintained their positions in 2017. The port with the largest total cargo in the region was Ust-Luga with 103.3 million tonnes. Overall the port increased its cargo handling by 10.6%. The port throughput is heavily reliant on liquid bulk, accounting for over half of total volumes. Primorsk is the second largest port with 57.6 million tonnes, and is also reliant on liquid cargo for the majority of its throughput. Overall volumes declined in 2017 by approximately -10%. St. Petersburg recorded an increase in overall throughput of over 10% during 2017 to 53.6 million tonnes.

The State-run Port of Klaipėda recorded an increase in cargo volumes of 7.5% during 2017. Transhipment of dry bulk and liquid cargo helped to increase throughput to 43.1 million tonnes.

Total port throughput for Riga during 2017 recorded a decline of -9.2% to 33.6 million tonnes, as coal transhipment and oil products volumes declined. Port of Tallinn recorded an increase in containers, general cargo and dry bulk that was offset by volume erosion in liquids. This resulted in an overall reported volume decline of -4.7% in 2017 to 19.2 million tonnes.

Top 12 Baltic Sea ports by total cargo in 2017-2015 (Thousand tonnes) Rank

Rank	Country	Port	Total 2017	Total 2016	Total 2015	2017/2016 %
1	Russia	Ust-Luga	103,294	93,363	87,868	10.6%
2	Russia	Primorsk	57,607	64,429	59,606	-10.6%
3	Russia	St. Petersburg	53,649	48,624	51,514	10.3%
4	Lithuania	Klaipėda	43,170	40,140	38,510	7.5%
5	Sweden	Gothenburg	40,800	40,813	37,827	0.0%
7	Poland	Gdańsk	40,614	37,289	35,914	8.9%
6	Latvia	Riga	33,675	37,070	40,056	-9.2%
10	Germany	Rostock	-	20,959	20,328	-
9	Poland	Szczecin-Świnoujście	-	21,475	20,055	-
8	Finland	Sköldvik	-	24,777	20,631	-
11	Sweden	Brofjorden	-	20,500	22,000	-
12	Estonia	Tallinn	19,182	20,119	22,431	-4.7%

Royal Haskoning citing Baltic Transport Journal/Company. Full year 2017 data is used where available

C) Competing Landscape

(a) Regional Ports

Regarding regional competition, the largest ports on the east coast of the Baltic Sea Region and ports of Finland are considered as competitors for the Port of Tallinn. In general, they compete mainly for transit cargo coming from or going to Russia as well as for the cargo from/to the east going to the Nordic countries and Western Europe. Competition exists also for servicing the consumer needs of the region in terms of trade and establishing points of regional significance such as a regional LNG terminal, or in becoming the location of large production directed to international market.

Map of competing ports in the region

Royal Haskoning citing Ocean Shipping Consultants/Company

Unlike Latvia and Lithuania, Estonia is not connected to the Russian crude oil pipeline system but receives crude oil, oil products and other energy products by rail that are later sent to Estonian ports, or by vessels.

(i) Latvia

The main Latvian ports are The Freeport of Riga, Freeport of Ventspils and the Liepāja special economic zone. The three ports are connected to their hinterland by rail and road. In fact, around the 80% of the cargo uses the railway, with special container services connecting Latvia with Russia, the Black Sea and Asia.

Freeport of Riga

The Freeport of Riga is Latvia's main port, as it is located in the major consumer area in Latvia (that accounts for 40% of the total Latvian population). It is the second largest Baltic dry bulk port (after Ust-Luga), and also handles other types of cargo, functioning as an east-west hub as well as a ferry and cruise destination. Unlike the Port of Tallinn, icebreakers are necessary to keep the port open from December until April.

The commercial Freeport of Riga covers a total of 1,962 hectares on land, and has an overall berth length of 21 kilometres, what makes it more than twice the size of the Port of Tallinn in terms of land area (which accounts for 775.4 hectares in the Port of Tallinn). The total length of the berths is also larger than the Port of Tallinn (15.6 kilometres).

The largest vessels accommodated are up to 120,000 deadweight tonnage (**"dwt"**), with maximum lengths of 300 metres and maximum draft of 15 metres. However, these values can vary according to the location and characteristics of the terminals/berths as some are much more restricted in terms of vessel sizes than others. For example, the main terminals handling fertilisers enable vessels up to an overall length (**"LOA"**) of 230 metres and the berths handling liquid bulk vessels enable a maximum of LOA of 240 metres. For maximum depths, the majority of terminals/berths range between 6.5 to 12 metres. Therefore the Port of Tallinn offers better infrastructure for the handling of liquid bulk vessels, whilst the infrastructure for dry bulk vessels is quite similar in both ports.

There are 35 stevedoring companies/cargo terminals operating at the port, offering a total storage area of around 2.0 million m2, including 370,700 m2 of covered warehouses, 359,000 m3 of dry bulk silos and 502,000 m3 of liquid bulk tank capacity. In comparison to the Port of Tallinn, storage capacity in the Port of Riga is a little bit lower, especially for the storage of liquid bulk.

The Freeport of Riga is very well connected to the nation's road and rail networks for convenient access to the consumer markets in the CIS and Russia. Around 80% of the cargo throughput is made up of transit cargo forwarded to or received from the CIS. Riga is also very well connected to the Russian railway system, being geographically the closest port to Moscow. The port also has less icy conditions than Saint Petersburg.

Port of Ventspils

The ice-free Port of Ventspils covers a total 2,451 hectares and has the status of special economic zone.

The port has 13 terminals: six liquid bulk terminals (for 275 metre LOA tankers with max. draft of 15 metres), four dry bulk terminals (15 metres draft) and three general cargo, ro-ro & container terminals of 14.1 metre draft and maximum LOA of 240 metres. Ventspils serves passenger traffic, too, by two ro-pax services from Stena Line.

Regarding hinterland connectivity, Ventspils is part of the east-west railway corridor, which is integrated in the common Eurasian transport system. Unlike the Port of Tallinn, Ventspils is connected to the Russian crude oil pipeline system. However, considering Russia's intention of cutting transit oil to Baltic ports during 2018, the lack of direct connection to the pipeline system does not seem to be a competitive disadvantage for the Port of Tallinn.

Comparing infrastructure facilities for liquid bulk of the Port of Ventspils and the Port of Tallinn, it is suggested that both offer competitive storage facilities and can accept similar sized vessel. However, the port of Ventspils had more exposure to oil products in 2017 (10,637,000 tonnes) than the Port of Tallinn (7,316,000 tonnes).

Port of Liepāja

The Port of Liepāja is a multifunctional harbour, serving the east-west transport corridor. It is an ice-free port and is part of the Liepāja special economic zone.

With a land area of 370 hectares, the port is situated in the western part of the town. Although the port has very good nautical accessibility, it is quite far from Latvia's main population centres and also is very close to Klaipėda, its main competitor.

The total length of the berths used for commercial purposes is 8.17 kilometres, with depths alongside between 4.5 and 10.8 metres and maximum vessel deadweight tonnage of 50,000 dwt. Therefore, there are restrictions for serving bigger vessels, positioning Liepāja behind the Port of Tallinn in terms of overall cargo competitiveness and at a disadvantage in terms of economies of scale.

The port also handles coal, wood and forest products exported from domestic production from Latvia's vast forests.

In relation to the hinterland connectivity, the port has a railway connection to Jelgava and Riga and through them to the rest of Latvia's railway network. The railway provides the main means of delivering cargo to the port. There is also a northward railway track leading to Ventspils, but in recent years it has fallen into disuse for economic reasons.

(ii) Lithuania

Port of Klaipėda

In contrast to other Baltic countries, Lithuania has a single main port, Klaipėda. Butinge is the Single Point Mooring oil terminal (**"SPM"**) located 7.5 kilometres north along the coast. The complex of the Butinge Terminal consists of a crude oil pipeline, which connects the facility with the Mazeikiai refinery. There is an onshore terminal with tanks, connected to an offshore pipeline, and a SPM buoy.

In terms of total port throughput, the Port of Klaipėda is one of the biggest in the region, only surpassed by the Russian ports of Ust-Luga, Primorsk and St. Petersburg. The total throughput in 2017 reached 43.17 million tonnes, after growing year-on-year at an average rate of 7% since 2013.

Cargo handled in Klaipėda is for the Lithuanian market, but also functions as the main import-export hub for Belarus, and is an important transit mode for traffic to or from Russia and the CIS.

The port of Klaipėda is a multi-purpose ice-free deep-water port, occupying a land area of 538.7 hectares. It offers a total berth length of 27.6 kilometres, the longest in the region. The port can accommodate tankers up to 170,000 dwt and dry cargo vessels up to 100,000 dwt. In the case of container vessels, the maximum size accepted an LOA of 323 metres, a beam of 45 metres and a draft of 15 metres. Compared to the Port of Tallinn, Klaipėda is more restricted in terms of maximum vessel draft and maximum deadweight tonnage, both for dry bulk vessels and for tankers.

In relation to storage facilities, Klaipėda offers over 1.0 million m^2 of open storage, nearly 100,000 m^2 of covered warehouses for general cargo, 66,000 tonnes capacity storage for refrigerated freight, more than 930,000 tonnes for dry bulk, and 750,000 m^3 for liquids. The Port of Tallinn offers more liquid bulk storage capacity at 1,950,050 m^3.

Disregarding the liquid bulk products handled in Butinge Terminal, dry bulk is the main cargo type handled in Klaipėda. In fact, it is the main port in the Baltic Sea Region for fertilisers (it handles 36% of the regional volume) and has more than 500,000 tonnes storage facilities for this product. This is more than double the capacity in Muuga Harbour, where the storage capacity offered by the dry bulk terminal is of 192,000 tonnes. However, the capacity of the grain storage silos in Klaipėda is lower than the one in the Port of Tallinn, 105,000 tonnes compared to 300,000 tonnes respectively.

Container infrastructure of the port is greater than at the Port of Tallinn. Maximum drafts are similar in both ports but when handling capacity is compared, the combined capacity of the two container terminals in Klaipėda totals 1.16 million TEU (given by the equipment specifications) compared to the total 600,000 TEU/year of the Port of Tallinn.

Regarding hinterland connectivity, Lithuania's neighbours are Belarus, Poland, Russia and Latvia. Therefore, when it comes to Russian transit, in order to get to a Lithuanian port, the cargo has to cross a third country's territory, either Belarus or Latvia.

(iii) Finland

Port of Helsinki

The Port of Helsinki is Finland's leading container and passenger port and it is specialised in unitised cargo. It is composed of 4 harbours: Vuosaari, Katajanokka, South and West Harbours Vuosaari being the prime cargo hub.

The South, West and Katajanokka Harbours handle mainly liner and cruise traffic, whereas Vuosaari Harbour serves container and ro-ro traffic. Apart from these harbours, the Port of Helsinki owns stakes in the ports of Loviisa and the port of Kantvik, both specialised in the handling of bulk products.

The Port of Loviisa is a flexible service centre specialised in the mechanical forest industry and dry bulk.

Kantvik Harbour serves primarily as a bulk port, with an annual throughput of approximately 600,000 tonnes. Coal required by the nearby power plants is imported through the port.

Port of HaminaKotka

The Port of HaminaKotka is the largest full-service universal port in Finland, serving all types of cargo (containers, ro-ro, liquid bulk, dry bulk, lo-lo (lift on/lift off), gas and project shipments) and international cruise ship traffic. It is the biggest container port in Finland and is also the leader for the wood processing industry in Finland.

Occupying an area of 1,100 hectares, the port serves as a transit port for cargo to and from Russia as well as products from the eastern part of the country. There are five terminals and private quays with good facilities for bulk cargo, containers, oil products and chemicals as well as general goods.

With a capacity of 1.5 million TEU and a container throughput in 2017 of 690,300 TEU, the Mussalo container terminal handles a majority of the Finnish export and transit containers. The products of the wood processing industry are also of strategic importance for Mussalo: it is the biggest hub for sawn timber, pulp and paper containerised at a port in Finland. The infrastructure for containers is a little bit more restricted than the Port of Tallinn in terms of vessel sizes, having a maximum draft of 12 metres versus a 14.5 metre draft in Muuga Harbour container terminal.

In general, the port of HaminaKotka is more restricted than the Port of Tallinn in terms of maximum drafts.

In addition to the container terminal, Mussalo has terminals for the handling of dry bulk and liquid bulk. The bulk products are mostly Finnish imports or transit commodities.

(iv) Russia

Russian Ports are gaining share in the total cargo moved in the Baltic Sea Region. Their position is based on increasing oil exports that are being diverted from other Baltic ports. In addition, increasing flows of dry bulk are also being handled by Russian ports.

Notwithstanding its relevance to Baltic volumes, in general, Russian ports are not considered as competitors to the Port of Tallinn or other Baltic ports, as Russian cargo being shipped by other ports is greatly influenced by political effects, rather than commercial ones and can therefore change their share in the regional volumes for reasons other than commercial ones. Considering the ongoing investments in some of the Russian main port complexes (like Ust-Luga), it is likely that the trend of the volumes being redirected to Russian ports will continue in the future, without an option for the rest of the Baltic ports to compete.

The ports of Primorsk and Vysostsk are mainly oil ports handling Russian oil products and therefore cannot be considered as direct competition to the Port of Tallinn.

The port of Kaliningrad has the disadvantage of onerous customs processes and higher port costs, which is a generalised problem of Russian ports as a gateway to international hinterlands.

For the ports of Ust-Luga and St. Petersburg, their competitive position is driven by the factors indicated above and the Port of Tallinn is not in a position to change that. However, they are significant ports in the region and handle many types of products and therefore have been considered in this analysis.

Port of Ust-Luga

Situated 130 kilometres south west of St. Petersburg, the port of Ust-Luga is a recently opened deep-water port that has managed to lead in regional, particularly liquid, volumes since it started operations. It is an ice bound port so, unlike the Port of Tallinn, it has weather restrictions during the year.

The maximum allowed draft is 14 metres and some terminals have additional restrictions, like the timber terminal (maximum draft of 6.5 metres) or the Road-Rail-Ferry (maximum draft of 6 metres).

Port of St. Petersburg

The Baltic Sea port of St. Petersburg is situated on the islands of the Neva Delta, at the head of Neva Bay. It is the main logistic gateway to Russia from the west.

Offering a maximum draft of 11 metres, the port handles a range of cargo including bulk, general cargo, containers, diesel, fuel oil, petroleum products, bunkering, ro-ro and passengers.

(v) Poland

Gdańsk and Gdynia are Poland's main ports and both handle many types of cargo. Gdańsk is the only container transhipment hub in the Baltic, whilst Gdynia specialises in unitised cargo.

Infrastructure and throughput are both larger than at the Port of Tallinn (41 million tonnes for Gdańsk and 21 million tonnes for Gdynia).

Nevertheless, in terms of competition, the geographical position of Polish ports in relation to Estonia and its hinterland makes it difficult for Gdańsk and Gdynia to compete for most types of cargo.

The most feasible competition could rely on cargo that can be trucked from Polish ports to their hinterlands (including Estonia) in a cost effective way, and therefore be diverted from other regional ports (Port of Tallinn, Riga or Klaipėda). This could be the case for vehicles and containers that, instead of being shipped directly to the Port of Tallinn (for vehicles) or via feeder from Gdańsk port (for containers), would be shipped to Gdańsk/Gdynia and from there trucked to Estonia.

This is currently the case for Nissan vehicles that are unloaded in Gdańsk for the Polish, Lithuanian, Latvian, Ukrainian, Czech, Slovak and Hungarian markets. The port has a three year contract with the automotive company.

Trucking low value cargo, such as timber or grain to or from Estonia (over 1,000 kilometres) to Gdańsk or Gdynia would not be cost effective, so competition with the Port of Tallinn for these products does not seem probable.

Port of Gdańsk

The port of Gdansk is the largest port in Poland and even though it handles some passengers, it is mainly a cargo port.

The total length of the berths is greater than the overall length in the Port of Tallinn (15.3 kilometres) whereas the maximum draft is greater in the Port of Tallinn than in the port of Gdansk. Maximum accepted dwt is similar at both ports.

The handling of vehicles in the port of Gdansk is done at the WOC I and WOC II quays, where the BLG Autoterminal Gdansk is located (amongst other terminals handling different products). The maximum draft at this berth is 8.6 metres and open storage amounts to 116,654 m^2. Considering 100% of these open areas are dedicated to the new cars, they are less than the area at the car terminal in Paldiski Harbour (nearly 20 hectares, estimated).

Port of Gdynia

The port of Gdynia specialises in handling unitised and dry bulk cargo. During 2017, containers and ro-ro units accounted for the 54% of the total throughput. Gdynia is also Poland's main port for cruise ships.

In general, the infrastructure offered in Gdynia is more restricted when it comes to maximum vessel size accepted compared with the Port of Tallinn. The maximum draft at the container terminals in Gdynia is less than 13 metres while the maximum draft in Muuga container terminal is 14.5 metres. However, crane capacity is higher at the port of Gdynia.

(b) Other Estonian Ports

The Port of Tallinn has a share of 53% (2017) in the overall Estonian maritime cargo flows as there are other ports in the country that are also moving relevant volumes, like the Port of Sillamäe and the Port of Paldiski North, which can be considered as the national competitors.

Map of the main competing national ports

Royal Haskoning citing Google Earth/ Company

Port of Sillamäe

With a total area of more than 750 hectares, the Port of Sillamäe is a private multifunctional port with free zone status that allows the handling of most types of cargo, including liquid, bulk, general cargo, ro-ro and container cargo.

In general, the port of Sillamäe is more restricted in terms of vessel sizes than Muuga Harbour, having a maximum berth depth of 16 metres and a maximum LOA of 250 metres while Muuga has a maximum berth depth of 18 metres and maximum LOA is 300 metres.

Even though the port of Sillamäe has a big outdoor storage area, the global storage offering of the Port of Tallinn is greater. To highlight this, Sillamäe has an open storage area of 82 hectares and a covered area of 5.5 hectares. This compares to Muuga Harbour with an open storage area of 67 hectares and a warehouse area of 15 hectares. Paldiski Harbour has an open storage area of 50 hectares and a warehouse area of 1.5 hectares.

The main dry cargo at this port is fertilisers, the majority of which is transit cargo coming from Russia. In addition, the Russian–owned company Acron has liquid fertilisers storage facilities at the port. Competition between the Port of Tallinn and Sillamäe for dry fertilisers is somehow limited with regards to potential volumes being diverted from Muuga to Sillamäe, as Acron (the owner of the dry bulk terminal in Muuga), transports its own production from its own facilities to the established bulk facility at Muuga.

Port of Paldiski North

With a total land area of 70 hectares, the Port of Paldiski North is also a private owned port with free economic zone status. It handles mainly ro-ro cargo (175,000 units, totalling 98% of the volumes of this port in 2017), although it has the capabilities to handle other types of cargo like general cargo and bulk cargo.

The port is home to a car terminal with a total area of 25 hectares and can store up to 15,000 cars, which is slightly more than what the Port of Tallinn can offer with the present infrastructure (nearly 20 hectares, estimated). It should be mentioned that the maximum berth depth at Paldiski South is slightly deeper than the maximum draft at Paldiski North.

4. MAIN TYPES OF CARGO HANDLED IN THE REGION

A) Liquid Bulk

(a) Competitive Landscape

Ust-Luga handled 63.8 million tonnes of liquid bulk during 2017, an increase of 2.2% compared to the previous year. Of this, crude oil exports accounted for 32.7 million tonnes (9.0%) and oil products 28.9 million tonnes (-5.0%). Ust-Luga can handle tankers up to 160,000 dwt. In contrast, Primorsk has seen oil exports decline by -10.6% year-on-year to 57.6 million tonnes. This was partly due to reductions in Ural crude production and Transneft using pipeline capacity to transport diesel by pipeline. Vysotsk also recorded a decline in oil throughput, by -4.9%, to 10.4 million tonnes. Seaborne Urals crude shipments from the Russian Baltic ports is expected to decline as oil is diverted away from the west in favour of movements eastwards as Moscow pursues closer ties with Asian countries.

Klaipėda handled 21.3 million tonnes of liquids during 2017, an increase of 8.8% compared to 2016.

Gdansk recorded a year-on-year increase in liquid bulk throughput of 2.9%, to 13.2 million tonnes.

Ventspils has seen oil exports decline by -2.7% during 2017 compared to the previous year. Transneft, the Russian state-owned pipeline operator, is redirecting volumes to Ust-Luga and Primorsk and the Black Sea port of Novorossiysk as these have capacity surplus. It is anticipated that exports of Russian oil products will halt during 2018. The will impact both Ventspils and Riga (and Tallinn) oil export volumes.

Top 12 Baltic Sea liquid bulk ports in 2017-2015 (Thousand tonnes)

Rank	Country	Port	Liquids 2017	Liquids 2016	Liquids 2015	2017/2016 %
1	Russia	Ust-Luga	63,879	62,487	58,793	2.23%
2	Russia	Primorsk	57,607	64,429	59,606	-10.59%
3	Finland	Sköldvik	-	24,698	20,552	-
4	Sweden	Gothenburg	-	23,761	20,711	-
5	Sweden	Brofjorden	-	20,500	22,000	-
6	Lithuania	Klaipėda	21,307	19,580	18,794	8.82%
7	Poland	Gdańsk	13,168	12,801	14,711	2.87%
9	Latvia	Ventspils	10,637	10,927	14,656	-2.65%
8	Russia	Vysotsk	10,422	10,957	11,804	-4.88%
10	Estonia	Tallinn	7,448	9,443	12,802	-21.13%
11	Lithuania	Būtingė	-	9,316	8,679	-
12	Latvia	Riga	-	8,166	10,618	-

Royal Haskoning citing Baltic Transport Journal/Company. Full year 2017 data is used where available

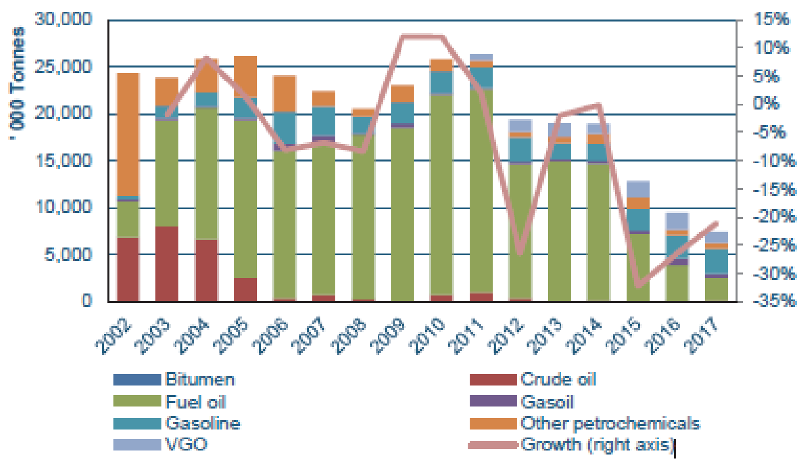
(b) Liquid Bulk – Port of Tallinn

Despite liquid bulk still accounting for the highest volume of cargo at the Port of Tallinn, it now represents a smaller proportion of the overall cargo volume passing through the Port of Tallinn. The figure below highlights the evolution of liquid bulk cargo in the last few years. It shows that there has been an oscillating throughput, reaching a peak in 2011 (26 million tonnes), driven by the increase in the handling of fuel oil. This was followed by a year-on-year decline for five years (-16.4% per year). The overall CAGR for the period 2007-2017 has been -10.4%.

The main liquid bulk products handled include gasoline, fuel oil and Vacuum gas oil (**"VGO"**), of which accounted for 35%, 32% and 16% respectively during 2017. Gasoil, other petrochemical products and bitumen are also handled but in smaller volumes. Fuel oil accounted for 21.6 million tonnes during 2011, but has since declined to 2.3 million tonnes in 2017. Overall fuel oil share of liquid bulk has declined from 82% in 2011 to 32% in 2017. Gasoline share of liquid bulk has remained relatively stable during the past decade, fluctuating between 1.6 million tonnes in 2013 to 2.6 million tonnes in 2017. Whilst the overall quantity of gasoline handled has remained relatively steady, its share of liquid cargo has more than doubled, from 14% of total liquid bulk in 2007 to 35% in 2017. This increase in port throughput share has come as fuel oil throughput has fallen over the years.

Overall the developments within the liquid bulk sector for the Port of Tallinn have seen a fundamental shift from Russia transit cargo, to Russian exporters now utilise Russian ports rather than tranship through Port of Tallinn (and other Baltic States ports). Volumes of light products are forecast to be stable in the next years, via shipments from alternative countries/refineries and Russia, with the movement of dark products estimated to keep declining.

(c) Liquid Bulk - Historic Volumes



Source: Port of Tallinn

Most of the cargo supply is provided by Russian plants, or from Belarus or Kazakhstan, though Russian transit volumes have been falling in the last years. The majority of the petroleum processed at the Port of Tallinn is transhipped to Europe and to the United States.

B) Dry Bulk

Port of Tallinn dry bulk volumes increased from 2,942 thousand tonnes in 2015, to 3,756 thousand tonnes in 2016 and 4,146 thousand tonnes in 2017.

Ust-Luga is the largest dry bulk sea port in the region. Overall throughput increased by over 30% compared to 2016, with coal and coke exports recording a 37% increase to 30.5 million tonnes. It is the only Russian port on the Baltic that can accommodate dry bulk vessels up to 85,000dwt.

Top 12 Baltic Sea dry cargo ports in 2017-2015 (Thousand tonnes)

Rank	Country	Port	Dry Bulk 2017	Dry Bulk 2016	Dry Bulk 2015	2017/2016
1	Russia	Ust-Luga	36,137	27,712	25,197	30.4%
2	Latvia	Riga	20,919	22,434	23,246	-6.8%
3	Lithuania	Klaipėda	19,093	16,617	17,172	14.9%
4	Russia	St. Petersburg	10,695	9,476	10,932	12.9%
5	Poland	Gdańsk	8,933	9,939	9,389	-10.1%
6	Poland	Gdynia	7,780	7,458	6,519	4.3%
7	Russia	Vysotsk	7,129	6,145	5,680	16.0%
8	Russia	Kaliningrad	6,969	5,738	5,455	21.4%
9	Latvia	Ventspils	6,665	5,283	5,644	26.2%
10	Latvia	Liepāja	4,861	4,274	3,923	13.7%
11	Estonia	Tallinn	4,146	3,746	2,942	10.7%
12	Germany	Rostock	-	7,920	7,061	N/A

Royal Haskoning citing Baltic Transport Journal/Company

Notes: Full year 2017 data is used where available

Riga dry bulk throughput declined by -6.8% during 2017 to 20.9 million tonnes. The drop occurred due to decreasing coal volumes which fell by -11.4% to 11.8 million tonnes. Rail shipments of coal from Russian to Latvia significantly fell during 2017. There are several suggestions as to why this might have been. It is suggested that coal volumes were exported via Murmansk and Arkhangelk instead.

Klaipėda dry bulk freight volumes grew by 14.9% year-on-year to over 19.0 million tonnes. The port is the third largest dry bulk port in the region.

St. Petersburg dry cargo throughput increased by 12.9% during 2017 compared to the previous year to 10.6 million tonnes. Within the dry bulk cargoes, mineral fertilisers accounted for 7.8 million tonnes, and ores 829,000 tonnes. Also, grain (51,000 tonnes), sugar (54,000 tonnes) were other significant cargoes.

Gdansk dry bulk freight volumes declined by -10.1% during 2017 year-on-year to 13.1 million tonnes.

C) Containers

Port of Tallinn container throughput increased 6.5% compared to 2016 throughputs. Port of Tallinn has also increased container volume from 1,741 thousand tonnes in 2015, to 1,778 thousand in 2016 and 1,907 thousand in 2017.

St. Petersburg container throughput increased by 10.1% compared to 2016 throughputs, recording 1.92 million TEU. It is the largest container port within the Baltic region. The port handles approximately 41% of Russia’s total container port volumes.

Gdansk experienced one of the largest increases in container activity in the region during 2017. An increase in container handling of 21.6% took the total for the year to 1.58 million TEU. With the expansion of the port (Terminal 2), the port is the regions transhipment hub. The terminal can accommodate container vessels of 18,000+ TEU, meaning that main line operators can call directly.

Gothenburg recorded a -2.8% drop in container throughput during 2017, to 782,936 TEU. A long running labour dispute between the Swedish Dockworkers’ Union and the terminal operator APM Terminals

Gothenburg had an impact on volumes for 2016 and 2017. The threat of additional industrial action caused many freight owners to use alternative ports.

Gdynia is the fourth largest container port in the region. Port statistics for full-year 2017 have not been released at the time of writing, but half year 2017 results showed that container throughput was up by 7.7% (340,599 TEU) compared to the first half of 2016 (325,181 TEU).

Klaipėda has the largest container throughput of the three Baltic countries. In 2017 the port handled 472,000 TEU, an increase of 6.4% compared to 2016.

Riga has recorded an increase of 15.6% year-on-year to 445,984 TEU. This is one of the highest years on record.

Top 12 Baltic seaports total container throughput (TEU)

Rank	Country	Port	2017	2016	2015	2017/2016
1	Russia	St. Petersburg	1,920,650	1,745,182	1,715,139	10.1%
2	Poland	Gdansk	1,580,508	1,299,373	1,091,202	21.6%
3	Sweden	Gothenburg	644,000	782,936	805,468	-17.7%
4	Poland	Gdynia	-	655,831	684,796	-
5	Finland	HaminaKotka	-	627,826	551,053	-
6	Denmark	Aarhus	-	455,000	445,000	-
7	Finland	Helsinki	491,000	450,764	431,746	8.9%
8	Lithuania	Klaipeda	472,000	443,312	392,674	6.5%
9	Latvia	Riga	445,984	385,937	355,241	15.6%
10	Finland	Rauma	-	250,777	262,567	-
11	Sweden	Helsingborg	-	203,723	192,612	-
12	Estonia	Tallinn	215,453	202,327	208,784	6.5%

Royal Haskoning citing Baltic Transport Journal/Company/Port websites

Notes: Full year 2017 data is used where available

Top 10 Baltic Sea container ports in 2017-2015 (Thousand tonnes)

Rank	Country	Port	2017	2016	2015	2017/2016
1	Russia	St. Petersburg	23,013	20,811	19,841	9.6%
2	Poland	Gdańsk	16,413	13,399	10,706	18.4%
3	Sweden	Gothenburg	-	7,173	7,808	-
4	Poland	Gdynia	7,000	6,355	7,200	9.2%
5	Lithuania	Klaipėda	5,690	5,360	4,384	5.8%
6	Latvia	Riga	4,605	4,059	3,823	11.9%
7	Finland	Helsinki	3,889	3,628	3,448	6.7%
8	Finland	HaminaKotka	3,818	3,338	3,539	12.6%
9	Denmark	Aarhus	-	2,956	2,896	-
10	Finland	Rauma	-	2,017	2,073	-
11	Sweden	Helsingborg	-	2,007	1,744	-
12	Estonia	Tallinn	1,907	1,778	1,741	6.8%

Royal Haskoning citing Baltic Transport Journal/Company/Port websites

Notes: Full year 2017 data is used where available

D) Ro-Ro and Ferry Cargo Handling

The Baltic Sea Region is a very unitised region, with significant containerised volumes of wheeled freight travelling between the various countries. It also has a large, though diminishing share of break-bulk and general cargo. The region can be viewed as various island nations with Denmark, Sweden, Finland and Estonia all trading with each other via regular ro-ro and ro-pax or container feeder services, with these services providing a 'bridge' to each country. Probably no other area in the world is as dense with ferries, ro-ros, con-ro, feeders and other cargo vessels. It is estimated that 60% of Swedish and Finnish trade is concentrated within the Baltic Sea Region with the vast majority of that trade being undertaken by sea.

To be able to compare those ports that specialise in the container market and those that handle significant numbers of trucks, and trailers is difficult. This is due to the TEU and ro-ro cargo units not being equivalent as they differ on the volume of goods packed into them. As such the Baltic Transport Journal has devised a method to compare the two. In 2016, a total of 9,239,675 TEU was handled in the region, weighing nearly 80.65 million tonnes. This calculates that one TEU equals 8.73 tonnes. The ro-ro and ferry market saw 9,596,227 units last year, but with a significantly higher load of almost 136.34 million tonnes. This calculates as one truck/trailer/railcar lifted around 14.21 tonnes. Therefore the 2016 ro-ro-to-TEU ratio is calculated as 1.63:1.0 (1.5:1.0 in 2015). By multiplying one ro-ro cargo unit by 1.63, brings it and the "Baltic container" under a common denominator. By adding the two of them together the result is the universal cargo unit.

From this calculation, ports with higher wheedled freight traffic, such as Gothenburg, Helsinki, Lübeck/Travemünde, Trelleborg, Stockholm (incl. Nynäshamn and Kapellskär), Szczecin-Świnoujście, Rostock, Puttgarden, or Rødby, gain the most in the rankings. So, while there can be more containers and ro-ro cargo units in Baltic traffic, as well as an increased trade of containerised and wheeled goods, the unit/tonnes utilisation ratio decreased last year. But in doing so, it happened to the advantage of the wheeled market. For comparison, in 2015, one TEU carried on average 9.1 tonnes to, from, and within the Baltic Sea Region, which is 4.2% more than in 2016. For ro-ro cargo units, the difference is smaller at 3.4% at 14.7 tonnes transported via truck.

Baltic Sea Region's top ro-ro & ferry cargo handling ports in 2015-2016 – cargo units and tonnage (Thousand tonnes)

Rank	Country	Port	Cargo Units 2016	Cargo Units 2015	% change	Tonnes 2016	Tonnes 2015	% change
1	Sweden	Trelleborg	719,572	715,712	0.5%	10,902	10,910	-0.1%
2	Germany	Lübeck/Travemünde	678,039	712,169	-4.8%	9,954	10,471	-4.9%
3	Finland	Helsinki	529,212	516,887	2.4%	6,656	6,577	.2%
4	Sweden	Gothenburg	529,197	498,227	6.2%	8,755	8,181	7.0%
5	Sweden	Stockholm	498,175	419,774	18.7%	6,306	5,949	6.0%
6	Germany	Rostock	496,885	482,308	3.0%	8,302	8,446	-1.7%
7	Germany	Puttgarden	487,441	450,886	8.1%	7,222	6,674	8.2%
8	Denmark	Rødby	487,441	450,886	8.1%	7,222	6,674	8.2%
9	Poland	Szczecin-Świnoujście	448,000	423,000	5.9%	5,698	5,160	10.4%
10-11	Sweden	Helsingborg	426,846	391,638	9.0%	4,805	4,526	6.2%
10-11	Denmark	Helsingør	426,846	391,638	9.0%	4,805	4,524	6.2%
12	Estonia	Tallinn	403,000	397,000	1.5%	4,564	4,331	5.4%
13	Denmark / Sweden	Copenhagen Malmö	258,000	284,335	-9.3%	4,182	4,417	-5.3%
14	Sweden	Ystad	256,176	243,966	5.0%	3,330	2,960	12.5%
15	Finland	Hanko	199,526	177,483	12.4%	3,241	2,878	12.6%

25	Estonia	Paldiski Põhjasadam	116,000	110,000	5.5%	1,324	1,305	1.5%

Royal Haskoning citing Baltic Transport Journal

As seen above, the Baltic Sea Region has good ro-ro and ferry connections linking the literal states together. As such, the movement of passenger cars (which are not counted as cargo volume) highlights the free movement in the region. Within the northern section of the Baltic, Helsinki and Tallinn recorded the largest number of car movements with 1.4 million and 1.3 million respectively. Both have recorded increases over the previous year.

Top 20 Baltic Sea Region's ferry private cars by port in 2016-2015 (number of cars)

Rank	Country	Port	Cars 2016	Cars 2015	% change
1	Germany	Puttgarden	1,531,754	1,542,330	-0.69%
2	Denmark	Rødby	1,531,754	1,542,330	-0.69%
3	Finland	Helsinki	1,473,622	1,387,446	6.21%
4	Estonia	Tallinn	1,371,736	1,350,000	1.61%
5	Denmark	Helsingør	1,369,986	1,369,986	0.00%
6	Sweden	Helsingborg	1,369,986	1,369,986	0.00%
7	Denmark	Odden	1,178,613	1,083,773	8.75%
8	Sweden	Stockholm	1,127,670	1,112,464	1.37%
9	Denmark	Aarhus	1,124,962	1,031,319	9.08%
10	Denmark	Hirtshals	686,535	679,787	0.99%
11	Sweden	Ystad	552,430	520,067	6.22%
12	Sweden	Visby	533,947	499,663	6.86%
13	Germany	Rostock	457,000	447,350	2.16%
14	Denmark	Rønne	374,966	356,632	5.14%
15	Sweden	Trelleborg	362,548	366,747	-1.14%
16	Sweden	Gothenburg	339,874	314,097	8.21%
17	Denmark	Frederikshavn	269,164	262,386	2.58%
18	Finland	Turku	226,970	231,091	-1.78%
19	Finland	Mariehamn	181,619	173,592	4.62%
20	Germany	Kiel	n/a	181,025	-
	Others		3,192,656	3,010,627	6.05%

Royal Haskoning citing Baltic Transport Journal

5. REGIONAL THEMES

A) Rail Baltica Project

The Rail Baltica is a project that is expected to link Estonia, Latvia and Lithuanian to Poland and the rest of the European Union. Whilst the three countries are currently served by a 1,520mm gauge rail network, freight traffic flows mainly east-west to Russia and Belarus. To transport cargo to Central and Western Europe requires a change of gauge at the Lithuanian-Polish border. There are currently no cross-border passenger trains between the three Baltic States as passenger rail services are largely focused on commuter services around the three capitals and limited regional services.

The Rail Baltica project is designed to overcome these problems, with a north-south standard-gauge railway from Tallinn, via Riga and Riga Airport, to a junction near Lithuania's second city Kaunas. From here the line would split to serve the capital Vilnius and to connect with the Polish network near Trakiszki.

The 870km railway would be double-track throughout and electrified. It would be a mixed-traffic railway designed for operation by 120 kilometres per hour freight trains and 240 kilometres per hour passenger trains. The project is planned to be operational by 2026.

The total cost of the project is estimated at €5.79bn. The European Union is expected to fund the bulk of the project with contributions totalling €4.634bn leaving the three national governments to fund the remaining €1.154bn. Ernst and Young undertook a cost benefit analysis (**"CBA"**) which highlighted that approximately 37 million tonnes (22 million tonnes exports and 15 million tonnes imports) were considered as feasible for being carried on the Rail Baltica (excluding trade with Scandinavia). The CBA suggests that the project is financially and economically viable. This should increase trade between the Estonia and the other Baltic countries, and the rest of Europe.

B) One Belt and One Road Project

Announced in 2013 by President Xi Jinping, a brand new double trade corridor was set to reopen channels between China and its neighbours in the west, most notably Central Asia, the Middle East and Europe. This was initially known as the Silk Route Economic Belt. Then in 2015, the 'One Belt and One Road initiative was announced which encompass land routes (the 'Belt') and maritime routes (the 'Road'). The goal of this initiative is to improve trade relationships in the region, primarily through infrastructure investments. However, the One Belt and One Road plan is seen to be a critical driver for China's long-term goals, and a pillar to its 'going global' strategy. As such, the Chinese government has created a dedicated group responsible for the overseeing the implementation of One Belt and One Road initiatives.

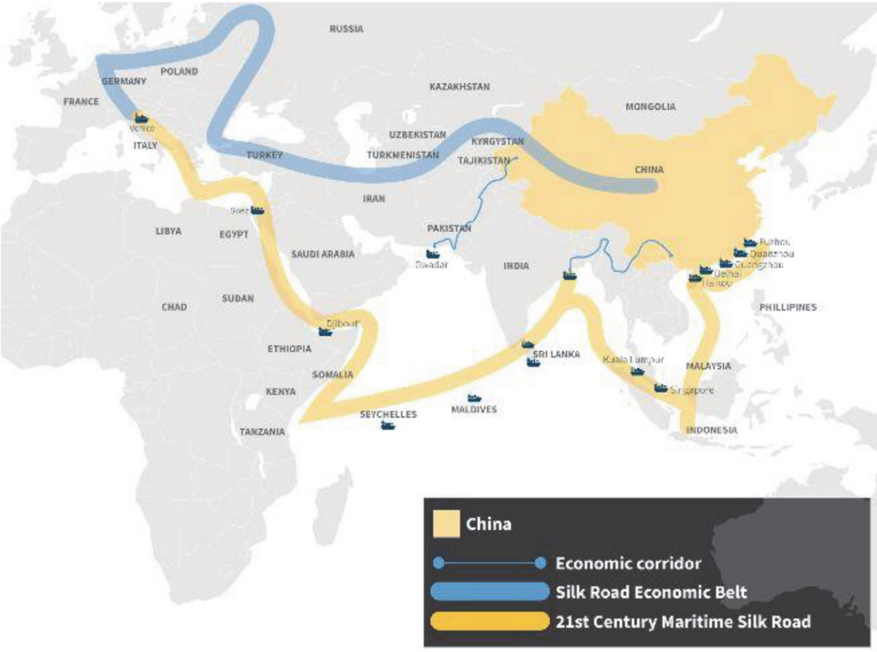
A significant financing commitment and platform is supporting the One Belt and One Road initiative. According to Royal Haskoning, the current estimate is around US$1 trillion of outbound state financing from the Chinese government in the next 10 years will be poured in to this project. If carried out at to full-scale, the implementation of One Belt and One Road will cover a long time span of at least 30-40 years. This is seen as China's grand strategy for developing a larger leadership role on the international stage and enhancing ties with neighbouring nations.

In 2017, 28 heads of state, 100 lower level government officials, dozens of major international organisations, and 1,200 delegates from various countries met in Beijing to discuss the future of the One Belt and One Road. Later in the year, The Prime Minister of Estonia, Juri Ratas, met with the President of China to discuss Estonia's railway connections and possibilities to function as a regional ecommerce distribution centre. The Prime Minister of Estonia suggested that Estonia could open a new route to the Nordic market for China. In addition, the prime minister suggested a link to the province of Jilin, which is a rapidly developing heavy industrial region of Northeast China, could yield the greatest potential. This region is home to the factories of automobile manufacturers such as Volvo, Volkswagen and BMW. A rail corridor that links Jilin-Tallinn could open the way for Chinese goods to flow to Nordic markets, as well as Northern Germany, a St. Petersburg and Moscow regions where automotive industries have a larger presence. In Estonia, the flow of goods along the One Belt and One Road initiative could take place via the Koidula checkpoint and the Port of Muuga.

The Prime Minister highlighted Estonia's advantage when it comes to serving as a node and distribution centre for the carriage of goods is the availability of free land for the construction of terminals, digital administration allowing for the seamless organisation of work, a low level of corruption, and a highly qualified labour force.

While the One Belt and One Road initiative is a long-term strategic project and far from fully completed and operational, Estonia has the potential to add value to this initiative and could benefit from it. Further, the Management Board believes that the planned investments in the One Belt and One Road initiatives will further enhance regional cargo traffic, including in the Group's harbours.

One Belt, One Road maps



Royal Haskoning citing Forbes, PwC

C) LNG in the Baltic

The Baltic Sea Region is an area where there are operations for LNG. It is used for both industrial purposes (the facility in Lysekil), utilised for power generation (Swinoujscie and Klaipėda) and as a bunker fuel for vessels. Also within the region the Pori LNG terminal in Finland provides storage and onward deliveries. During 2014, Klaipėda Nafta started operating the first (and currently only) Floating Storage and Regasification Unit within the Baltic Sea Region. This was followed in 2016, when Polskie LNG operated a land-based regasification facility in Swinoujiscie. Whilst the large-scale LNG imports are a significant change for power supply in the region, the biggest and most noticeable change has been the increase in the number of LNG-fuelled ships that operate in the region.

The first LNG-fuelled vessel was Viking Lines, Viking Grace, delivered 2013, and at the time was the largest LNG fuelled vessel operating. The cruise-ferry is supplied by a bunkering ship (Seagas) with LNG from Nyashamn, and Viking Grace operates on the Stockholm-Turku route. Following this, in the same year, Fjord Line took delivery of the Stavangerfjord ferry, which is also LNG-fuelled and service the route between Denmark to Norway. This was followed in 2014 with the sister ship Bergensfjord.

In 2015, the first dry bulk LNG-fuelled vessel was delivered to JT Cement (a JV between Swedish Erik Thun AB and Norway's KG Jebsen Cement). The vessel is a fully automated cement carrier that delivers cargo throughout Northern Europe and Scandinavia.

In 2016 the Finnish ice breaker Polaris, was delivered, and remains the regions (and worlds) only LNG-fuelled ice breaker. Also United European Car Carriers received the first pure car carrier fuelled by LNG. The vessel Auto ECO operates into the Baltic.

Then in 2017, Tallink took delivery of the latest LNG-fuelled vessel, the Megastar. This new addition operates between Tallinn- Helsinki.

The move to LNG has been in response to the Baltic Sea Region becoming a Sulphur Emission Zone during 2006. By using LNG compared to Heavy Fuel Oil provides a significant reduction in NOx (-90%) SOx (-100%) and Particulate Matter (-100%), and helps vessel operators to comply with environmental regulations in the region.

In general, the environmental requirements for the Baltic Sea Region are more strict than other regions as it is designated as a special area for the purposes of MARPOL Annex I (oil), Annex IV (sewage), Annex V (garbage) and Annex VI (Prevention of air pollution by ships), and the Baltic Sea due to highly sensitive ecosystem is protected by the Convention on the Protection of the Marine Environment in the Baltic Sea Area which is governed by the Helsinki Commission - Baltic Marine Environment Protection Commission. The Baltic Sea Region has also been designated by the IMO as a Particularly Sensitive Sea Area .The Baltic has a high concentration of ferries, which undertake regular short voyages, meaning refuelling can be easily planned, and LNG is a suitable fit to their operating schedule. As such, what happens in the Baltic Sea Region is closely watched by vessel owners, charters and ports world-wide. As part of this move to promote and provide an increased volume of LNG to the shipping (and land-based) industry, the Port of Tallinn is planning to provide a bunkering and storage facility within Muuga. The terminal will be located at the end of the coal terminal (Berth 33) and will eventually provide volumes for a bunkering vessel and two truck loading facilities.

6. BASE CASE ESTIMATES FOR PORT OF TALLINN

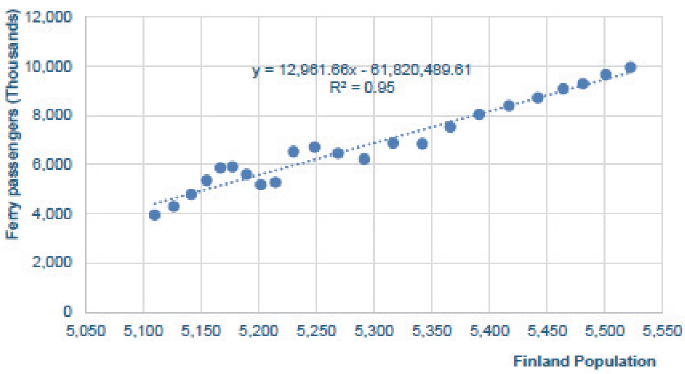
This section 6 (Base Case Estimates for Port of Tallinn) has been extracted from a report dated 10 April 2018 prepared by Royal Haskoning.

A) Ferry Passengers

The base case for ferry passengers was formulated with linear regression analysis. Additional drivers were also examining and included. These included:

- Estonia's GDP growth;
- Finland's GDP growth;
- Estonia's labour force;
- Finland's population growth;
- Estonia's population growth; and
- Nationality of the passengers
- Interests of the passengers (services in Estonia etc.).

Correlation between ferry passengers and Finland population

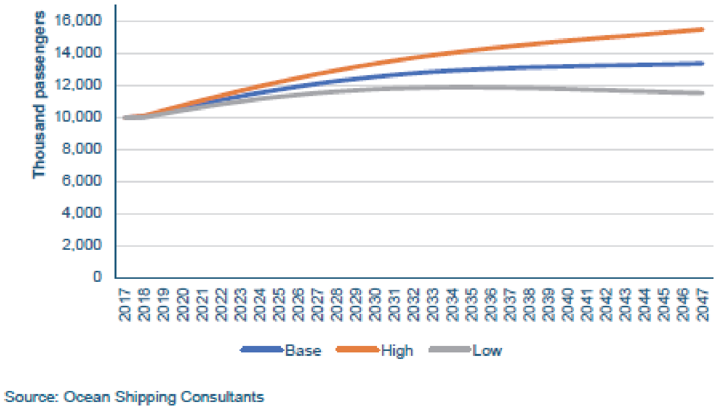


Source: Ocean Shipping Consultants

Royal Haskoning citing Ocean Shipping Consultants

The influence of Finland on passenger numbers is clear when considering that most passengers take the Tallinn-Helsinki route (around 9 million out of approximately the close to 10 million in 2017). Furthermore, out of the almost 10 million passengers in the routes considered, around half are Finnish. So, as Finland's population increases over time - including the impact of migration - there will be a proportionate increase in ferry passengers. However, the growth forecasted is moderate in all three scenarios.

Ro-Ro Passengers forecast to 2047 by Case



Royal Haskoning citing Ocean Shipping Consultants

Under the base case passenger numbers for ferry passengers is forecast to increase from 10.0 million in 2017 to 12.5 million in 2030 and increase further to 13.3 million by 2047. This compares with the low case that is forecast to increase to 11.7 million by 2030 and peak at approximately 11.8 million during the 2030s before slightly declining to 11.5 million by the end of the study period. High case forecasts provide a more positive outlook with passenger numbers increasing to 13.3 million in 2030 and further increasing to 15.5 million by 2047.

B) Cruise Passengers

The cruise sector is currently experiencing significant growth and it is expected to continue to expand in the near-term. The base case forecast is therefore based on the cruise passenger's historical trends as well as the regional industry prospects. The following drivers and constraints have been considered:

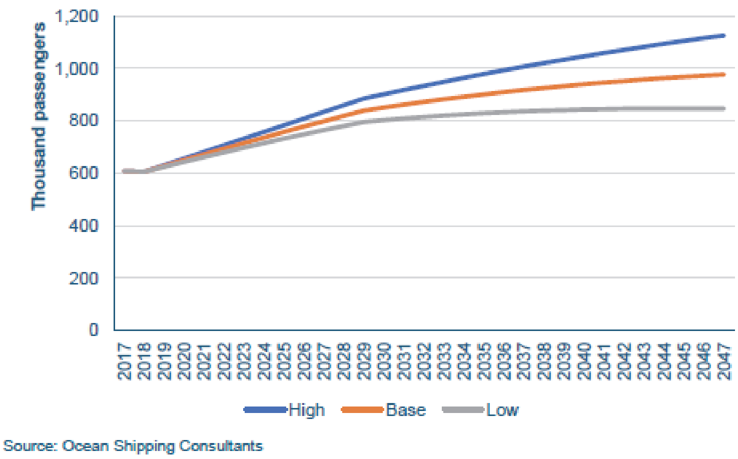
- Increased tourist interest in cruises – especially from Asian nations;
- Historical growth of cruise volumes in the Port of Tallinn; and
- Maximum capacity of the Port of Tallinn to accommodate cruise passengers;

As well as these, the regional cruise industry structure and growth prospects have been considered.

The forecast is based on the total cruise passenger's historical linear trend (including overnight cruise passengers). This forms the basis for the high case forecast (results were deemed too high for this to be the base case). Small decreases in year-on-year growth rates lead to the more likely base case as well as the low case. After 2030, growth is further tapered in all three cases. This reflects the Company's belief that the strong historical increase in cruise is not sustainable indefinitely and will most likely grow at a slower rate in the medium to long term. The cruise passengers forecast highlights the demand potential for cruise passengers arriving at Port of Tallinn. A consideration to limit the number of passengers on a per day or yearly basis may be considered in the future to address concerns of overcrowding during the peak visitor months.

Under the base case, the trend forecast highlights that the number of passengers are forecast to increase from 600,000 (including traditional and overnight cruise passengers) in 2017 to 850,000 in 2030 and thereafter further increasing to 977,000 in 2047. For the low case, increased passenger numbers are also forecast, albeit at a lower level, with 802,000 passengers by 2030 and 845,000 passengers by the end of the study period. Increased demand is forecast under the high case resulting in 902,000 passengers by 2030, rising to 1.12 million by 2047.

Cruise Passengers forecast to 2047 by Case



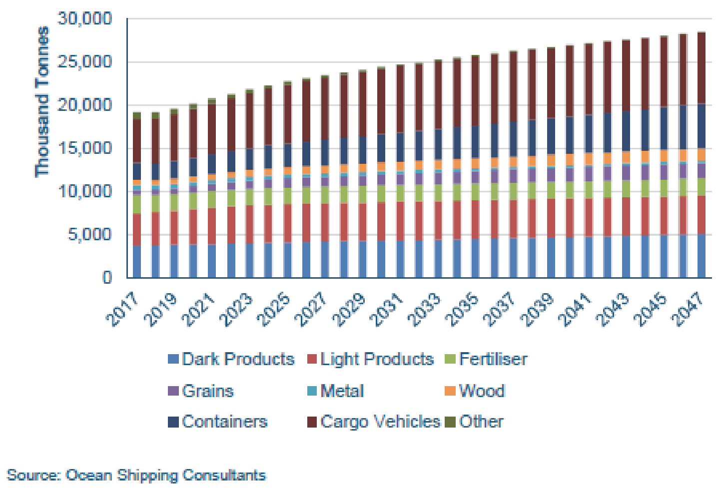
Royal Haskoning citing Ocean Shipping Consultants

C) Total Cargo

Overall, the forecast presents the Port of Tallinn total cargo as increasing during the forecast period. The total volume is the sum of all the focus commodities highlighted and 'other' commodities forecast through to 2047. This forecast provides a potential outlook on the port and the current and future trade prospects. The sensitivity of future commodity fluctuations and demands are highlighted below through the base, low and high cases.

For the base case, the overall volumes are forecast to increase from 19.2 million tonnes during 2017 to 24.4 million tonnes in 2030, increasing further to 28.5 million tonnes in 2047. Under the low case there is an initial decline, as there is the cessation transit cargo of dark bulk liquids from Russia and fertilisers re-adjust to a long-term trend (after a significant increase in 2017). Thereafter overall tonnage throughput is forecast to rise to 18.4 million in 2030 and up to 19.2 at the end of forecast period. For the high case, there is robust growth to 26.5 million tonnes by 2030, with continued increase in volumes through to 34.1 million tonnes by the end of the study period.

Total Port of Tallinn Cargo Forecast by Case to 2047 - Base Case



Royal Haskoning citing Ocean Shipping Consultants

D) Forecasts by Major Cargo Groups

(a) Oil Products - Forecast Drivers

The base case assumes a supply of oil (dark products) from the Russian market (or another market(s)) at a much reduced level compared to past volumes. The forecast for the base case, therefore, takes into account the evolution of the imports and exports of liquid products and a future reduction in the Russian cargo.

It is assumed that previous Russian volumes will not return to the Port of Tallinn during the forecast period and that Russian cargo will be handled via Russian ports. However, this could change in the future if demand for oil increases or for any other political reason that favours Russian exports via Port of Tallinn which are unforeseen currently.

The main drivers of this sector have been outlined as:

- Evolution of the oil imports and exports in Tallinn;
- Historical and future share of Russian cargo (dark products);
- Future potential for regional dark product demands – exports from Estonia; and
- Future potential for light products demand within Estonia.

In addition to these drivers, the following aspects were taken into consideration:

- Historical and future share of cargo from other regional refineries (light products); and
- Global future trends of the oil industry.

(b) Dark Liquid Products

The loss of Russian crude throughput in recent years has significantly impacted dark product volumes in Muuga. Back in 2010, the port handled over 22 million tonnes of dark products; this has since declined to 3.7 million tonnes during 2017. Therefore, the outlook for overall throughputs has been difficult to forecast as volumes have plummeted. For dark liquid products the forecast is based on crude oil, bitumen, fuel oil and VGO. The low case has been calculated as the very worst case scenario, whereby Russia will completely cease to utilise Port of Tallinn for dark product exports by the end of 2018. This assumption also considers that there are no substitutes from other countries leading to overall volumes of zero for the remainder of the forecast period.

For the base case, it is assumed that there is a supply of oil from the Russian market (or another market(s)), but at a much reduced level compared to past volumes. These volumes will be for blending and heating oils. A very low 1% increase has been envisaged for dark products under this scenario. Overall, total volumes are forecast to increase from 3.7 million in 2017, to 4.3 million tonnes in 2030 and 5.0 million tonnes by 2047.

For the high case, it is assumed that there will continue to be a market for dark products in Muuga, with blending and onward exports. However, replacement volumes for Russian products are assumed to be secured. However, current market conditions suggest that this will remain a much lower volume product than previous. Under a scenario of a 2% per annum increase; the overall throughput is forecast to increase from 3.7 million in 2017 to 4.8 million tonnes in 2030 and 6.8 million tonnes.

It should be noted that these forecasts assume that previous Russian black product volumes will not return to Port of Tallinn during the forecast period. It is also assumed that Russian cargo will be handled via Russian ports. However, this could change in the future if demand for oil increases or for any other political reason that favours Russian exports via Port of Tallinn which are unforeseen currently.

(c) Light Oil Products

In 2017, 3.7 million tonnes of light oil products were handled at Port of Tallinn. With some volumes coming from Finnish and Lithuanian refineries, Port of Tallinn will be less exposed to the Russian influence than in the case of dark products. However, still the majority of the cargo is supplied from Russia so any decision from this country could have an impact in the port.

For the forecast of light oil products, gasoline, gasoil and petrochemicals have been used. Both the loadings and discharges have been forecast under each of the cases, with the total volumes outlined below.

For the base case loadings the CAGR of the period 2011-2017 (4.82%) was calculated. This rate of increase is not sustainable in the longer term, so was offset with a -1.0% per year from 2022 until 2026 when it reaches close to 0; it is subsequently kept constant at 0% growth until 2047. The same reasoning has been applied to discharged volumes but considering a CAGR of 1.54%, and offsetting the rate with a -0.5%. Overall, light oil products in the base case are forecast to increase from 3.7 million tonnes in 2017 to 4.5 million by 2030, kept constant until the end of the forecast period.

The low case follows the base case forecasting structure, but the CAGR rate of increase was offset from 2020 (two years earlier than in the base case) with a -1.0% per year thereafter for loading and -0.5% for discharge, until negative growth values are reached and maintained over the time in order to cover any potential Russian negative influence. Overall, light oil products in the low case are forecast to increase from 3.7 million tonnes in 2017 to 3.9 million by 2030 and down to 3.2 million by the end of the forecast period.

The high case follows the base case forecasting structure, but the CAGR rate of increase was offset from 2024 and was applied until reaching low but reasonably positive growth values, that could potentially take into account a growth in the light products over the years. This forecast that overall light products in the high case would increase to 4.9 million tonnes by 2030 and 5.1 million tonnes by 2047.

(d) Fertilisers

Fertilisers are the largest bulk transit cargo flow from Russia. This is both a positive and negative. Positive due to the fact that Russian cargo is still utilising Muuga. Negative due to the fact that cargo could be diverted away from Port of Tallinn in the future.

The main drivers considered are:

- Global demand for fertilisers;
- Agriculture GDP of importing countries;
- Historical evolution of fertilisers at the Port of Tallinn; and
- Consideration of the Russian ownership of the fertiliser terminal in Muuga and the ownership of other regional fertiliser terminals, which is a key variable for securing the volumes in the port.

The overall forecast is based on a weighted sum of the agriculture GDP of the countries fertilisers are exported to (weights based on 2016 data and kept constant). The various cases are based on the historical average of a multiplier (historical fertiliser growth/historical weighted GDP growth) which is then used to estimate future fertiliser growth. The scenarios differ in terms of slight increases/reductions applied in this growth rate.

The base case is forecast to decrease from 2.11 million tonnes in 2017 to 1.92 million tonnes in 2030 and 1.96 million tonnes by the end of the forecast period. This slight decline is in line with the general trend for fertiliser volumes for the past decade. The low case is a more aggressive decline in overall throughout, with the forecast to decline from 1.86 million tonnes by 2030 and further fall to 1.68 million tonnes by 2047. Under the high case fertiliser volumes are forecast to increase as the multiplier provides a positive output for the forecast period. For this, volumes are forecast to reach 2.02 million tonnes by 2030 and 2.34 million tonnes by 2047.

(e) Grain - Forecast Drivers

Estonia exports its own grains – there is no Russian transit cargo. From this basis the outlook for grains overall is a positive one. The main drivers considered are:

- Global demand for grains;
- Population of importing countries;
- Historical evolution of grain volumes at the Port of Tallinn; and
- Growing planted acreage was considered as a factor influencing grain exports.

(f) Grains - Barley

For barley, the planted acreage is increasing, which by implication should benefit the increase of exports. The forecasting method for barley was regression analysis – between barley and population of importing countries of Estonian barley. For the purposes of the regression barley and population were transformed into their natural logs. This improved the fit of the regression. Small changes in the base case growth rate year-on-year were applied to create the high and low case sensitivity scenarios.

The base case outlines that overall barley is forecast to increase from 196,000 tonnes in 2017 to 513,000 tonnes in 2030 and 809,000 tonnes by 2047. The low case highlights a slight increase to 427,900 tonnes by 2030, increasing to 534,000 tonnes by 2047. Under the high case barley exports are forecast to increase to 579,000 tonnes by 2030 and 1.1 million tonnes by the end of the forecast period.

(g) Grains - Wheat

The wheat forecast is based on linear regression between historical volumes and the population sum of Estonia's main exporting partners of wheat (2016 data). This forms the high case scenario. As with previous forecasts, the other two cases are based on slight changes in the year-on-year growth rate.

Under the base case, wheat is forecast to increase from 401,800 tonnes in 2017, to 754,000 tonnes by 2030 and 947,000 tonnes by 2047. For the low case, overall wheat is anticipated to reach 701,000 by 2030 and 809,000 by the end of the forecast period. Whilst under the high case, forecast outline an increase to 844,000 tonnes by 2030 and 1.25 million tonnes by 2047.

(h) Scrap Metal

The main drivers considered are:

- Industrial GDP of importing countries;
- Historical evolution of scrap metal volumes at the Port of Tallinn; and
- The declining trend in the global scrap metal market

Scrap metal volumes have shown a downward trend in recent years, but still provide significant throughput for Paldiski. The scrap metal market is price sensitive, which can impact volumes, as high prices increase volumes and low prices reduce volumes. In Paldiski, scrap metal is sorted and exported to the global market – with significant amount going to Turkey. The overall future development of this sector is forecast to decline as economies such as Turkey develop – meaning demand declines over time.

The forecasts are based on a logarithmic trend line between historical volumes and Turkey's industrial GDP. This is preferable both in terms of a good fit on historical volumes but also because the logarithmic trend line levels out over time instead of going to zero which is what a linear trend would do. This forms the low case, whereas the base and high cases are formulated with small increases in annual growth rates. This is done because based on previous historical volatility it is believe that it is possible for the port to achieve higher volumes (base case) than those indicated by the initial low case-trend. This might also be true depending on future dynamics/diversification or changes in exporting partners.

Base case scrap metal throughput is forecast to decline from 474,000 tonnes in 2017 to 280,000 tonnes by 2030, declining further to 164,000 tonnes by 2047. Low case highlights a decline to 213,000 tonnes by 2030 and to 87,000 tonnes by the end of the forecast period. High case provides a more moderate decline to 320,000 tonnes by 2030 and 217,000 tonnes by 2047.

(i) Wood Products Forecast Drivers

The main drivers for wood, chips and pellets traffic have been considered as:

- Historical evolution of wood chips and pellets at the Port of Tallinn; and
- Potential demand for biomass in the region - the favourable energy market prospects were considered, given that the clean energy is becoming increasingly important in European markets.

(j) Wood Products - Round Wood

Round wood forecasts for Estonia are positive and are based on a linear trend based on historical values. This forms the base case, whilst the high case and low case are subsequently derived from this.

Under the base case round wood is forecast to increase from 274,000 tonnes in 2017 to 572,000 tonnes by 2030 and increase further to 814,000 tonnes by 2047. The low case highlights an increase to 505,700 tonnes by 2030 and 609,000 tonnes by 2047. Under the high case a higher increase in is forecast to 647,000 tonnes in 2030 to 1.1 million tonnes by the end of the study period.

(k) Wood Products - Other Wood Chips and Pellets

Wood chips and pellets are forecast in a similar way to round wood, i.e. with a linear historical trend which forms the base case. The high and low cases are subsequently derived from this linear trend. It should be noted that the forecast trend starts on a lower 2018 point as it was deemed that 2017 was an exceptionally year (much higher than any previous year) and thus an outlier for the purposes of this forecast. In general, the forecasts are positive as wood chips can be used to generate cleaner energy, something that is becoming increasingly important in European markets (viewed as the most likely destinations).

Overall the base case is forecast to increase from 360,000 tonnes in 2017 rising to 403,700 tonnes by 2030 and 587,500 tonnes in 2047. For the low case a slight decline to 310,000 tonnes by 2030, followed by a marginal increase to 322,600 tonnes by the end of the study period. Under the high case wood chips and pellets are forecast to increase to 459,600 tonnes in 2030, followed by a further increase to 789,000 tonnes by 2047.

(l) Containers

The relationship between containerised goods and GDP is well documented across different countries and it provides a strong correlation in Estonia. Therefore the base case has considered the growth expected in the Estonia's GDP as well as the available capacity of the terminal, which is enough to accommodate increasing volumes of containers. It is also assumed that no significant changes in the competitive landscape will impact the current Port of Tallinn container trend (which already faces competition).

The main drivers have been identified as:

- Historical and future Estonia GDP trends; and
- Historical container trend of the Port of Tallinn;

Therefore the regression forms the base case and appropriate changes to the annual growth rate are made to generate the high and low sensitivities.

Container throughput for the base case is forecast to increase from 215,400 TEU in 2017 to 407,600 TEU by 2030 and 652,700 TEU by 2047. Under the low case, volumes are forecast to increase to 383,000 TEU by 2030, followed by 564,600 TEU by the end of the study period. High case greater increases in demand are forecast, with 407,600 TEU by 2030 increasing to 652,000 TEU by 2047.

(m) Ro-Ro Vehicles

Cargo vehicles are the only ones that count in the total cargo throughput of the port and therefore their forecast volumes are the ones included in the total cargo forecasts.

The main drivers considered are:

- Economics growth potential in trading partners of Estonia with the main focus on Finland and Sweden;
- Estonia GDP; and
- Historical trend of ro-ro vehicles at the Port of Tallinn;

In addition to these drivers, the following aspects were taken into consideration:

- Share of each vehicle type (trucks, new cars etc.); and
- Competitive regional landscape

Their forecast is done via linear regression analysis as the number of cargo vehicles should be forecasted in relation to the GDP of Estonia, following its trend. For the base case, overall cargo vehicles are forecast to increase from 5.1 million tonnes in 2017 to 7.6 million in 2030 and further rise to 8.3 million tonnes by 2047. Under the low case, overall vehicles are forecast to increase to 7.1 million by 2030, up to 7.3 million by the 2040s. For the high case vehicles are forecast to increase to 8.1 million by mid-term, rising to 9.2 million tonnes by 2047.

PART X. BUSINESS

1. INTRODUCTION

The Group is the owner of the third largest passenger port in the Baltic Sea Region and the fourth largest passenger port in Northern Europe in terms of passenger traffic (10.6 million passengers in 2017) and the largest cargo port in Estonia in terms of cargo volumes (19.2 million tonnes in 2017). The Group provides infrastructure (such as aquatories, quays and road networks) and superstructure (such as ramps, galleries and terminals) for passenger vessels, infrastructure for cargo vessels and cargo operators, efficient ferry services between the Estonian mainland and its two largest islands for domestic ferry passengers, as well as offering passenger ship and cargo operators a productive, technology-enabled environment for their operations. The Group has a diversified portfolio of operations, including passenger harbours, cargo harbours, domestic ferry services between Estonia's mainland and its two largest islands (Saaremaa, through Muhumaa Island, and Hiiumaa), and other services (which include the provision of ice-breaker and other maritime support services utilising the Group's ice-breaker Botnica and the provision of waste management services mainly through its joint venture, AS Green Marine).

The Group owns and operates four harbours: Old City Harbour, Saaremaa Harbour, Muuga Harbour and Paldiski South Harbour. In addition, the Group has minimal ongoing cargo operations (the harbour is mainly used for ship repair services which are provided by private shipyards) at Paljassaare Harbour and, due to the limited opportunities at the harbour, has decided to exit from Paljassaare Harbour. Old City Harbour (together with Old City Marina) and Saaremaa Harbour mainly service passengers and international cruise liners, and the Group also provides ro-ro cargo services at the Old City Harbour; Muuga Harbour and Paldiski South Harbour provide cargo handling services. The Group's harbours have natural advantages as they are navigable and easily accessible throughout the year. If any ice occurs (the last significant occurrence being in 2013) it can be easily broken by tugs or ice-breakers, and the harbours are sufficiently deep to receive all vessels passing through the Danish Straits. The geographical location of the Group's harbours is particularly suitable for servicing cargo flows between East and West and to service passenger and cargo flows between North and South, with the planned Rail Baltica, a trans-European railway expected to have its starting point in the Group's Muuga harbour.

The Group provides port services in the capacity of a landlord port; it owns, maintains and develops quays and sea approaches, leases land to private operators, organises the traffic of vessels in the harbour basin and ensures safe navigation in harbour waters. At the Group's harbours, the Group owns the buildings and structures necessary for servicing passengers. Cargo flows in the Group’s harbours are handled by private cargo operators who also own the buildings, structures and equipment necessary for cargo handling, storage and warehousing. The Group is looking to further develop industrial land around its Muuga and Paldiski South Harbours to support cargo operating activities and is providing certain utility services in the harbours. See this Part X (Business), section 6 (Overview of Operations), subsection B (Cargo Harbours).

Further to the above, the Group's main business lines/operations include providing domestic ferry services between Estonia's mainland and its two largest islands (Saaremaa, through Muhumaa Island, and Hiiumaa), providing ice-breaking and maritime support services utilising ice-breaker Botnica, and providing waste management at the Group’s harbours mainly through joint venture AS Green Marine.

The Group is also evaluating opportunities to develop real estate areas in the Old City Harbour (which is located in the Tallinn city centre), with a detailed planning process having partially commenced and is estimated to continue over the next three to five years. See this Part X (Business), section 6 (Overview of Operations), subsection D (Other Services).

In 2017, the Group generated revenue of EUR 121.3 million, an Adjusted EBITDA of EUR 66.5 million, an operating profit of EUR 40.3 million, and a profit for the period of EUR 26.4 million. See Part VII (Selected Financial Information), section 6 (Additional Financial Information) and Part XVIII (Additional Information), section 8 (Presentation of Financial and certain other information), subsection B (Non-IFRS financial measures) for a reconciliation of Adjusted EBITDA to profit for the period.

The Group’s reportable segments are as follows:

Passenger Harbours – the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing passengers – Old City Harbour and Saaremaa Harbour.

Cargo Harbours – the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on servicing cargo – Muuga Harbour, and Paldiski South Harbour. Paljassaare Harbour has minimal ongoing cargo operations (the harbour is mainly used for ship repair services which are provided by private shipyards), and is in the process of being divested.

Ferry – the rendering of a domestic ferry service by TS Laevad OÜ with passenger ferries between Estonia's mainland and its two major islands (Saaremaa (through Muhumaa) and Hiiumaa) in accordance with the Ferry Services Agreement concluded with the Republic of Estonia (in total two routes are serviced).

Other – all other segments business activities such as revenues from the activities of the ice-breaker Botnica provided by TS Shipping OÜ and the Group's share in the profit or loss of AS Green Marine as an equity method investee.

The following table sets out the Group's key performance indicators, across all the Group's operating segments.

	For the three month period ended 31 March		For the year ended 31 December		
	2018	**2017**	**2017**	**2016 (Adjusted)**	**2015[(5)]**
Passenger Harbours					
Total passengers[(1)] ('000)	1,924	1,921	10,560	10,173	9,793
International ferry[(1)] ('000)	1,924	1,921	9,994	9,699	9,295
Tallinn-Helsinki route ('000)	1,686	1,682	8,798	8,477	8,186
Tallinn-Stockholm route ('000)	216	211	1,013	964	931
Tallinn-Stockholm-Helsinki-St. Petersburg route ('000)	2	7	83	163	125
Overnight cruises and other passengers ('000)[(1)]	20	21	100	95	53
Cruise[(2)] ('000)	-	-	566	474	497
Old City Harbour[(2)] ('000)	-	-	564	473	494
Saaremaa Harbour[(2)]	-	-	1,500	700	3,600
Vessel calls	1,138	1,179	5,716	5,381	5,197
International ferry[(3)]	1,138	1,179	5,400	5,109	4,916
Tallinn-Helsinki route	1,039	950	4,554	4,093	3,921
Tallinn-Stockholm route	89	85	359	365	362
Tallinn-Stockholm-Helsinki-St. Petersburg route	1	2	41	79	87
Overnight cruises and other vessels[(3)]	9	142	446	572	546
Cruise[(2)]	-	-	316	272	281
Old City Harbour[(2)]	-	-	311	270	276
Saaremaa Harbour[(2)]	-	-	5	2	5
Revenue ('000)	€8,843	€9,310	€49,854	€47,454	€44,326
Operating profit ('000)	€4,150	€5,225	€28,765	€28,925	€25,997
Adjusted EBITDA ('000)	€5,480	€6,254	€33,299	€33,620	€30,451
Adjusted EBITDA Margin	62.0%	67.2%	66.8%	70.8%	68.7%
% of Group's total revenue	30.1%	31.2%	41.1%	46.0%	47.3%
% of Group's Adjusted EBITDA	31.1%	32.6%	50.1%	50.9%	48.7%
Passenger yield[(6)]	€4.60	€4.85	€4.72	€4.66	€4.53
Cargo Harbours					
TEU Traffic for the period	51,666	54,516	215,451	202,327	208,784

	For the three month period ended 31 March		For the year ended 31 December		
	2018	2017	2017	2016 (Adjusted)	2015[(5)]
Cargo volume for the period ('000 tonnes)[(4)]	5,019	5,000	19,182	20,118	22,431
Cargo vessel calls	396	453	1,677	1,791	1,682
Revenue ('000)	€10,473	€10,822	€39,757	€44,755	€44,890
Operating profit ('000)	€4,661	€5,236	€15,144	€18,935	€19,628
Adjusted EBITDA ('000)	€6,713	€7,290	€23,331	€28,412	€29,262
Adjusted EBITDA Margin	64.1%	67.4%	58.7%	63.5%	65.2%
% of Group's total revenue	35.6%	36.3%	32.8%	43.4%	47.9%
% of Group's Adjusted EBITDA	38.1%	38.0%	35.1%	43.0%	46.8%
Adjusted cargo yield[(7)]	€2.62	€2.73	€2.67	€2.77	€2.40
Ferry					
Revenue ('000)	€6,655	€6,342	€27,100	€6,330	-
Operating profit ('000)	€1,336	€2,554	€3,482	€2,504	€(92)
Adjusted EBITDA ('000)	€2,738	€3,311	€8,398	€2,772	€(92)
Adjusted EBITDA Margin	41.1%	52.2%	31.0%	43.8%	-
% of Group's total revenue	22.6%	21.2%	22.3%	6.1%	-
% of Group's Adjusted EBITDA	15.6%	17.2%	12.6%	4.2%	(0.1%)
Other					
Revenue ('000)	€3,443	€3,375	€4,584	€4,613	€4,577
Operating profit ('000)	€2,192	€1,711	€(7,074)	€(1,469)	€(5,169)
Adjusted EBITDA ('000)	€2,672	€2,342	€1,493	€1,264	€2,894
Adjusted EBITDA Margin	77.6%	69.4%	32.6%	27.4%	63.2%
% of Group's total revenue	11.7%	11.3%	3.8%	4.5%	4.9%
% of Group's Adjusted EBITDA	15.2%	12.2%	2.2%	1.9%	4.6%

Notes: (1) Includes a limited number (less than 0.5%) of passengers serviced by the Group's cargo harbours (such as truck drivers).
(2) Excludes overnight cruises.
(3) Includes cargo vessel calls to Group's passenger harbours and excludes passenger vessel calls to the Group's cargo harbours.
(4) Includes 1.0 million and 1.0 million tonnes of cargo from passenger harbours in the three month periods ended 31 March 2017 and 2018, respectively, and 3.8 million, 4.0 million and 4.3 million tonnes of cargo from passenger harbours for in 2015, 2016 and 2017 respectively.
(5) Financial figures for 2015 are unaudited and have been derived from management accounts.
(6) Calculated as revenue from the Passenger Harbours segment divided by total number of passengers.
(7) Calculated as revenue from the Cargo Harbours segment divided by (total cargo minus passenger harbours cargo).

2. COMPETITIVE STRENGTHS

A) Attractive macroeconomic conditions and industry dynamics driving continued regional demand for port infrastructure to service both cargo and passenger flows

The Group's harbours are geographically well positioned to service cargo and passenger flows into and through the Baltic Sea Region. The regional macroeconomic outlook, particularly for Estonia's key trading partners (Sweden, Finland, Latvia and Lithuania) is more positive than the EU average and the Estonian economy is forecast to expand at a CAGR of 3.5% from 2016 to 2020, according to The Economist Intelligence Unit. Such economic growth is expected to increase cargo and passenger flows to Estonian ports. Further, the Group should benefit from continued investment by respective local governments/authorities into the East – West transportation route, for example through the HSR Eurasia and One Belt and One Road initiatives, which are expected to grow cargo shipments also in the Baltic Sea Region.

HSR Eurasia is a high-speed railway, which is expected to be completed by 2026 and will connect Europe to China. One Belt and One Road initiatives are aimed at creating a network of railways, roads, ports, pipelines, and utility grids that would link China with its main trading partners, including the European Union. In addition, Nordic cargo and passenger flows are supported by the development of the North – South transportation route, mainly the proposed trans-European railway Rail Baltica, which is expected to be completed and operational by 2026 and link passenger and cargo flows between the Nordic region, the Baltic States and Central and Western Europe. For information regarding the Group's intended participation in Rail Baltica see this Part X (Business), section 3 (The Group's Strategy), subsection A (Using broad range of attractive strategic initiatives to maximise existing portfolio value).

Cargo and passenger flows are further supported by the Group's cooperation with the Port of Helsinki and other major Baltic Sea ports via EU-funded projects and national railway cargo operator initiatives. In addition, increased global oil demand and recovering oil prices, if maintained, would be expected to support an increase in the future demand for the liquid bulk storage and blending services at the Group's harbours.

The Group's passenger harbours benefit from an increasing influx of Asian passengers into the Baltic Sea Region fuelled by robust economic and population growth in the Asia-Pacific region as well as investments into flight connections between the regions, for example from Finnair and Helsinki airport. Developments have also been carried out at Tallinn airport, including renovation of the passenger terminal and extension of its runway to make it suitable for larger aircraft and to support a growing number of travellers. For the convenience of the travellers, there is a tram connection from the airport to the city centre. Further developments expected in 2019-2020 include the construction of additional aircraft stands, extension to the southern taxiway and continued construction of other support facilities. At Muuga Harbour, there is an extensive free zone area (463.4 hectares) for companies rendering transit and distribution services, with simplified and more flexible customs procedures.

B) Multimodal marine infrastructure with a strong competitive position supported by Nordic links

The Group is the largest cargo port in Estonia in terms of cargo volumes (19.2 million tonnes in 2017) and the main maritime gateway into Tallinn. It benefits from easily accessible and year-round navigable harbours, and if any ice occurs (the last significant occurrence being in 2013) it can be easily broken by tugs and ice-breakers. Muuga Harbour has up to 18 metre natural depth and Paldiski South Harbour has up to 14.5 metre natural depth, accommodating the largest cargo ships passing through the Danish Straits. The Old City Harbour can (and does) accommodate the largest and longest (up to 340 meters long) cruise vessels navigating the Baltic Sea Region. Muuga Harbour and Paldiski South Harbour are both well connected to sea, road and rail transportation routes and Muuga Harbour is near the Tallinn Airport (approximately 18 kilometres), which makes both harbours strategically attractive for cargo transported by several means through the region.

The locations of the Group's harbours are complementary to its strategy. The Old City Harbour's location in central Tallinn, in close proximity to the Old Town, is an attractive destination for cruise and international ferry passengers and is the third largest passenger port in the Baltic Sea Region and the fourth largest passenger port in Northern Europe in terms of passenger traffic, according to the Group's data (with 10.6 million passengers visiting in 2017, demonstrating strong growth in numbers when compared with the 10.2 million passengers that visited in 2016). For the Group's international ferry passengers, the proximity of Tallinn and Helsinki and the short ferry crossing time of about two hours between the cities' ports gives the Group a structural advantage for servicing the passengers travelling between Tallinn and Helsinki, with approximately 9 million passengers travelling by ferries in 2017. Separately, the Group operates a regular domestic ferry service with a fleet of 5 vessels (of which 4 are new builds), providing critical transportation infrastructure link between Estonia's mainland and its two largest islands, Saaremaa Island (through Muhumaa Island) and Hiiumaa Island. The Group has also entered into an agreement with the Republic of Estonia (through the ERA) to provide additional ferry capacity at peak times for the 2018 summer months (June-August) in addition to the capacity of the regularly used four vessels.

C) Operates as a landlord port with diversified stable revenue streams

The Group operates as a landlord port, maintains and develops infrastructure and leases land owned by the Group to private cargo operators and provides port authority services to incoming vessels. As such, there are no concession renewal limitations for the Group's ports infrastructure operations. The Group operates its domestic ferry services pursuant to the Ferry Services Agreement with the ERA, with the Ferry Services Agreement expiring on 30 September 2026, see Part XVIII (Additional Information), section 1 (Material Contracts).

The Group has diversified revenue streams derived from its operating segments. In 2017, 41.1% of the Group's total consolidated revenue was derived from the Passenger Harbours segment, 32.8% from the Cargo Harbours segment, 22.3% from the Ferry segment and 3.8% from the Other segment (from the provision of ice breaking and other maritime support services with the Group's multifunctional ice-breaker Botnica and the provision of waste management services mainly through its joint venture AS Green Marine). For further information regarding the Group's revenue, see Part VIII (Operating and Financial Review).

The Group's passenger harbours mainly derive revenue from vessel dues, which are based on vessel gross tonnage (55.1% of revenue from the Passenger Harbours segment in 2017) and passenger fees, which are based on the volume of passengers (34.0% of revenue from the Passenger Harbours segment in 2017). For further information, see Part VIII (Operating and Financial Review). The Group's client base comprises of well-established, blue-chip customers, including major cruise companies such as Royal Caribbean International, Norwegian Cruise Line, Princess Cruises, and regular international ferry service providers such as Tallink, Viking Line, Eckerö Line and Moby SPL.

The Group's cargo harbours mainly derive revenues from vessel dues, which are based on vessel gross tonnage (46.2% revenue from the Cargo Harbours segment in 2017), cargo charges, which are based on the volume/units of cargo handled (16.1% of revenue from the Cargo Harbours segment in 2017) and rental income (including building title agreements), which is based on the size of the territory rented (23.7% of revenue from the Cargo Harbours segment in 2017). For further information, see Part VIII (Operating and Financial Review).

The Group operates as a multimodal port with a diversified cargo mix, including ro-ro cargo which accounted for 5.1 million tonnes (26.4%) of the Group's total cargo volumes in 2017, liquid bulk cargo which accounted for 7.4 million tonnes (38.8%) of the Group's total cargo volumes in 2017 (liquid bulk cargo arriving to the Group's harbours by vessels accounted for 4.8 million tonnes (25%) of the Group's total cargo volumes in 2017 and liquid bulk cargo arriving to the Group's harbours via railway accounted for 2.7 million tonnes (14%) of the Group's total cargo volumes in 2017), dry bulk cargo which accounted for 4.1 million tonnes (21.6%) of the Group's total cargo volumes in 2017 and containers which accounted for 1.9 million tonnes (9.9%) of the Group's total cargo volumes in 2017. Such diversified cargo mix, with each type of cargo contributing less than 40% of the Group's total cargo volumes, adds more resilience to revenue derived from the Group's cargo harbours in circumstances in which one or more types of cargo could be negatively impacted by external factors. See Part VIII (Operating and Financial Review), section 5 (Major Factors Affecting Consolidated Financial Results).

The Group has long term building title agreements with cargo operators with an average remaining term of 26 years. Building titles and rental charges paid by cargo operators, provide a stable income for the Group (23.7% of revenue from the Cargo Harbours segment in 2017). The Group may also receive volume/unit based contractual penalties if cargo operators fail to handle minimum volumes or units of cargo set out in their respective agreements. For further information, see Part VIII (Operating and Financial Review).

Under the terms of the Ferry Services Agreement, the Group's contractual income for the provision of domestic ferry services consists of several components: a fixed fee (coverage of the cost of capital and interest), a variable fee (coverage of fixed operating costs indexed to Consumer Price Index and the

Estonian wage inflation index) and a voyage fee (coverage of variable cost indexed to fuel price and CPI). To the extent the Group's ferry ticket sales (the Republic of Estonia is responsible for and sets the ferry ticket prices) do not equal the contractual income amount, any shortfall is paid to the Group by the ERA as a subsidy, and the Management Board considers this to be a long term stable revenue stream with limited risk. For further information, see Part VIII (Operating and Financial Review).

The Group also derives revenue from the Botnica Service Agreement, which expires in April 2022 and covers the period from December through to the following April with a contractual formula for annually adjusting the daily rate for such period. The Group further derives revenue from the rendering of electricity, water and heat distribution and transmission services in the Group's harbours, offering advertisement space in and outside of passenger terminals and owning real estate development areas in the centre of Tallinn around Old City Harbour and industrial land around Muuga and Paldiski South Harbours, and for provision of other smaller scale services.

D) Substantial cash flow generation

The Group had a consistently high Adjusted EBITDA margin, 54.8%, 64.0% and 66.7% in 2017, 2016 and 2015 respectively, supporting cash flow generation (adjusted cash conversion was 76.3% in 2017, 77.5% in 2016 and 83.6% in 2015) and dividend distribution. Given that the Group operates as a landlord port, it does not have to pay any concession fees, other than fees associated with operating the domestic ferry service (payable at the harbours which are not part of the Group).

The Group has made significant investments over the last five years, including investment into a new cruise ship jetty and the Old City Harbour passenger gallery renovation as well as investments into traffic areas and solutions. Other investments include those in relation to the digitalisation of its port facilities processes, including SmartPort and the purchase of four new passenger ferries. The fact that such core infrastructure investments were made in previous years is expected to limit capital expenditure requirements in the Cargo Harbours segment and Ferry segment over the next four to five years and to further support cash flow conversion. In addition, by their nature port operations require limited regular maintenance investment levels. The Group has a track record of significant shareholder distributions, paying on average a net dividend of €28 million per annum during the period 2008-2017 (inclusive), and is committed to maintaining a sustainable dividend policy going forward. See Part VI (Dividends and Dividend Policy). The cash flow generation is also expected to be supported by a more attractive corporate income tax regime in Estonia by which regular dividend distributions will be gradually taxed at 14%, which came into effect on 1 January 2018. See also Part XIV (Taxation), section 1 (Estonian Tax).

E) Highly experienced management and a supportive governance framework

The Group's management team comprises experienced executive directors who are fully supported by a network of highly effective senior managers. The Group's senior management team is governed by a professional Supervisory Council with a majority of independent members. The sole shareholder of the Group is the Republic of Estonia acting through the Ministry of Economic Affairs and Communications. The Republic of Estonia has maintained a strong fiscal and financial discipline in the past, together with a high credit rating and the lowest level of government debt to Gross Domestic Product (GDP) in the European Union, and supports the Group's strategic and commercial aims. The Group adheres to clearly communicated, strategic and transparency guidelines put in place by the Republic of Estonia as the Government Shareholder and the Group has recently implemented several new policies, especially with respect to anti-corruption, anti-money-laundering and compliance with sanctions.

3. THE GROUP'S STRATEGY

A) Using a broad range of attractive strategic initiatives to maximise existing portfolio value

The Group has implemented and is looking to implement a number of strategic initiatives to increase revenue from its Passenger Harbours, Cargo Harbours and Other segments.

(a) Passenger harbours

At the Old City Harbour, in response to the growing numbers of passengers and cruise tourists, current development plans include construction of a cruise terminal (expected to commence at the end of 2018 and be completed in 2019 or in the first half of 2020), which has the potential to increase the Group's revenues from cruise passengers. In addition, the cruise terminal will include retail and auxiliary services intended for use also during the off-season. The current intention is for the roof of the cruise terminal to be designed such that it may be used as a promenade for the public. The Group is also investing in the renovation of passenger Terminal D in the Old City Harbour, which is expected to be completed by June 2020, and in the redevelopment of the frontal area of Terminal D, which is expected to start in 2020 and be completed in 2021. The traffic solutions at Terminal D are expected to be enhanced by the implementation of SmartPort traffic management system by the end of May 2018, which has already been in place at Terminal A since October 2017. Further, the construction of a car park next to Terminal D, which is expected to commence in the first half of 2020 and to be completed by the end of 2020, is expected to increase the number of parking spaces for passengers in close proximity to the passenger terminals. The construction and expansion works at Terminal D and the construction of the car park have the potential to increase activity at the harbour and, as a result, increase the Group's revenues. The Group is also planning to build a new pedestrian bridge over the channel of the Admiralty Basin in order to allow for more convenient pedestrian traffic between the two passenger terminals, Terminal A and Terminal D, and the areas adjacent to the terminals. Construction of the bridge is expected to commence in the summer of 2018 and to be completed by June 2019. Please refer to Part X (Business), section 6 (Overview of Operations), subsection A (Passenger Harbours), and Part VIII (Operating and Financial Review), for further information. Some of these initiatives, for example enhancing the traffic solutions, are part of the TWIN-PORT and TWIN-PORT 2 projects which focus on the development and harmonisation of operations at the Old City Harbour and the West Harbour in Helsinki. For further information, see Note 18 of the Audited Financial Statements as of and for the year ended 31 December 2017.

The Group's marketing is mostly focused on increasing the number of cruise passengers visiting the Group's harbours. As such, it is actively marketing its harbours and also the city of Tallinn and Estonia as travel destinations. The Group is attending conferences and cruise-related events and co-marketing together with international cruise-related organisations, such as Cruise Baltic and Cruise Europe and with other ports in the Baltic Sea Region, with the aim of attracting more cruise vessels and passengers to the region.

The Group is also continuing to digitalise its port facilities processes to enable effective servicing of passengers, please see Part X (Business), section 3 (The Group's Strategy), subsection B (Continue digitalisation of port facilities processes to become the most innovative port in the Baltic Sea Region). Furthermore, the Group is in discussions with passenger shipping lines to develop onshore power supply for passenger vessels regularly visiting the Old City Harbour to reduce vessel generated emissions and noise during the stay at the harbour. In addition, the Group is developing a project to automate the mooring and unmooring process for regular passenger vessels by utilising auto-mooring equipment and thus reducing manpower required for manual mooring services at Old City Harbour, this project is expected to commence in 2018 and be completed in 2019.

The Management Board believes that the developments at Tallinn airport, such as the passenger terminal renovation, runway extension and tram connection from Tallinn airport to the city centre, which have already been completed, and the proposed construction of additional aircraft stands, extension of the southern taxiway and potential connection of the tramline from Tallinn airport to Old City Harbour, will further support and facilitate international ferry and cruise passengers operations at Old City Harbour, including the reintroduction of the Group's turnaround port operations for cruise passengers at Old City Harbour. See Part X (Business), section 6 (Overview of Operations), subsection A (Passenger Harbours) for further information on turnaround passengers.

The Group's long term plan is to transfer heavy ro-ro cargo services (trucks) from Old City Harbour to Muuga Harbour, some of the planned transfer has already been implemented in 2017. This will allow the

Old City Harbour unused areas to be transformed into an urban city centre with commercial and residential properties and other attractions. The Group is evaluating long-term options in respect of a total land area of 16.2 hectares within Old City Harbour in Tallinn city centre and in connection therewith is discussing a framework plan with the City of Tallinn and other stakeholders. For further information, see Part X (Business), section 6 (Overview of Operations), subsection E (Real Estate Developments).

(b) Cargo harbours

The Group provides port services in the capacity of a landlord port, in that it owns and leases the land to private cargo operators, maintains and develops quays and sea approaches, organises the traffic of vessels in the harbour basin and ensures safe navigation in harbour waters. The Group possesses land, infrastructure assets and has sufficient operational headroom for cargo handling. For example, Muuga Harbour and Paldiski South Harbour can handle significantly higher volumes of cargo (combined 40-60 million tonnes annually, subject to each cargo operator's specific requirements), requiring limited, if any, additional investments by the Group.

The development plans at Muuga Harbour include the construction of a new LNG bunker terminal to supply the vessels running on LNG-fuel (after the completion of the first phase of the terminal) and the gas grid (after the completion of the second phase of the terminal), and also the construction of a soybean processing and logistics complex, both projects located in the eastern part of the harbour. The construction and development will be handled by cargo operators and is estimated to start in the coming years. The Group's participation involves providing the infrastructure, which is already largely in place, therefore there is limited, if any, capital expenditure required by the Group, but potential to increase the Group's revenue resulting from increased activity at the harbour. Further, the Group is in the process of analysing the potential implementation of the SmartPort application for heavy traffic vehicles in Muuga Harbour, in order to improve the ro-ro cargo handling facilities and increase efficiency. The Group is in negotiations with several operators in Muuga Harbour and Paldiski South Harbour to develop a woodchip production/logistics centre at either of the harbours, estimated to start in 2019. See also Part VIII (Operating and Financial Review) and Part X (Business), section 6 (Overview of Operations), subsection B (Cargo Harbours) for further information.

At the Paldiski South Harbour, the Group's industrial park is currently in the development stage and detailed planning is estimated to be concluded by the end of 2018. Once the development works have been finalised, the Group intends to enter into long-term land lease contracts with companies interested in the plots of the industrial park. The long-term development plans at Paldiski South Harbour may include the construction of a new quay (the idea being currently in screening phase) for the handling of goods with large measurements, including parts of a wind farm. The construction could be further enhanced by the Group's participation in the construction of the Baltic connector gas pipeline at Paldiski South Harbour. See also Part X (Business), section 6 (Overview of Operations), subsection B (Cargo harbours) and Part VIII (Operating and Financial Review) for further information.

The Group is actively seeking to establish new client relationships and find new cargo flows, for example transit cargo from China to Finland and Sweden. The Group is cooperating with logistics companies, terminal operators, railway and shipping companies such as EVR Cargo, Estonian Logistics and Transit Association, and Tallink, to facilitate the North-South transit route, with the first step being re-opening of the Muuga - Vuosaari (Finland) ro-ro shipping route in 2017. Further, the Group is taking part in business delegation visits to China, Kazakhstan, Sweden and attending fairs in Shenzhen, China, TransitKazakhstan in Kazakhstan, TransRussia in Russia, and Transport Logistik in Europe. The Group is also looking to benefit from increased global oil demand; steadily recovering oil prices are expected to support an increase in the demand for the liquid bulk storage and blending services of the private cargo operators located at the Group's harbours.

The Group intends to participate in the Rail Baltica project, an international railway connection that is expected to be completed and operational by 2026 and connect Estonia and the Baltic countries with Central and Western Europe. The Group believes that Rail Baltica will increase cargo flows on the North-

South transportation route and as a result, also in the Group's harbours. In particular, the starting point of the Rail Baltica railway and one of three railway sorting stations of the Rail Baltica project is expected to be set up in Muuga Harbour. The starting and sorting station may be built on land owned by the Group, in which case the Group could lease out the land and also receive rental income. Further, the Management Board believes that the planned investments into the East - West transportation route (for example HSR Eurasia, One Belt and One Road initiatives) will further enhance regional cargo traffic, including in the Group's harbours. There is no required investment by the Group, however the Group's involvement is expected to increase regional cargo traffic. For further information, see this Part X (Business), section 2 (Competitive Strengths), subsection A (Attractive macro-economic conditions and industry dynamics driving continued regional demand for port infrastructure to service both cargo and passenger flows).

B) Continue the digitalisation of port facilities processes to become the most innovative port in the Baltic Sea Region

The Group has a high level of digitalisation of its port facilities processes to enable efficient servicing of passengers (both international and domestic ferry and cruise passengers) as well as servicing of increasingly international and intermodal cargo flows and reducing logistics-costs.

In servicing the international and domestic ferry and cruise passengers, the Group has introduced the SmartPort system which is a comprehensive IT platform, aimed at connecting all harbour devices, by interlinking the information and communication systems. The SmartPort system facilitates traffic (passenger cars and trucks) in the harbour area and onto/off the ferries through its automated travel process, starting from online pre-registration (entry or import of vehicle license plate into the system) to the automated check-in procedures and fully automatic traffic management in harbour area which leads cars on board and off the vessels. The Group launched the SmartPort system for domestic ferries in October 2016 and for passenger cars and trucks in the Old City Harbour Terminal A in October 2017 and is expected to implement it also in the Terminal D during May 2018.

In both passenger and cargo harbours, the Group uses the Single Window digital data exchange system, which provides for seamless exchange of information between the logistics organisations, state authorities and vessels entering the Group's harbours. Single Window is a system through which the users (ship operators or their authorised agents) are able to provide all necessary information only once, while the system is able to interpret, combine and distribute this information for processing to the European network (SafeSeaNet) and to all the national agencies and state authorities involved. The Single Window digital data exchange system is used by all commercial vessels entering the Group's harbours. The Single Window digital data exchange system is administered by the EMA and was co-executed in the Group's harbours with the Group. The Single Window system has been operational since being launched in July 2013. The development plan is to further expand the use of similar Single Window systems, for example in railway documentation, with a view to enhancing the efficiency of multimodal transportation going forward.

The Group has integrated Enterprise Resource Planning systems, keeps paperless documentation, tracks its key performance indicators (KPIs) close to real-time. In 2017 the first public 5G network in Europe was launched in the Old City Harbour by Telia, Ericsson and Intel Corporation. In addition, a blockchain-based logistics platform, which would facilitate real-time monitoring of loading, customs processing and pre-shipment of export containers, was showcased in the Muuga Harbour and is in a piloting phase. Separately, AS Green Marine utilises a Mobile Technological Handling Station (MTS) technology which provides cost efficient and environmentally friendly solutions for treating and processing oily waste received from ships to oil products for resale. The Group is focused on further digitalisation of its systems to optimise passenger and cargo flows, to reduce logistics-related costs and to establish the Group as the most innovative port in the Baltic Sea Region.

C) Maintain substantial cash flow generation and support dividend distribution

The Group has a track record of significant shareholder distributions in the past and the financial profile of the Company allows targeting a strong and sustainable dividend policy going forward. The Group is looking to maintain existing margins, utilising its diversified stable revenue streams which, besides revenues from the Group's passenger harbours and cargo harbours, include long term building title agreements with cargo operators. In addition, the Group will continue to derive revenues for its domestic ferry services pursuant to the Ferry Services Agreement and for the use of its ice-breaker Botnica pursuant to the Botnica Service Agreement.

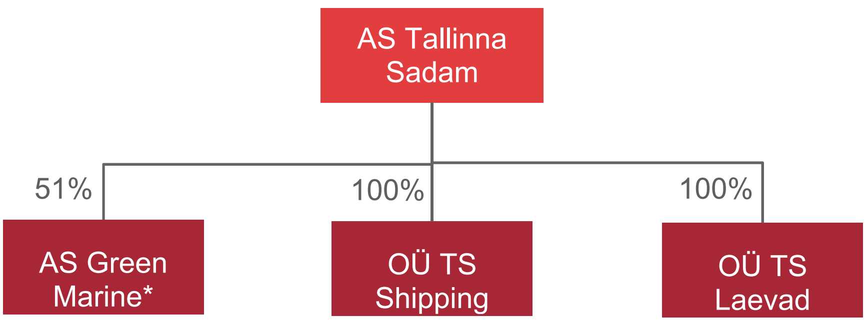
The Group plans to maintain and if possible to increase margins by implementing a broad range of strategic initiatives, including projects designed to leverage its existing passenger harbours, and cargo harbours, as well as longer term real estate development plans. For further information, see in this Part X (Business), section 3 (The Group's Strategy), subsection A (Using broad range of strategic initiatives to maximise existing portfolio value).

Over the last five years the Group has made significant investments, including into digitalisation of its port systems, into port infrastructure and has purchased four new ferries and one used ferry for its domestic ferry services, and the Management Board expects this will limit capital expenditures in the Cargo Harbours and Ferry segment over the next four to five years and support an increase in cash flow. See in this Part X (Business), section 2 (Competitive Strengths), subsection D (Substantial cash flow).

The Group is planning to develop its real estate, in particular at Old City Harbour. See this Part X (Business), section 3 (The Group's Strategy), subsection A (Using a broad range of strategic initiatives to maximise existing portfolio value). The Group's long-term plan for the Old City Harbour is for some of its area to be designed into an urban city centre with commercial and residential properties and other attractions. The Group has initiated a development plan, in co-operation with Zaha Hadid Architects, which sets out an opportunity to develop prime real estate covering a total land area of 16.2 hectares within the Old City Harbour in Tallinn city centre. The Group aims to partner with a real estate developer(s), in order to minimise its requirements for investments and eventually derive landlord revenue from the real estate. See further this Part X (Business), section 6 (Overview of Operations), subsection A (Passenger Harbours). Also, the dividend distribution is expected to benefit from a more attractive corporate income tax regime in Estonia, which came into effect on 1 January 2018, by which regular dividends are proposed to be gradually taxed at 14%. See also Part XIV (Taxation), section 1 (Estonian Tax).

4. Group's Structure

The Group comprises of the Company and two of its wholly owned subsidiaries: OÜ TS Shipping, providing ice-breaking and other maritime support services with multifunctional ice-breaker Botnica; and OÜ TS Laevad, providing the domestic ferry service between the Estonian mainland and its two largest islands, Saaremaa Island (through Muhumaa Island) and Hiiumaa Island. In addition, the Company holds a 51% interest in a joint venture, AS Green Marine (49% interest in AS Green Marine joint venture is held by AS Green Marine management), providing waste management services including for vessels visiting the Group's harbours. The following chart shows the Group structure, as well as the Company's interest in AS Green Marine joint venture.



* 49% interest in AS Green Marine joint venture is held by AS Green Marine management

5. Group's History

The state-owned enterprise Tallinna Sadam was founded in April 1992; in 1996 it was reorganised into a limited liability company defined as aktsiaselts (AS) under Estonian law. Since foundation the Group has passed the following corporate milestones:

1992	State enterprise Tallinna Sadam was established and registered in the Estonian Register of Enterprises (*Ettevõtteregister*). The Estonian Register of Enterprises was the register for companies that existed before the establishment of the Estonian Commercial Register.
1996	The Republic of Estonia reorganised the State enterprise Tallinna Sadam into a joint-stock company (*aktsiaselts* or in short AS) under Estonian law, named aktsiaselts Tallinna Sadam.
2003	AS Green Marine was founded as a joint venture between by the Company and AS NT Marine. The Group acquired AS EDI Vektor, which engaged in the promotion of electronic data interchange.
2004	The Company founded its subsidiary OÜ Tallinna Sadama Elektrivõrk (renamed in 2005 to TS Energia OÜ) and the management of electricity services was transferred to the subsidiary at the end of the year.
2005	The Company's subsidiary OÜ Tallinna Sadama Veevõrk (renamed in 2012 to OÜ TS Shipping) was established. OÜ Tallinna Sadam Elektrivõrk was renamed OÜ TS Energia.
2006	The opening of the Group's newest cruise harbour in Saaremaa called Saaremaa Harbour. The Group liquidated AS EDI Vektor.
2010	The Old City Marina was opened for yachts, as part of the Old City Harbour.
2011	Management of water, sewage and heat network services were transferred from the Company to its subsidiary TS Energia OÜ.
2012	The Company purchased the multi-functional ice-breaking vessel Botnica and transferred it to the newly renamed OÜ TS Shipping subsidiary, with the obligation to carry out the ten year ice-breaking service contract signed with the Republic of Estonia (represented by the EMA). OÜ Tallinna Sadama Veevõrk was renamed OÜ TS Shipping.
2014	Subsidiary OÜ TS Laevad was established in order to participate in a public tender for operating the domestic ferry service between the Estonia's mainland and the islands of Saaremaa (through the island of Muhumaa) and Hiiumaa, which was successful. OÜ TS Laevad also signed contracts for the construction of four new passenger ferries necessary for providing this service.
2016	Domestic ferry services started on 1 October, under a ten year contract signed with the Republic of Estonia (represented by Ministry of Economic Affairs and Communications), which in 2018 transferred the agreement to the ERA.
2017	Merger of TS Energia OÜ with the Company was registered in the Commercial Register on 13 December 2017.

6. OVERVIEW OF OPERATIONS

The Group operates the largest complex of cargo and passenger harbours in Estonia. The Group's main business lines/operations are passenger harbours, cargo harbours, domestic ferry services between Estonia's mainland and its two largest islands (Saaremaa, through Mugumaa Island, and Hiiumaa), and other services (including ice-breaking and other maritime support services utilising the ice-breaker Botnica and waste management services mainly through joint venture AS Green Marine).

The Group operates in four harbours (Old City Harbour, Saaremaa Harbour, Muuga Harbour and Paldiski South Harbour), two of which are mainly servicing passengers and international cruise liners (Old City Harbour together with Old City Marina, and Saaremaa Harbour) and two of which provide cargo handling services (Muuga Harbour, Paldiski South Harbour). In addition, the Group has minimal ongoing cargo operations (the harbour is mainly used for ship repair services which are provided by private shipyards) at Paljassaare Harbour and, due to the limited business opportunities at the harbour, has decided to exit from Paljassaare Harbour. Around both Muuga Harbour and Paldiski South Harbour, the Group owns industrial parks (76 hectares and 34 hectares, respectively) suitable for warehousing and distribution service providers and commodities producers.

The services offered at all of the Group's harbours include quay and adjacent infrastructure provision, marine traffic management in the harbour aquatories, mooring, waste management, provision of other services (including electricity, heat and water supply) and ice-breaking services within the aquatories. At the Group's harbours servicing passengers and international cruise lines, further services are rendered such as embarkation and disembarkation of passengers and cars through passenger terminals and traffic areas in the harbour and third-party merchandising. At the Group's harbours providing cargo handling, further services are rendered such as leasing areas to cargo operators through long-term building titles. Therefore, the actual handling of cargo passing through the Group's harbours is controlled by third-party cargo operators.

The map below shows the locations of the Group's harbours

A) Passenger Harbours

(i) Overview

The Group has two passenger harbours: Old City Harbour (including Old City Marina) which is located in the Tallinn city centre, and Saaremaa Harbour located on Saaremaa Island, which is the largest island of Estonia.

The table below sets out the main features and operations of the Group's passenger harbours:

	Territory	Aquatory	Number of quays	Total length of quays	Maximum depth	Maximum length of a vessel	Maximum width of a vessel	Terminals	No. of internationalferry ship calls in 2017	No of cruise ship calls in 2017	No. of cruise passengers in 2017	No. of international ferry passengers in 2017
Old City Harbour	56 ha	94 ha	24 + floating	5 km	11 m	340 m	42 m	2 passenger terminals including cruise plus roro facilities	5,392	311(1)	564,300	9,994,000
Saaremaa Harbour	20 ha	41 ha	3 + floating	445 m	10 m	200 m	30 m	1 passenger terminal	-	5	1,500	-

Notes

(1) Excludes overnight cruises

Source: Company

The services provided at the Group's passenger harbours include quay and adjacent infrastructure provision, marine traffic management in the harbour aquatories, mooring, waste management, provision of other services (including electricity, heat and water supply) and embarkation and disembarkation of passengers and cars through passenger terminals and traffic areas in the port. Due to the high frequency of calls made each day, the intentional passenger ferries also carry on-board cargo trucks (ro-ro cargo) in addition to passengers and their vehicles. Its main customers are international line passenger and cruise ship operators.

Throughout the year regular lines between Tallinn-Helsinki, Tallinn-Mariehamn-Stockholm and Tallinn-St. Petersburg are served by four international ferry companies: Tallink, Eckerö Line, Viking Line and Moby SPL. In 2017, there were nine vessels on those regular lines and 15-20 vessel calls per day.

The number of international line passenger ship calls and cruise liner calls and passengers at the Group's harbours has grown from 2015 to 2017. In 2017, the majority of the line and cruise passengers were from Finland (approximately 48%) and Estonia (approximately 28%), other line and cruise passengers were mainly from Asia (approximately 5%), Sweden (approximately 3%) and Russia (approximately 2%).

There are limited cargo services provided at the Old City Harbour, including only ro-ro cargo that is shipped on board of passenger vessels (ro-pax vessels), mostly on the Tallinn-Helsinki route.

In 2017, the top one and top three passenger operators generated a respective 58% and 94% of passenger volumes, which highlights the dependence on a few customers, and cruise operators generated 5% of passenger volumes.

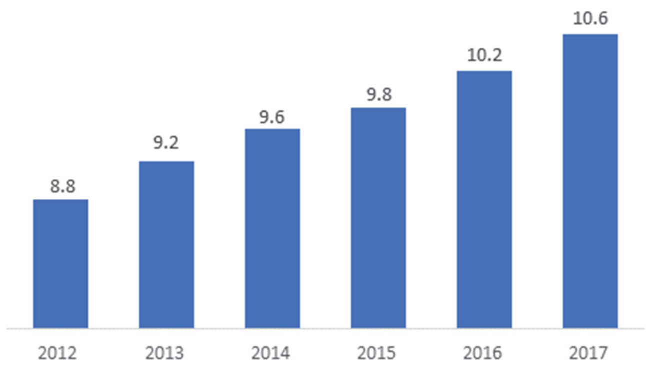
The Group is the owner of the fourth largest passenger port in Northern Europe (based on number of passengers from 2015 to 2017 (included)), behind the Port of Helsinki, the Port of Stockholm and the Port of Dover. The table below shows the number of passengers for the top four ports in Northern Europe from 2015 to 2017 in millions of passengers:

	2015	2016	2017
Port of Helsinki	11.6	11.9	12.3

Port of Stockholm	11.6	11.7	12.0
Port of Dover..	13.0	12.1	11.7
Port of Tallinn (the Group)	9.8	10.2	10.6

Source: *Company, Royal Haskoning Report*

The diagram below shows the number of passengers at the Group's harbours from 2012 to 2017 in millions of passengers, which grew from 8.8 million in 2012 to 10.6 million in 2017 (CAGR of 3.8%).



Source: Company

(ii) Revenue

The Group's passenger harbours derive their revenue primarily from:

- vessel charges including:
  - tonnage charge calculated on the basis of the gross tonnage of the vessel for each port call of the vessel;
  - waste fee calculated on the basis of the gross tonnage of the vessel for each port call of the vessel;
  - mooring charge calculated for each mooring operation based on the gross tonnage of the vessel;
- passenger fees calculated at arrival and departure of a vessel based on the number of passengers (provided by the captain of the vessel) who have arrived at (or left) the port on board the vessel and levied regardless of whether or not the passengers disembarked; and
- electricity and water supply charges calculated when a vessel connects to the system in question.

The entry of a vessel into any of the Group's harbours is considered a call for the purposes of calculating port charges and fees. For further information on how each of the fees and charges mentioned above are set, see Part VIII (Operating and Financial Review).

For the year ended 31 December 2017, revenue from the Passenger Harbours segment was €49.9 million, accounting for 41.1% of the Group's total revenue, and Adjusted EBITDA from the Passenger Harbours segment was €33.3 million.

(a) **Old City Harbour (including Old City Marina)**

(i) Overview

The Old City Harbour is the third largest passenger port in the Baltic Sea Region and the fourth largest passenger port in Northern Europe based on the number of passengers serviced (10.6 million in 2017). It is the main passenger harbour in Estonia. It is located in Tallinn city centre, within five minutes' walking distance from the Old Town, and within prompt access to other attractions of the city and as a result serves as a convenient harbour for international passenger ferries and cruise ships and, during the summer season, also for leisure yachts.

(ii) Operations

Throughout the year regular routes of Tallinn-Helsinki, Tallinn-Mariehamn-Stockholm and St. Petersburg-Tallinn-Stockholm-Helsinki are served by four passenger shipping companies: Tallink, Eckerö Line, Viking Line and Moby SPL. Tallink, Eckerö Line and Viking Line ferries depart from the Old City Harbour for Helsinki. Tallink vessels also depart for Stockholm as well as Moby SPL vessels heading further to St. Petersburg. The Tallinn-Helsinki route is one of the busiest international shipping routes in the world, carrying 8.5 million passengers in 2016 and 8.8 million passengers in 2017. The Tallinn-Helsinki route accounted for approximately 89% of all passenger traffic on regular ferry routes at Old City Harbour in 2017 and grew at a CAGR of 4.8% between 2007 and 2017. Proximity of Tallinn and Helsinki and the short ferry crossing time of approximately two hours by a modern passenger ferry between the cities' ports gives the Old City Harbour a structural advantage for servicing the Tallinn - Helsinki passenger flow. In addition, there is an increased inter-city cooperation, for example the TWIN-PORT project which is focused on the development and harmonisation of operations at the Old City Harbour and the West Harbour in Helsinki, and the H-T Transplan project which aims to develop mobility and improve transport links between Tallinn and Helsinki. The Tallinn-Stockholm route operates overnight sailing, carrying little under one million passengers in 2016 and little over one million passengers in 2017. The Tallinn-Stockholm route accounted for approximately 10% of all passenger traffic on regular ferry routes at Old City Harbour in 2017 and grew at a CAGR of 4.1% between 2007 and 2017. The passenger ports in Tallinn, Helsinki and Stockholm are all located in the city centres and the ferries used are recently modernised, making travelling by ferry a convenient travel option, especially for large tourism groups. Further, the Group has introduced the SmartPort application, which facilitates car and truck traffic through its automated process and includes the whole (car and truck) travel process, starting from online pre-registration to the automated check-in procedures and fully automatic traffic and line management in the harbour area, which leads cars on board and off the ferry. Old City Harbour is also a port of call on many cruises, there were 276 cruise ship calls in 2015, 270 cruise ship calls in 2016, and 311 cruise ship calls in 2017, representing an increase of 13%. This meant a 91 thousand increase in cruise passengers from 473 thousand in 2016 to 564 thousand in 2017, representing an 19% increase. In 2017, cruise passengers from Germany accounted for approximately 26%, followed by the USA at approximately 22% and the UK at approximately 11%. Cruise passengers from Asia (China, Taiwan and South Korea) accounted for the overall highest growth rates from 2009 to 2017. The increase in the number of cruise passengers is higher than the increase in the number of cruise ships' calls due to the cruise ships' build being on average larger in size. Old City Harbour can also be used as a turnaround port, where cruise ship passengers embark to start their cruise and disembark at the end of their cruise (with such passengers categorised as "**turnaround passengers**"), as well as the location where ship supplies are loaded for the trip. As a turnaround port, it is able to charge a ship's passenger capacity twice. Conversely, where ports function as intermediary stops on a ship's itinerary ("**ports of call**"), passengers visiting the ports are categorised as "**transit passengers**". The Group is expecting to reintroduce its cruise turnaround service in 2020. The Group's cruise clients include Carnival Corporation, Royal Caribbean Cruise Lines, NCL Cruise Lines, Holland America Group, and among single brands, MSC, Disney Cruise Lines, Crystal Cruises.

The Old City Harbour has two passenger terminals to serve international ferries and a separate area for cruise ships. Eckerö Line, Viking Line and Moby SPL ferries embark and disembark from Terminal A and Tallink ferries embark and disembark from Terminal D.

(iii) Old City Marina

Old City Marina, a modern development opened in 2010 in Admiralty Basin and adjacent to the Old City Harbour, is made for recreational vessels and yachts. Usually its navigational season commences on 1 May and continues until 31 October, subject to weather conditions. Old City Marina's location is suitable for smaller vessels as it is sheltered from strong winds and waves. There are 110 mooring spaces at the floating berth for leisure vessels, which have a maximum length of 18 metres and maximum width of 4 metres. In addition, there are 6 mooring spaces, for vessels with maximum length of 50 metres and width of 4.3 metres.

(iv) Development plans

In response to the growing numbers of passengers and cruise tourists in the Old City Harbour, the Group is planning to construct a terminal for cruise passengers estimated to commence at the end of 2018 and to be completed in 2019 or in the first half of 2020, which would also add some retail and auxiliary services potential for off-season period, such as organising various events all year round and using the roof of the cruise terminal as a promenade for the public.

The Group is also investing in the renovation of passenger Terminal D from May 2018 to June 2020 and in redevelopment of the frontal area of Terminal D, with works expected to take place and be completed by 2021. The traffic solutions at Terminal D are expected to be enhanced by the use of SmartPort traffic management system at Terminal D during May 2018 and construction of a car park next to Terminal D with works expected to commence in the first half of 2020 and be completed by the end of 2020.

The Group is also planning to build a new pedestrian bridge over the channel of the Admiralty Basin in order to allow for more convenient pedestrian traffic between the two passenger terminals, Terminal A and Terminal D, and the areas adjacent to the terminals. Construction of the bridge is expected to commence in summer 2018 and be completed by June 2019.

The Group plans to develop the Southern part of the Old City Harbour's plot (Lootsi 13 and 14, Sadama 21 and 25, Uus-Sadama 19) where Terminal D of the Old City Harbour is located. The development process was initiated in June 2016 and the Group is aiming to obtain approvals for construction of an up to 7- storey commercial and residential buildings, a gas station along the new Reidi Road and an 8-storey terminal building. The detailed plan is currently in its composition phase and is yet to be adopted. The Group expects that obtaining approvals of the final detailed land-use plan will take approximately three to five years.

The Group is also in discussions with passenger shipping lines to develop onshore power supply for regularly visiting passenger vessels standing by the quayside more than six consecutive hours to reduce emissions and noise during the time such vessels are in the Group's Old City Harbour. In addition, the Group is developing a project to automate the mooring and unmooring process for regular passenger vessels by utilising auto-mooring equipment and thus reducing manpower required for manual mooring services at Old City Harbour, this project is expected to commence in 2018 and be completed in 2019.

The Company will support the City of Tallinn's plans for development of Reidi Road with the aim of ensuring efficient connectivity between the Reidi Road and the Old City Harbour areas. Pursuant to the signed memorandum of understanding, the Company will support the construction with up to EUR 3.3 million.

For details on long-term development plans at the Old City Harbour, see in this Part X (Business), section 6 (Overview of Operations), subsection E (Real Estate Developments).

(b) **Saaremaa Harbour**

(i) Overview

Saaremaa Harbour was constructed in 2006 and is located on Saaremaa Island, the largest island in Estonia. The harbour has a natural depth alongside the quay of 10 metres, sufficient for receiving cruise ships with the length of up to 200 metres sailing in the Baltic Sea. Saaremaa Harbour has two quays available for large vessels and a third quay for auxiliary vessels and a floating berth for small crafts. There are also berthing places for yachts with depth up to 6 metres.

(ii) Operations

The main operations at Saaremaa Harbour involve receiving cruise liners, including provision of quay and adjacent infrastructure, organising vessel traffic in the harbour basin, provision of mooring and vessel waste management services, and providing passenger terminal for the passengers' comfort. During off-peak season the port serves occasional cargo vessels and provides home quay service for fishing boats.

There were two cruise ship calls in 2016 and five cruise ship calls in 2017 which resulted in an increase in cruise passengers from 700 in 2016 to 1,500 in 2017.

Due to its attractive geographical location on the north-western coast of the island, Saaremaa Harbour has potential to host regional cruises. The Group is actively marketing its harbours, including Saaremaa Harbour, to increase the number of cruise passengers to the region.

(iii) Development plans

The Group's development plans include increasing the usage of port infrastructure during cruise off-peak season by establishing regular cargo handling activities. The Group has been granted the necessary planning permits for the Saaremaa Harbour, initially intended for servicing only passengers, also for cargo handling with additional land for rental purposes. The Group plans to rent out the land to private cargo operators for building cargo storage and operating warehouses and other facilities. Due to the limited capacity of the existing quays, the cargo handling activities shall remain modest, serving mainly the local island economy.

B) Cargo Harbours

(i) Overview

The Group has two principal cargo harbours: Muuga Harbour and Paldiski South Harbour. Some cargo services, such as ro-ro on board of passenger vessels, are also provided at the Old City Harbour. Around both Muuga Harbour and Paldiski South Harbour, the Group owns industrial parks (approximately 76 hectares and 34 hectares, respectively) suitable for warehousing and distribution service providers and commodities producers enabling them to transport their production and raw material promptly, safely and significantly reduce transport costs. The Group currently leases several of these industrial parks to commodity producers. Cargo volumes handled by the Group amounted to 19.2 million tonnes in 2017. According to the Management Board's information, in 2017, the Group had approximately 4% market share of cargo on the eastern shore of the Baltic Sea and 53% of market share in cargo volumes of Estonian ports, followed by Sillamäe Port with 23% and others with below 10% shares. Its cargo volumes are primarily derived from liquid bulk and ro-ro cargo, followed by dry bulk, containers and general cargo. As a result of decrease in liquid bulk, the share of Russian originating or destined cargo of the Group's total cargo handled has diminished since 2009. Russian originating or destined cargo accounted for approximately 70% of the Group's total cargo in 2009 and decreased to approximately 35% of the Group's total cargo in 2017. The Group believes that Muuga Harbour and Paldiski South Harbour can handle significantly higher volumes of cargo, with a combined capacity of approximately 40-60 million tonnes per year, subject to cargo operator's specific requirements.

The Group underwent a complete restructuring process in the mid 1990s by developing from a service port into a landlord port and in 1999, the last cargo handling operations were transferred to private companies (cargo/terminal operators). The current core business of the Group is the rendering of port services in the capacity of a landlord port whose tasks involve managing and developing the infrastructure of the harbours (land, quays and sea approaches), organising the traffic of vessels in the harbour basin and ensuring safe navigation in the harbour waters. The Group also leases land areas to cargo operators through long-term agreements with an average remaining term of 26 years, giving the operators an incentive to invest into the superstructure and technology needed for handling of cargo. Therefore, the actual handling of cargo passing through the Group's harbours is controlled by third-party cargo operators. Cargo operators own the buildings, structures and equipment necessary for cargo handling. The Group's main customers are cargo operators including Transiidikeskuse, Vopak E.O.S, Alexela Terminal and Vesta Terminal, cargo vessel operators including Maersk, MSC, CMA CGM, Unifeeder, Hapag-Lloyd, X-Press, Transfennica, KESS, Mann Lines and warehouse operators including Katoen Natie, Sankotrans, Komerk, ITT Baltic, ExpoGroup. In 2017, the top three and top six cargo customers generated a respective 45% and 78% of cargo volumes, which highlights the dependence on a few customers.

The table below sets out the main features and operations of the Group's cargo harbours:

	Territory	Aquatory	Number of quays	Total length of quays	Maximum depth	Maximum length of a vessel	Maximum width of a vessel	Terminals	Open storage	Covered warehouse	Cargo ships served in 2017	Cargo volume handled in 2017(1)	TEUs handled in 2017
Muuga Harbour	567 ha	682 ha	29	6.4 km	18 m	300 m	48 m	Containers, Liquid Bulk, Dry Bulk, RoRo, General Cargo	695,000 m^2	230,000 m^2	126	10,098,000	213,285
Paldiski South Harbour	119 ha	147 ha	10	1.9 km	14.5 m	230 m	35 m	RoRo, Liquid Bulk, Dry Bulk, General Cargo	540,000 m^2	15,000 m^2	844	4,656,000	2,166

Notes
(1) Excludes 4.3 million tonnes of cargo from Passenger Harbours in 2017.
Source: Company

There are limited passenger operations in the Paldiski South Harbour and Muuga Harbour. These are mostly related to ro-ro lines, which operate on regular routes and in addition to cargo/trucks also have the truck drivers on board of the ro-ro vessels. Ro-ro vessels (roll-on/roll-off) are ships designed to carry wheeled cargo, such as cars, trucks, semi-trailer trucks, trailers, and railroad cars, which are driven on and off the ship on their own wheels or using a platform vehicle, such as a self-propelled modular transporter. The servicing of passengers at the cargo harbours on board of the ro-ro or other vessels is not considered as contributing to the passenger harbours but are treated as by-products of the cargo harbours.

Cargo handled in the Group's harbours are classified as containers, dry bulk cargo, liquid bulk cargo, roll-on/roll-off or general cargo.

- Containers are large, sealable metal boxes built according to international standards, usually in 20-foot or 40-foot lengths. Containers can be used to ship a wide variety of cargo. Containers are stackable and can be stored outdoors. They offer significantly higher efficiency than bulk and general cargo because they can easily be on- or off-loaded from train or truck to ship. Efficient operation of a container terminal requires specialised equipment for loading and unloading containers from vessels and transporting within the port as well as computerised systems for tracking containers and managing their logistics.

- Dry bulk cargo is any cargo, other than a liquid or a gas, which is homogeneous and shipped in bulk. Bulk cargo is not shipped in self-contained packaging, but loaded onto and unloaded from vessels by pouring, sucking or dumping the cargo using specialised equipment attached to cranes, which are typically the same type of cranes used for general cargo.

- Liquid bulk cargo is a homogenous liquid or a gas, which is shipped in bulk. Similar to dry bulk cargo, liquid bulk cargo is not shipped in self-contained packaging, but loaded onto and unloaded from vessels by pouring or dumping the cargo using specialised scoops or other equipment attached to cranes, which are typically the same type of cranes used for general cargo.

- Roll-on/roll-off (ro-ro) ships are vessels designed to carry wheeled cargo, such as cars, trucks, semi-trailer trucks, trailers, and railroad cars, that are driven on and off the ship on their own wheels or using a platform vehicle, such as a self-propelled modular transporter. Ro-ro vessels have either built-in or shore-based ramps that allow the cargo to be efficiently rolled on and off the vessel when in port.

- General cargo is any kind of cargo which is shipped in its own package or on pallets and is loaded and unloaded using cranes. General cargo is often referred to as break-bulk cargo and requires additional handling at port. Some general cargo may require covered storage to protect it from adverse weather conditions.

The following table sets forth container, dry bulk, liquid bulk, roro cargo, and general cargo volumes of the Group's cargo handling harbour from 2015 to 2017 in thousands of tonnes.

	2015	**2016**	**2017**	**2015-2017 CAGR**
		(in thousands of tonnes)		
Containers	1,741	1,778	1,907	4.7%
Dry bulk	2,942	3,745	4,146	18.7%
Liquid bulk........................	12,835	9,443	7,447	(23.8%)
Ro-ro	4,330	4,563	5,066	8.2%
General Cargo	583	589	615	2.7%
TOTAL.............................	**22,431**	**20,118**	**19,182**	**(7.5)%**

In 2017, liquid bulk accounted for 38.8% of the Group's total cargo volumes, ro-ro cargo accounted for 26.4% of the Group's total cargo volume, dry bulk accounted for 21.6% of the Group's total cargo volume, container cargo accounted for 9.9% of the Group's total cargo volume, and general cargo accounted for 3.2% of the Group's total cargo volume.

(ii) Revenue

The Group's cargo harbours derive their revenue primarily from:

- vessel charges consisting of
  - tonnage charge calculated on the basis of the gross tonnage of the vessel for each port call of the vessel;
  - waste fee calculated on the basis of the gross tonnage of the vessel for each port call of the vessel;
  - mooring charge calculated for each mooring operation based on the gross tonnage of the vessel;
- electricity, and water supply charges calculated when a vessel connects into the system in question
- cargo charges based on cargo volumes and units;
- building titles and rental charges paid by cargo operators.

The entry of a vessel into any of the Group's harbours is considered a call for the purposes of calculating port charges and fees. For further information on how each of the fees and charges mentioned above are set, see Part VIII (Operating and Financial Review).

The Group also receives volume based contractual penalties if cargo operators fail to handle minimum amounts of cargo set out in their cooperation agreements, which counts as part of cargo charges for revenue classification purposes. However, the Group remains subject to the risk that if cargo flows are lower, terminal operators may go bankrupt or wish to end their building titles and rental agreements, which would affect the Group's revenue. For further information on the Group's litigation with cargo operators see this Part X (Business), Section 6 (Overview of Operations), subsection J (Legal Proceedings).

For the year ended 31 December 2017, revenue from the Cargo Harbours segment was EUR 39.8 million, accounting for 32.8% of the Group's revenue, and the Adjusted EBITDA from the Cargo Harbours segment was EUR 23.3 million.

(a) **Muuga Harbour**

(i) Overview

Muuga Harbour is the largest cargo harbour in Estonia based on the volume of cargo handled in the ports of Estonia in 2017 (handling 10.1 million tonnes of cargo out of the 36.4 million tonnes handled by the main Estonian ports) and handles both transit origin and domestic export-import goods. It is located 17 kilometres east of Tallinn and it is the Group's main cargo harbour, handling approximately 53% of the Group's cargo volume in 2017. Muuga Harbour is also among the deepest, with up to 18 metres natural depth, and most modern ports in the Baltic Sea Region.

There is an extensive free zone area in the Muuga Harbour for companies rendering transit and distribution services, which grants simplified and more flexible customs procedures and no import VAT on goods that are temporarily imported to Estonia to be processed and then exported from Estonia. The free zone area is 463 hectares of the total harbour area of 567 hectares.

(ii) Operations

Muuga Harbour has two multipurpose terminals (one of them with a modernised reefer warehouse capacity to handle refrigerated goods), container terminal and ro-ro terminal for vessels designed to carry wheeled cargo, five liquid bulk terminals, fertiliser terminal, grain terminal (the largest in the Baltic Sea Region) and a coal terminal (the operator of which is currently under bankruptcy proceedings). There are ten cargo operators operating at Muuga Harbour. In 2017 approximately 67% of cargo handled in the Muuga Harbour was transit cargo.

Muuga Industrial Park of 76 hectares is situated adjacent to Muuga Harbour and located within the free-zone and conveniently connected with other countries by sea, rail, as well as road network and close to Estonia's biggest airport - Tallinn Lennart Meri Airport. Muuga Harbour (as well as the Old City Harbour) is part of the TEN-T core network corridor and is expected to be the starting point of the Rail Baltica rail route. Muuga Industrial Park is a suitable location for warehousing and distribution services providers and commodities producers whose target market is the Baltic Sea Region, but also the Russian Federation. Muuga Industrial Park is also convenient for businesses that utilise raw materials coming from the Russian Federation to produce commodities for the EU market. Muuga Industrial Park's location in the port area next to the container, general cargo and other terminals and quays enables the businesses to significantly reduce their transportation costs. Additionally, the commodities and/or raw materials handled in the harbour could further be used for production operations at the Muuga Industrial Park area (including production of metals, fertilisers, chemicals). There are currently two businesses operating in the industrial park. Katoen Natie, a large global logistics and value-added services company, purchased the land plot at the Muuga Industrial Park from the Company and started its operations in 2013. Muuga Betoonelement, a precast concrete producer, entered into a long-term building title contract with the Company and started its operations in 2008. The Group has capacity for further businesses to operate in Muuga Industrial Park and it intends to enter into long-term building title contracts with any such businesses. The traffic at Muuga Harbour is also expected to be supported by a scheduled container block train from Muuga Harbour to Moscow.

(iii) Development plans

The development plans at Muuga Harbour include the construction of a new LNG terminal. The project is in the preparation phase and is to be developed in phases, initially by constructing a small scale terminal with a capacity of 4,000m3. After the completion of the first phase of the terminal it would be a bunker terminal to supply the vessels running on LNG-fuel. After the connection to Estonian gas grid during the completion of the second phase of the terminal it would become a regional terminal. The development plans also include the construction of a soybean processing and logistics complex, with both projects to be located in the eastern part of the harbour. The construction and development will be handled by cargo operators and is estimated to start in the coming years. The Group's participation will involve providing the infrastructure (land for the terminal and access to an existing quay) which is largely already in place, and therefore the Group expects no or limited capital expenditure to be required for the projects. Further, the Group is in the process of analysing the potential implementation of SmartPort application for heavy traffic vehicles (trucks) in Muuga Harbour in order to improve the ro-ro cargo handling facilities and increase efficiency.

In Muuga Industrial Park, approximately 58 hectares of the total area of 76 hectares has been divided into plots with sizes between 0.3 to 7.1 hectares for the Group's potential clients. The Group has invested into the utility network (including electricity, gas and road connections) up to the borders of the plots with a total area of 33 hectares. Further developments will be considered based on future needs, as the current infrastructure is sufficient for cargo volumes forecasted in the near term and beyond.

The Group intends to participate in the Rail Baltica project, an international railway connection that is expected to be completed and operational by 2026 and connect Estonia and the Baltic countries with Central and Western Europe. The starting point of the Rail Baltica railway and one of three railway sorting stations of the Rail Baltica project is expected to be set up in Muuga Harbour. Rail Baltica has potential to significantly increase north-south cargo route post-completion in 2026. The starting and sorting station may be built on land owned by the Group, in which case the Group could lease out the land and also receive rental income.

The Group is in negotiations with several operators in Muuga Harbour and Paldiski South Harbour to develop a woodchip production/logistics centre at either of the harbours, this project is estimated to start in 2019. A quay necessary for the project is available at both harbours, there is also a suitable storage/loading area at Paldiski South Harbour, whilst land for the development of storage/loading area is available at Muuga Harbour and therefore the required storage/loading area could be constructed in a short period of time, once needed. The woodchip cargo would mainly be shipped to the Scandinavian power plants.

(b) **Paldiski South Harbour**

(i) Overview

Paldiski South Harbour is the Group's second largest cargo harbour based on the volume of cargo handled, which in 2017 amounted to approximately 24% of total volume of cargo handled by the Group. Paldiski South Harbour is located 50 kilometres west of Tallinn. The harbour primarily handles Estonian export and import cargo and also transit cargo. The harbour has become an important stop for the Baltic Sea ro-ro shipping lines with direct connection to many West European ports (Germany, Belgium, United Kingdom) and Scandinavian ports (Sweden, Finland).

(ii) Operations

Paldiski South Harbour has six cargo operators. Paldiski South Harbour has terminals, warehouses and storage area for liquid bulk (oil and oil products) and dry bulk (including scrap, wood pellets, grain and peat) and the operations also include transit of new cars for neighbouring markets and provision of pre-sale preparation services. Regular ro-ro connection with many European and Scandinavian ports allows Paldiski South Harbour to handle break bulk, project and high & heavy cargo.

(iii) Development plans

Paldiski South Harbour Industrial Park of approximately 34 hectares is adjacent to Paldiski South Harbour and has a potential development area of approximately 34 hectares. The development of Paldiski South Harbour Industrial Park is under review, and detailed planning process is expected to be concluded by the end of 2018. Once the detailed plans have been finalised and approved, the Group intends to find partners to sign long-term leases with companies interested in plots at the industrial park. There are currently also plots available, which are closer to the quays, situated outside the Paldiski South Harbour Industrial Park area, which already have detailed plans, communications and asphalted loading places.

The long-term development opportunities at Paldiski South Harbour include a construction of a new quay for the handling of goods with large measurements, including parts of wind parks. In connection with the long term development plan of Nelja Energia AS to establish a wind park in the northern part of Hiiumaa Island, there is a need for a base harbour nearby with capacity to build and assemble parts for such wind-park. The nearest harbours with appropriate parameters are currently in Denmark and the Netherlands, whereas Paldiski South Harbour is suitably located and has the parameters to become a specialised base harbour for building and assembling wind-park parts and equipment. The Group, together with Nelja Energia AS, Paldiski Association of Entrepreneurs and the producer of the wind-park mills, are seeking financing opportunities (including EU funding) for the project, specifically the construction of a specialised new quay which would require an investment of approximately EUR 16-18 million. No decision has been made regarding the project or investing in the construction of the specialised new quay.

A similar long-term development project/opportunity regarding the participation in the construction of Baltic connector gas pipeline is being investigated by the Group. For this project, existing quays at Paldiski South Harbour could be used and no material investments from the Group would be required.

(c) **Paljassaare Harbour**

(i) Overview

Paljassaare Harbour is situated on Paljassaare Peninsula approximately four kilometres from Tallinn city centre. The Group has disengaged its cargo harbours activities in Paljassaare Harbour, sold most of the land plots it historically owned and in recent years Paljassaare Harbour has been mainly used for servicing ship repair companies and only occasionally for cargo handling by a few cargo operators. Due to limited business opportunities remaining in port operations at Paljassaare Harbour, the Group has decided to exit from Paljassaare Harbour. Preparations for the sale of the remaining land plots started at the end of 2017 and are expected to be completed during 2018/19. Detailed planning process, led by the current main landlord, to turn the historic harbour area into real estate development is on-going. The Group does not plan to take part in the real estate development process of either the Paljassaare Harbour or the surrounding areas. The Group estimates that the exit proceeds should not have a significant impact on the Group's consolidated financial results.

C) Domestic ferry services

(i) Overview

The Group, through its 100% owned subsidiary TS Laevad OÜ, is rendering domestic ferry services between Estonia's mainland and its two largest islands, Saaremaa Island (through Muhumaa Island) and Hiiumaa Island. The ferry service is operated in accordance with the Ferry Services Agreement signed, consequent to winning the tender, at the end of 2014 for a ten-year period (from 1 October 2016 to 30 September 2026). The Ferry Services Agreement is between TS Laevad OÜ and the ERA (the government agency operating within the administrative area of the Ministry of Economic Affairs and Communications). Under the Ferry Services Agreement, the Ministry of Economic Affairs and Communications has a call option entitling it to acquire one to four ferries (at its discretion) from TS Laevad OÜ by notifying it of such intention at least four years before the end of the term of the agreement (i.e. in September 2022 at the latest). The price per ferry is EUR 26.6 million (although this is subject to adjustment as set out in the Ferry Services Agreement). The Ministry of Economic Affairs and Communications is entitled to transfer the call option to third parties or other state institutions. The ferry services were used by approximately 2.1 million passengers and over 873 thousand vehicles on 20.8 thousand ferry trips in 2016 and approximately 2.2 million passengers and over 956 thousand vehicles on 20 thousand ferry trips in 2017.

Large scale investments have been made into the construction of four new passenger ferries, which now service passengers between Estonia's mainland and Saaremaa Island (through Muhumaa Island) and Hiiumaa Island (two ferries on both routes) along with a fifth older ferry (serving as a back-up ferry). The Group has also entered into an agreement with the Republic of Estonia (through the ERA) to provide additional ferry capacity at peak times for the 2018 summer months (June-August) in addition to the capacity of the regularly used four vessels.

(ii) Revenue

The Group is remunerated for the ferry services under an arrangement with the ERA (the government agency operating within the administrative area of the Ministry of Economic Affairs and Communications), which guarantees a pre-agreed level of contractual income. The contractual income consists of a fixed fee (coverage of capital and interest costs), a variable fee (coverage of fixed operating costs indexed to CPI and the Estonian wage inflation index) and a voyage fee (coverage of variable cost indexed to fuel price and CPI), which is paid to the Group through ticket sales. In case the ticket sales (the Ministry of Economic Affairs and Communications is responsible for and sets the ticket prices) do not cover the contractual income amount, the difference will be covered by the ERA as a subsidy to the Group.

For the year ended 31 December 2017, revenue from the Ferry segment accounted for 22.3% of the Group's revenue at EUR 27.1 million, and the Adjusted EBITDA from the Ferry segment was EUR 8.4 million.

(iii) Development Plans

In case a need arises for any additional service levels not agreed in the current Ferry Services Agreement, such need would need to be financed separately by the ERA under a separate agreement with the Group.

D) Other Services

(i) Overview

Through its fully owned subsidiary OÜ TS Shipping, the Group provides ice-breaking and other maritime support services with multifunctional ice-breaker Botnica. Mainly through a joint venture company AS Green Marine, the Group also offers waste management services in its harbours.

The Group's main customers are the Republic of Estonia (acting through its government agencies), cargo operators and tenants operating in the harbour areas, and oil and energy companies using the services of the multifunctional ice-breaker Botnica.

(ii) Revenue

The revenue for the Group's Other segment mainly comprises of charter fees that are paid for the usage/rent of the vessel Botnica.

For the year ended 31 December 2017, revenue from the Other segment accounted for 3.8% of the Group's revenue at EUR 4.6 million, and the Adjusted EBITDA from the Other segment was EUR1.5 million.

(iii) OÜ TS Shipping (Botnica)

At the end of 2012, the Group invested in a multifunctional ice-breaking vessel, "Botnica", purchased from the secondary market. Since the beginning of 2013, Botnica has been used for the Botnica Service Agreement for Estonian ports in the Gulf of Finland. The Botnica Service Agreement entered into with the EMA (another government agency operating within the administrative area of the Ministry of Economic Affairs and Communication) runs from the 2012/2013 winter season until April 2022. Botnica Service Agreement provides a contractual formula for calculating the daily rate during such period and with the currently applicable daily rate of EUR 38,250 and duration of the ice-breaking period, yielding an annual revenue of EUR 4.7 million. The rate can be indexed by 80% of Estonian CPI since the 2015/2016 winter season, and the change has an upper limit of 3% per annum. The rate was indexed for the first time for 2017/2018 winter season at 2% per annum. Outside the ice-breaking season, from May to November, the multi-functional ice-breaker can be chartered out for various maritime support operations, such as anchor handling, diving support, and underwater construction.

(iv) AS Green Marine Joint Venture (waste management)

AS Green Marine is a joint venture between the Company and AS Green Marine management engaged in waste management. The activities of AS Green Marine include management of waste generated by vessels in ports and in the course of port management activities; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and participating in cleaning and maintenance of the ports' aquatory and premises. A modern wastewater treatment plant, owned and operated by AS Green Marine, situated in Paljassaare Harbour processes oily wastewater originating from ships, and other oily residue. The treatment process results in a certified oily product, which is sold on the market, for instance, for heating purposes. AS Green Marine utilises MTS technology which provides energy saving solutions for optimal handling of oil-containing waste, by handling such waste in a closed system where the waste is cleaned and recycled without involving additional handling processes. AS Green Marine's economic activity is targeted at developing environmental services for ports and ships, on sea pollution prevention, localisation and liquidation issues in accordance with international standards. AS Green Marine also coordinates waste management services offering to the ships within the harbours of the Group. The Group invoices vessels for waste management services and then pays AS Green Marine for providing these services. The Group's share of the profit of AS Green Marine represented €0.3 million in 2017. The Company owns a 51% interest in the joint venture, due to which AS Green Marine is considered a subsidiary of the Company for the purposes of the Estonian Commercial Code. However, in accordance with the provisions of the Articles of Association of AS Green Marine, AS Green Marine is under the joint control of its shareholders. The Group's 51% interest in the joint venture therefore does not constitute actual control over AS Green Marine.

E) Real Estate Developments

(a) Passenger and Cargo Harbours

The Group is pursuing real estate development initiatives in connection with its passenger harbours and industrial park development initiatives in connection with its cargo harbours. For passenger harbours related developments see Part X (Business), section 6 (Overview of Operations), subsection A (Passenger Harbours) and for cargo harbours related developments, see subsection B (Cargo harbours).

(b) Masterplan

In addition, the Group is also evaluating long-term options in respect of an area of 16.2 hectares of prime real estate within Old City Harbour (area not used any more for harbour activities) and is, to this end, implementing the Masterplan relating to the total area of old City Harbour with the City of Tallinn and other stakeholders.

The Masterplan and its implementation are subject to further changes, as well as legal and regulatory approval. The Masterplan is currently preliminary in nature and subject to significant review and comment from a number of stakeholders, including the City of Tallinn, over the next three to five years during which the Group will initiate and carry out the detailed planning process which, if successful and approved by the City of Tallinn, will give the legal right for the execution of the development plans contained in the Masterplan.

The key consideration when choosing the delivery model for the 16.2 hectares of prime real estate areas covered by the Masterplan will be to limit the Group's capital expenditure commitment. A number of options are being considered, including among others (i) a long-term lease to an operator(s) that constructs facilities; (ii) BOT concession contract; (iii) public private partnership (dependent on the level of municipal resources); (iv) master developer model, whereby the Company would set up a separate entity to operate the development and retains partial/full control of development. However, no final decision has been taken with regards to the delivery model or combination of different models.

The commercial real estate development under the Masterplan does not currently form part of the Group's core business and any financial upside would only be experienced in the medium to long term. There is no guarantee that the developments under the Masterplan will ever materialise nor is there any guarantee on the magnitude and timing of any such developments.

F) Employees

For 2015, 2016 and 2017, the Group employed on average 363, 411 and 504 people, respectively. The Group's employee turnover is low, at 3.4% in 2016 and also at 3.4% in 2017.

The following table shows the number of employees (excluding Management Board members) by Group company as at 31 March 2018:

Group company	Number of employees
AS Tallinna Sadam	315
OÜ TS Laevad	127
OÜ TS Shipping	43
AS Green Marine	33

The Group's level of staff unionisation is approximately 16% of the workforce (45 employees are members of the Federation of Estonian Water Transport Workers' Trade Unions and 37 employees are members of the Estonian Seamen's Independent Union). Contracts with trade unions include a contract with the Federation of Estonian Water Transport Workers' Trade Unions in respect of all of the Company's employees, valid from 18 June 1998 (extended for indefinite term since February 2004).Contract negotiations with the Estonian Seamen's Independent Union are still ongoing.

The Management Board believes it maintains good relations with its employees.

G) Health, Safety and Environmental Matters

Health, safety and environmental issues are governed by a number of laws and guidelines that affect businesses operating in Estonia. Accordingly, the Group is required to comply with a number of health, safety and environmental requirements.

In order to comply with the environmental requirements, the Group has adopted an environmental policy:

- to operate in an environmentally friendly way pursuant to the environmental pollution prevention principle;
- to assess all environmental impacts when planning development activities;
- to comply with Estonian, European Union, European Sea Ports Organisation (ESPO) and international environmental legislation and guidelines;
- to take into consideration the public opinion and the suggestions made by the clients and customers of the Group in decision making; and
- to work in close co-operation with Estonian and international organisations, scientific establishments and research institutions and consultation companies in pursuit of the Group's environmental policies and goals.

Since 2003, the Group's management system has been certified as being in compliance with the requirements of the ISO 9001: 2008 Quality Management System and the ISO 14001: 2004 Environmental Management System standards.

The Group's harbours are equipped with pollution control vessels, oil pallets and emergency plans for pollution control, so that oil spills in the aquatories of the Group's harbours can be handled by the Group without recourse to any additional help.

H) Insurance

The Group maintains insurance covering its assets and employees in line with general business standards in Estonia. The Management Board believes that the policy specifications and insured limits are adequate.

The Company's property is insured to up to EUR 402,513,149 with Seesam Insurance AS, under a policy valid until 31 March 2019. The Company's general liability insurance coverage is up to EUR 10 million with Marsh Ltd, ending on 31 May 2018. The general liability insurance coverage also includes coverage for environmental liabilities (with a sublimit of up to EUR 5 million), environmental pollution fines (with a sublimit of up to EUR 1.5 million) and pollution clean-up (with a sublimit of up to EUR 5 million), with a deductible of EUR 100,000 per occurrence. The Company's Directors and Officers (D&O) insurance policy with AIG Europe provides insurance coverage for certain claims, in the amount of up to EUR 4.2 million, ending on 15 April 2019.

OÜ TS Shipping's Protection and Indemnity (P&I) insurance policy from Gard, which is valid until 20 February 2019, provides coverage for its multi-functional ice-breaker, Botnica, in the amount of up to USD 3 billion. The P&I insurance policy cover for oil pollution is limited to USD 1 billion, for passengers and seamen/crew combined risks is limited to USD 3 billion and for passengers risks is further limited to USD 2 billion per each ship and one event. Botnica is further covered by a Hull & Machinery (H&M) policy from Fairwater Marine, which is valid until 26 November 2018 and which provides coverage of up to EUR 37.6 million, Hull Interest (HI) policy from Fairwater Marine, which is valid until 26 November 2018 and which provides coverage of up to EUR 9.4 million and war risks policy from Fairwater Marine, which is valid until 26 November 2018 and which provides coverage of up to EUR 47 million.

OÜ TS Laevad’s four new ferries have insurance policies from Marine Underwriting Services, which are valid until 31 March 2019 and which provide for each ship H&M coverage in the amount of up to EUR 26.4 million (for Leiger and Tiiu, up to EUR 20 million), HI coverage of up to EUR 6.6 million (for Leiger and Tiiu, up to EUR 5 million) and war risks coverage of up to EUR 33 million (for Tiiu and Leiger, up to EUR 25 million). Furthermore, the four new ferries have insurance policies from Alandia, which are valid until 31 March 2019 and which provide for each ship P&I coverage in the amount of up to EUR 200 million. OÜ TS Laevad’s fifth ferry, Regula, has P&I coverage from Shipowners Club, under a policy valid until 1 October 2018, in the amount of up to USD 500 million, H&M coverage from Vandeni Kindlustusmaaklerid, under a policy valid until 1 October 2018, in the amount of up to EUR 3.2 million, HI coverage from Vandeni Kindlustusmaaklerid, under a policy valid until 1 October 2018, in the amount of up to EUR 800,000 and war risks coverage from Vandeni Kindlustusmaaklerid, under a policy valid until 1 October 2018, in the amount of up to EUR 4 million.

The Group's strategy is to maintain the current levels of insurance cover however there can be no assurance that it will do so.

I) Intellectual Property Rights

The Group owns several registered trademarks and domain names, which it uses in the business of the Company, its subsidiaries and affiliates. None of the domain name materials used for the activities of the Group are licensed for use from any third party. The most important domain names are www.portoftallinn.com www.ts.ee and www.praamid.ee. The Group does not own the following domain names which are similar to the domain names owned by the Group: www.portoftallinn.ee and www.ts.com.

The Company owns the following Estonian trademarks:

Trademark	Figurative	Registration number	Date of registration	End of protection
TALLINNA SADAM	**Yes**	**31247**	**08.06.2000**	**08.06.2020**
Laevade Lemmik	**No**	**34371**	**06.07.2001**	**06.07.2021**
The Port that Ships Love	**No**	**34288**	**21.06.2001**	**21.06.2021**
MUUGA Tööstuspark	**Yes**	**45324**	**29.07.2008**	**29.07.2018**

Vanasadama Jahisadam	**Yes**	**49096**	**17.02.2012**	**17.02.2022**
Tallinn Design Mile	**No**	**50708**	**30.07.2013**	**30.07.2023**
Tallinna disainimiil	**No**	**50709**	**30.07.2013**	**30.07.2023**
TALLINNA SADAM Heade sõnumite sadam	**Yes**	**55318**	**27.12.2017**	**27.12.2027**
PORT OF TALLINN The Port of Good News	**Yes**	**55319**	**27.12.2017**	**27.12.2027**
	Yes	**55320**	**27.12.2017**	**27.12.2027**
Old City Marina	**Yes**	**55321**	**27.12.2017**	**27.12.2027**

The Company owns the following EU trademarks:

Trademark	Figurative	Filing number	Filing date	End of protection
PORT OF TALLINN	**Yes**	**009156217**	**07.06.2010**	**07.06.2020**
Old City Marina	**Yes**	**009156241**	**07.06.2010**	**07.06.2020**

The Subsidiaries own the following Estonian trademarks:

Trademark	Figurative	Registration number	Date of registration	End of protection	Owner
energia	**Yes**	**51071**	**04.11.2013**	**04.11.2023**	**TS Energia OÜ**
Green Marine Your Partner on the Green Planet	**Yes**	**54404**	**16.12.2016**	**16.12.2026**	**AS Green Marine**
LEIGER	**No**	**55212**	**16.11.2017**	**16.11.2027**	**TS Laevad OÜ**
PIRET	**No**	**55213**	**16.11.2017**	**16.11.2027**	**TS Laevad OÜ**
TS LAEVAD	**Yes**	**55223**	**27.11.2017**	**27.11.2027**	**TS Laevad OÜ**
	Yes	**55224**	**27.11.2017**	**27.11.2027**	**TS Laevad OÜ**
praamid.ee	**Yes**	**55340**	**09.01.2018**	**09.01.2028**	**TS Laevad OÜ**
TS Shipping	**Yes**	**55410**	**25.01.2018**	**25.01.2028**	**OÜ TS Shipping**
TIIU	**No**	**55409**	**25.01.2018**	**25.01.2028**	**TS Laevad OÜ**
REGULA	**No**	**55491**	**19.02.2018**	**19.02.2028**	**TS Laevad OÜ**

The Subsidiaries are in the process of registering the following Estonian trademarks:

Trademark	Figurative	Filing number	Date of application	Owner	Status
TÕLL*	**No**	**M201601107**	**16.12.2016**	**TS Laevad OÜ**	**Contested**

* *The registration of the trademark "TÕLL" has been contested and the end-result is not yet known, however, there is a possibility that OÜ TS Laevad will not be able to successfully register the trademark.*

The Group also holds intellectual property rights, i.e. owns economic rights and uses moral rights under licences, over the 'Smart Port' and "The Ticket and Access Control System for Ferries" solutions and the Old City Harbour Masterplan.

J) Legal Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which have, or have had during the 12 months preceding the date of this Prospectus, significant effects on the Company's and/or the Group's financial position or profitability, except for the following.

Material on-going proceedings:

(a) The Company is one of the creditors in AS Coal Terminal's bankruptcy proceedings. In connection with AS Coal Terminal's bankruptcy declared on 2 May 2017, the Company submitted a claim in the bankruptcy proceedings in the amount of approximately EUR 1.4 million, of which approximately EUR 1.1 million has been accepted. The Company has challenged the rejection of the rest of the claim (approximately EUR 300,000) by the bankruptcy administrators in court and the proceedings are on-going. The Company has presented an additional claim of damages to the bankruptcy administrators in the amount of approximately EUR 46 million, which remains outstanding, challenging the termination of two building title contracts and cooperation agreement. The claim has not yet been assessed by the court. The administrators exercised their alleged right to abandon the performance of the building title contracts, due to which the ownership of the building titles and infrastructure built thereunder falls back to the Company and therefore, the administrators claim that the Company must compensate the value of the relevant infrastructure. The Company has objections as to the administrators' right to cancel the contracts, the obligation by the Company to compensate the value of the infrastructure in the present circumstances and in the event the Company is required to compensate, to the amount that the Company must pay. The administrators have not submitted a claim on behalf of the now bankrupt operator but have sent to the Company a valuation report, according to which the market value of the assets of AS Coal Terminal is approximately EUR 20-26 million. Should the administrator present a claim against the Company for the compensation of the market value of the infrastructure, the Company plans to order its own evaluation to support its assumption of much lower market value of the infrastructure built on the Company's land. The potential aggregated liability of the Company may amount to EUR 20-26 million

(b) The Group is a defendant in a civil dispute with AS Saaremaa Laevakompanii and Väinamere Liinid OÜ as plaintiffs in relation to the Ferry Services Agreement. The plaintiffs allege that the Group was provided confidential information which Saaremaa Laevakompanii and Väinamere Liinid OÜ had submitted in the course of the tender and won the tender by exploiting their business secrets. AS Saaremaa Laevakompanii claims EUR15.8 million and Väinamere Liinid OÜ claims EUR 8 million, totalling EUR 23.8 million. The dispute is currently pending before the court of first instance. If the dispute is eventually ruled in favour of the plaintiffs, there is a risk of negative monetary impact in the amount of EUR 23.8 million. The Group has disclaimed liability and is defending the claim. The Company believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Therefore, a provisions has not been established with respect to the claim.

(c) Vesta Terminal Tallinn OÜ has submitted a claim against the Company to the court to declare null and void several select provisions of the cooperation agreements between the parties, in order to be exempted from annual payments related to contractual minimum cargo handling volumes. Vesta Terminal Tallinn OÜ has also submitted several alternative claims, aiming at a similar financial result, should its primary claim not be satisfied. The select provisions set the minimum cargo volumes that the customer is required to handle per calendar year and thus also set the annual minimum cargo charge obligation for the customer. With all of the customer's separate cooperation contracts combined, the annual minimum cargo charge is EUR 1.6 million. As one of the arguments to substantiate its claims Vesta Terminal Tallinn OÜ argues that the Company has abused its alleged dominant position in relation to the contractual minimum cargo handling volumes. The Company believes that the claims are not substantiated and has not considered it necessary to establish a provision to cover the claim. The dispute is being reviewed by a court of first instance and the Company has submitted a response to the action on 3 May 2018. In the event that the claim is successful, it is possible that Vesta Terminal Tallinn OÜ may reclaim from the Company certain contractual penalties connected to minimum cargo handling volumes and will not have to pay such contractual penalties in the future, which would mean that the corresponding annual revenue of the Company would decrease accordingly.

(d) Further to the proceedings listed above, the Group may become subject to a court dispute with Worldwide Cargo Establishment ("**WWCE**"), which could have significant impact on the Company's and/or the Group's financial position or profitability. On 2 April 2018 WWCE submitted a claim to the Company, threatening to start legal proceedings unless the Company returns to WWCE the contractual minimum cargo volume penalties it has paid for years 2015-2017, on the basis of the cooperation agreement signed between the parties and unless the Company declares null and void certain sections of the cooperation agreement which relate to the contractual minimum cargo volume penalties. As one of the arguments to substantiate its claims WWCE argues that the Company has abused its alleged dominant position in relation to the contractual minimum cargo handling volumes. The contractual minimum cargo volume penalties for years 2015-2017 amount to EUR 0.45 million. The annual minimum cargo charge for WWCE is EUR 0.31 million. The Company believes that the claims are not substantiated and legal advice indicates that it is not probable that a liability will arise. Therefore, the management board did not consider it necessary to establish provision to cover the claim. In the event that the claim would be submitted to court and the court would satisfy the claim, it is possible that WWCE would not have to pay the contractual penalties connected to minimum cargo handling volumes and the corresponding annual revenue of the Company would decrease accordingly in the future. Furthermore, it cannot be excluded that in court proceedings, the court could decide that the Company needs to return to WWCE all or part of the contractual penalties it has received from WWCE during the last three years.

Other proceedings to which the Group is not a party or acts as an aggrieved party, but which could have an impact on the Group, include:

(a) potential European Commission proceedings on the basis of a complaint from Väinamere Liinid OÜ, in relation to the public tender process pursuant to which the Group was awarded the Ferry Services Agreement. As at the date of this Prospectus, the European Commission is yet to make a decision on the complaint raised by Väinamere Liinid OÜ. If the European Commission were to initiate such proceedings and should the Group be associated with such proceedings, the proceedings could have a negative reputational impact on the Group. The risk that the European Commission finds that unlawful state aid was granted to the Company's wholly owned subsidiaries, OÜ TS Shipping and OÜ TS Laevad, cannot be fully excluded. Such a finding would require the Group to return the unlawful state aid together with interest and this could have a material adverse effect on the Group's operations. The exact value of the alleged unlawful state aid is unclear from the complaint and it is therefore not possible to determine the exact value of the potential recovery claim; and

(b) the criminal court proceedings against the Company's previous management board members, Mr. Ain Kaljurand and Mr. Allan Kiil, and a previous employee of the company, Mr. Martin Paide, who are being accused of bribery on a large scale and, in certain cases, money laundering, during the period 2004 – 2015 while engaged by the Group, relating to contracts entered into by the Company and TS Laevad OÜ with certain third parties. It is alleged in the criminal proceedings that the individuals in question were paid bribes of almost EUR 4 million in connection with the execution of contracts with certain third parties, potentially on terms less favourable to the Group than would otherwise have been obtained. The accusations came to light in August 2015 when Mr. Kaljurand and Mr. Kiil were arrested by the Estonian authorities, following which the Group conducted an internal investigation into the facts and circumstances relating thereto. Preliminary investigation related to the proceedings have been closed and a preliminary hearing took place in Harju county court on 26 February 2018 and the hearings are expected to start in early 2019. Neither the Company nor any of its subsidiaries nor any person currently employed by the Group has been charged with any offence in connection with these matters. The Company and TS Laevad OÜ are seeking compensation for losses arising from these matters as part of the criminal proceedings. It is alleged in the criminal proceedings that the individuals in question were paid bribes. Following the above described accusations, Group has taken steps aimed at addressing these concerns (see Part XVIII (Additional Information), section 3 (Internal Anti-Corruption Policies).

K) Limitations arising from the Group's market position

Due to the fact that the Group currently holds a dominant position in passenger operations in Estonia (international ferry passenger traffic at the Old City Harbour), the Group is subject to legal constraints and must act diligently, to avoid abusing its dominant position in the said market (e.g. potential discrimination, predatory pricing). Furthermore, as the Group may be found to hold a dominant position in other market's where the Group operates in, for example the market for cargo port services, the Group may be subject to legal constraints and diligence requirements in other markets as well.

According to EU and Estonian competition law, abuse is an objective concept relating to the behaviour of an undertaking in a dominant position. A dominant position is one that influences the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition. Consequently, dominant undertakings have a special responsibility not to let their conduct impede competition in a market where competition is already weak due to the presence of a dominant undertaking. It follows that some conduct which may be allowed for non-dominant undertakings may be prohibited for dominant undertakings. In general, the following conduct by a dominant undertaking may be considered as abusive and thus harmful to the competition on the market:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
(b) limiting production, markets or technical development to the prejudice of consumers;
(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The above list is non-exhaustive and thus, in principle, any behaviour which results in anti-competitive harm as a consequence of the dominant entity leveraging its market power may fall within the definition of an abuse of a dominant position.

As a consequence of the above, the possession of a dominant position by the Group on the international passenger ferry traffic at the Old City Harbour and the possibility that the Group may be found to hold a dominant position in other markets where the Group operates, may limit the potential market strategy of the group, by restricting its ability to leverage its entire market power. Where the Group holds a dominant position:

- the Group's ability to freely select its contractual partners is limited. In particular, harbours and infrastructure connected to harbours may be considered an essential facility, e.g. for the purposes of ferry passenger traffic. Thus, where the Group holds a dominant position, it is obliged to provide access to clients wishing to use the ports or the infrastructure connected to them on fair, reasonable and non-discriminatory terms.
- the Group's pricing conduct is limited. For example, in such markets the Group is prohibited from providing selective price cuts to the customers of competitors or otherwise discriminate against its customers, price its services below cost, enter into exclusive supply agreements, provide loyalty or loyalty inducing rebates and price its products excessively.
- the Group is limited in its ability to leverage its entire offering. For example, the Group may not tie and bundle its products together, e.g. the Group may not offer a service on a market where it is dominant bundled together with a service or product on a market where the Group does not have a dominant position.

As noted above, because the list of possible abuses is non-exhaustive, the possession of a dominant position may result in further restrictions to the market behaviour of the Group.

PART XI. MANAGEMENT

1. MANAGEMENT STRUCTURE

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the responsibility for the day-to-day management of the Company's operations lies with the Management Board. The Supervisory Council is responsible for the strategic planning of the business activities of the Company and for supervising the activities of the Management Board. Please also see Part XIII (Estonian Securities Market), section 5 (Corporate Governance).

The business address of members of the Management Board and the Supervisory Council is the registered address of the Company - Sadama tn 25, 15051 Tallinn, Estonia.

A) Management Board

The Management Board is responsible for everyday management of the Company. The key obligations of Management Board members include representing and directing the Company, adhering to the lawful instructions (resolutions) of the Supervisory Council and obtaining the consent (resolution) of the Supervisory Council for matters exceeding the scope of day-to-day business activities, submitting to the Supervisory Council a review of the Company's business activities and economic situation at least once every four months as well as notifying immediately of the material deterioration of the economic situation of the Company and other similar circumstances relating to the Company (regular reporting requirements). In addition, the Management Board is responsible for organising the accounting and compiling the annual accounts of the Company and calling and preparing meetings of shareholders. The Management Board is also required to guarantee the enforcement of the resolutions of the higher managing bodies (the Supervisory Council and the General Meeting of Shareholders).

Upon performance of their duties, the Management Board members are required to act with due diligence, performing their duties with sufficient skill and in a manner commensurate with their knowledge and abilities. The Management Board members must act to maximise the benefits to the Company and to prevent any losses.

According to the Articles of Association of the Company, the Management Board consists of two to five members elected by the Supervisory Council. Each member of the Management Board is elected for a term of up to five years.

As at the date of this Prospectus, the Management Board consists of the following members:

Name	Year of birth	Member since	Position	Current term expires
Valdo Kalm	1966	01.03.2016	Chairman	28.02.2021
Margus Vihman	1976	01.11.2016	Member	31.10.2021
Marko Raid	1976	27.08.2015	Member	17.04.2021

Mr Valdo Kalm (Chairman)

Mr Kalm was appointed a member of the Management Board as of 1 March 2016. In the last five years, Mr Kalm has served as the Supervisory Council member of AS Baltika (one of the leading fashion brand houses in the Baltics) and has acted as the management board member of Telia Eesti AS (one of the largest telecommunication companies in the Baltic States), AS EMT, Elion Ettevõtted AS, VK CO OÜ and the Baltic Ports Organisation. Mr Kalm also acts as the council member of Eesti Tööandjate Keskliit, the Estonian Employers' Confederation. Mr Kalm holds a degree equivalent to a master's degree in automatics and telemechanics from Tallinn University of Technology and has furthered his education in international management at the International Institute for Management Development in Switzerland.

Mr Margus Vihman (Chief Commercial Officer)

Mr Vihman was appointed a member of the Management Board as of 1 November 2016. In the last five years, Mr Vihman also acted as the sales and export manager of Krimelte OÜ, a company belonging to Wolf Group, a leading internationally reputable manufacturer of insulating PU foams, joint sealants, surface treatments and concrete additives. Mr Vihman holds a degree equivalent to a master's degree in business administration from the Estonian Business School and has completed an Executive Training Program in IEDC – Bled School of Management.

Mr Marko Raid (Chief Financial Officer)

Mr Raid was appointed a member of the Management Board as of 27 August 2015. Prior to being elected to the Management Board of the Company in 2015, Mr Raid worked for the Company as Chief Financial Officer. Mr Raid has not held any other relevant positions in the last five years besides working for the Company. Mr Raid holds a degree equivalent to a master's degree in international business from Concordia International University Estonia (later merged with Audentes University).

B) Supervisory Council

The Supervisory Council is responsible for the strategic planning of the activities of the Company and focuses on supervising the activities of the Management Board. The Supervisory Council informs the General Meeting of Shareholders of the results of its supervision. In addition, the Supervisory Council grants approvals to the Management Board for concluding transactions beyond day-to-day business activities, presents to the General Meeting of Shareholders written opinions on the annual accounts prepared by the Management Board and prepares the agenda of General Meetings of Shareholders. According to the Articles of Association, the functions of the Supervisory Council also include approval of the Company's annual budget and strategy.

The consent of the Supervisory Council is required for conclusion of transactions which are beyond the scope of everyday economic activities and, above all, for conclusion of transactions which bring about:

1. the acquisition or termination of holdings in other companies;
2. the foundation or dissolution of subsidiaries;
3. the acquisition or transfer of an enterprise, or the termination of its activities;
4. the transfer or encumbrance of immovables or registered movables;
5. the foundation or closure of foreign branches;
6. the making of investments exceeding a prescribed sum of expenditure for the current financial year;
7. the assumption of loans or debt obligations exceeding a prescribed sum for the current financial year; and
8. the granting of loans or the guarantee of debt obligations if this is beyond the scope of everyday economic activities.

In addition to the above, the Supervisory Council decides on the making of donation and payment of grants in accordance with the principles provided in the Articles of Association.

According to the Articles of Association, the Supervisory Council consists of six to eight members elected by the General Meeting of Shareholders for a term of up to five years. When election of the Supervisory Council members is voted on, the candidates who will receive the most votes at the General Meeting of Shareholders are elected. If two candidates receive an equal number of votes, the winning candidate will be selected by drawing lots. The Supervisory Council members before expiry of their term of office can be resolved if at least 2/3 of the votes represented at the General Meeting of Shareholders are cast in favour of such resolutions. In addition, the shareholders of the Company whose shares represent at least 1/10 of the share capital of the Company may, with good reason, request recalling of a member of the Supervisory Council by court.

Under the State Assets Act and the Articles of Association, the holding administrator of the shares belonging to the Government Shareholder (which role is currently performed by the Ministry of Economic Affairs and Communications) is entitled to make proposals for appointment and recalling of the Supervisory Council members at least in respect of such number of the Supervisory Council members that is proportional to the Government Shareholder's holding. (See also this Part XI (Management), section 1 (Management Structure), subsection B (Supervisory Council) below for information on the procedure for nomination of candidates and election and recalling of the Supervisory Council members required to be observed by the Government Shareholder under the State Assets Act and the requirements applicable to the Supervisory Council member candidates who may be put forward or supported by the Government Shareholder.

Members of the Supervisory Council elect a chairman among themselves. The chairman is responsible for organizing the activities of the Supervisory Council.

Under the Estonian Commercial Code meetings of the Supervisory Council are held when necessary but not less frequently than once every three months. A meeting of the Supervisory Council is also convened when so demanded by a member of the Supervisory Council, the Management Board, the auditor of the Company or the shareholders whose shares represent at least 1/10 of the share capital of the Company.

Meeting of the Supervisory Council has quorum when more than half of the members of the Supervisory Council are present. Resolutions of the Supervisory Council adopted at the meeting require simple majority of votes. The Supervisory Council may also adopt resolutions without convening a meeting if all members of the Supervisory Council consent to this. In order to adopt a resolution of the Supervisory Council without convening a meeting, more than half of all votes of the members of the Supervisory Council must be in favour. Under the Estonian Commercial Code and the Articles of Association, a written resolution signed by all members of the Supervisory Council is considered equal to a resolution adopted at a physical meeting convened and held as required under the law and the Articles of Association.

As at the date of this Prospectus, the Supervisory Council consists of six members:

Name	Citizenship	Year of birth	Member since	Position	Current term expires
Aare Tark	Estonian	1959	03.10.2015	Chairman	08.09.2020
Ahti Kuningas	Estonian	1977	08.09.2017	Member	08.09.2020
Maarika Liivamägi	Estonian	1971	17.04.2018	Member	08.09.2020
Raigo Uukkivi	Estonian	1979	08.09.2017	Member	08.09.2020
Urmas Kaarlep	Estonian	1963	03.10.2015	Member	08.09.2020
Üllar Jaaksoo	Estonian	1971	03.10.2015	Member	08.09.2020

Mr Aare Tark (Chairman)

Mr Tark has been a member of the Supervisory Council since 3 October 2015. In the last five years, Mr Tark has acted as the management board member of Law Firm Tark and Eesti Pereettevõtjate Liit MTÜ (Non-profit Association of Family Businesses). In addition, Mr Tark has been engaged as the supervisory council member of the mobile service provider AS Eesti Telekom (current business name Telia Eesti AS) and AS Saku Metall (a metal processing company). In the last five years, Mr Tark has also acted as the supervisory council member of Telia Eesti AS. Mr Tark holds a master's degree in law from Tartu University. Mr Tark is an independent member of the Supervisory Council within the meaning of the Estonian Corporate Governance Recommendations.

Mr Ahti Kuningas (Member)

Mr Kuningas has been a member of the Supervisory Council since 8 September 2017. Mr Kuningas is the deputy State Secretary of transportation, Ministry of Economic Affairs and Communications. In the last five years Mr Kuningas has acted as the supervisory council member of Ettevõtluse Arendamise Sihtasutus (Enterprise Estonia), AS EVR Cargo (the biggest Estonian railway transport company) and AS Estonian Air (the flag carrier airline of Estonia until 2015). Mr Kuningas holds a master's degree in enterprise management from Tartu University.

Ms Maarika Liivamägi (Member)

Ms Liivamägi has been a member of the Supervisory Council since 17 April 2018. Ms Liivamägi also acts as the CEO of Eesti Hotellide ja Restoranide Liit, the Estonian Hotel and Restaurant Association, as a management board member of New Seven OÜ and as an active mentor in Eesti Mentorite Koda (a non-profit association of mentors). In the last five years, Ms Liivamägi has also been engaged as the management board member of ERGO Insurance SE, as branch manager of ERGO Life Insurance SE Estonian Branch, and as a supervisory council member of Kindlustusseltside Liit and Ergo Funds AS. Ms Liivamägi holds a master's degree in business administration from Tallinn University of Technology. Ms Liivamägi is an independent member of the Supervisory Council within the meaning of the Estonian Corporate Governance Recommendations.

Mr Raigo Uukkivi (Member)

Mr. Uukkivi has been a member of the Supervisory Council since 8 September 2017. Mr Uukkivi also acts as the supervisory council member of AS Eesti Raudtee, the Estonian national railway company. Mr Ukkivi serves as the Deputy State Secretary of the Ministry of Finance since 2017. In the last five years, Mr Uukkivi has served also as a member of the supervisory authority of the Body of European Regulators for Electronic Communications, European Union Agency of Railways and as the Head of Estonian Technical Surveillance Authority. Mr Uukkivi holds a master's degree in public administration from Tartu University and is currently pursuing a PhD in transport and logistics from Tallinn University of Technology.

Mr Urmas Kaarlep (Member)

Mr Kaarlep has been a member of the Supervisory Council since 3 October 2015. Mr Kaarlep is a partner of PricewaterhouseCoopers Eastern Europe and a member of the audit committee of the regional central securities depository in the Baltics Nasdaq CSD SE and Versobank AS. In addition, Mr Kaarep acts as the member of the supervisory council of Prike AS, a sales and marketing company of beverages, and Wallester AS, a provider of credit card solutions. Mr Kaarlep is also a management board member of OÜ VALDO-R and Bee Dance OÜ. In the last five years, Mr. Kaarlep also acted as the member of the supervisory council of the credit provider Finora Kapital OÜ, AS PriceWaterhouseCoopers Advisors and AS PricewaterhouseCoopers as well as the member of the management board of Hahnenkamm OÜ. Mr Kaarlep holds a master's degree in international business studies from Estonian Business School and a degree in economics and organisation of mechanical engineering from Tallinn University of Technology. Mr Kaarlep is an independent member of the Supervisory Council within the meaning of the Estonian Corporate Governance Recommendations.

Mr Üllar Jaaksoo (Member)

Mr Jaaksoo has been a member of the Supervisory Council since 3 October 2015. In the last five years Mr Jaaksoo has acted as the management board member of NOW! Innovations, a payment and billing platform provider for parking and other mobility services. In his earlier career, Mr Jaaksoo has acted as the management board member of various major Estonian companies, including AS Eesti Hoiupank (a bank), AS Ajakirjade Kirjastus (market leader of the Estonian magazine publishing), AS Tele2 Eesti (a telecommunications' service provider) and AS Sportland (a sports' retail chain operator). Mr Jaaksoo is a member of the management board of Lammas ja Sammal OÜ. In the last five years, Mr Jaaksoo has also acted as the management board member of OÜ Doktor Kraft-Jaaksoo, eKool AS, K12 Technologies OÜ, PayNOW! OÜ and RKEJ Invest OÜ. Mr Jaaksoo holds a master's degree in economics from Tartu

University and has completed an Accelerated Development Program at London Business School. Mr Jaaksoo is an independent member of the Supervisory Council within the meaning of the Estonian Corporate Governance Recommendations.

(a) Role of the Nomination Committee in electing and recalling the Supervisory Council

Pursuant to the State Assets Act, when voting on behalf of the Government Shareholder on (i) the election or recalling of the members of the Supervisory Council and (ii) determining the number of the members in the Supervisory Council and the term of their office, the holding administrator of the shares belonging to the Government Shareholder (which role is currently performed by the Ministry of Economic Affairs and Communications) must be guided by the proposals of the Nomination Committee, a special committee formed by the Government of the Republic of Estonia. The holding administrator may reject the proposal made by the Nomination Committee with a good reason. In such a case the Nomination Committee must within 15 business days submit a new proposal.

The Nomination Committee consists of up to seven members.

Four members of the Nomination Committee are appointed by an order of the Government of the Republic of Estonia once every three years on the proposals from (i) a private sector organisation designated by the Government of the Republic of Estonia, (ii) the minister responsible for the relevant area of operations and (ii) two ministers designated by the Prime Minister of the Republic of Estonia. The relevant four members must meet all the following requirements:

- must be recognised as business or management experts having long-term international experience and an unblemished professional and business reputation;
- must not have served as members of the Nomination Committee during the previous three years;
- must not have a substantive conflict of interest with the company;
- must keep confidential any business secrets or personal information that they become privy to as part of their participation in the Nomination Committee; and
- have submitted to the minister responsible for the relevant area of operations a declaration of interests as required by the Anti-Corruption Act.

The Chairman of the Nomination Committee is elected by its members among the four expert members referred to above.

The remaining members of the Nomination Committee are ex officio members that include the Secretary-General of the Ministry of Finance, the Secretary-General of the ministry acting as a holding administrator for the relevant (partially) state-owned company and, in discussing working arrangements or the Nomination Committee or proposals concerning supervisory council of a company the state shareholding in which is administered by the Ministry of Finance, also the Secretary-General of the Ministry of Economic Affairs and Communications.

The task of the Nomination Committee is to make proposals to the holding administrator acting on behalf of the Government Shareholder in relation to the following (taking into account the particulars of the Company):

1) the selection of candidates for members and for the chairman of the Supervisory Council, and the recalling of members from the Supervisory Council;

2) the number of members in the Supervisory Council, and the length of their term of office;

3) the remuneration payable to members of the Supervisory Council.

When proposing candidates for the Supervisory Council positions, the Nomination Committee must be guided by the requirements to the candidates set out in the State Assets Act, including that the relevant candidates must possess the knowledge and experience required to perform the duties of the office, taking into account the area of activity and financial sector in which the Company operates and must be capable of acting with the degree of care expected of the candidate for that office and in accordance with the requirements of the office, taking into account the aims and interests of the Company, and the need to ensure effective protection of the interests of the Government Shareholder as the shareholder. According to the explanatory notes to the amendments to the State Assets Act that came into force on 7 April 2018, the latter requirement should not, however, be applied to safeguard public interests of the Government Shareholder that are not in accordance with interests of other shareholders and should be read in conjunction with the exception stipulated in Section 2 (9) of the State Assets Act.[11]

Other requirements to the Supervisory Council member candidates that the Nomination Committee must take into account include the absence of conflict of interest with the Company and requirements as to the business reputation of the candidate (such requirements are further detailed in the State Assets Act and also listed in the Articles of Association of the Company).

The Nomination Committee is required to assess the suitability of candidates to the Supervisory Council, including the absence of conflicts of interest and may involve, where necessary, representatives of non-governmental organisations, industry experts and other persons in the preparation of the relevant analysis and the drawing up of assessments.

C) Other Key Executives

As at the date of this Prospectus, the other key executives of the Group include:

Name	Year of birth	Position
Peeter Nõgu	1968	Manager of Development of Infrastructure
Lembit Visnapuu	1946	Manager of Administration of Infrastructure
Hanno Hussar	1970	Head of IT
Sirle Arro	1973	Head of Marketing and Communication Department
Kristi Vinkel	1975	Head of Internal Audit Department
Egle Saska	1974	Head of Human Resources
Erly Lüdig	1978	Head of Legal Department

Mr Peeter Nõgu (Manager of Development of Infrastructure)

In the last five years, Mr Nõgu has not held any other offices besides being the Manager of Development of Infrastructure of the Company. Mr Nõgu holds a degree equivalent to a master's degree in engineering from Tallinn University of Technology.

Mr Lembit Visnapuu (Manager of Administration of Infrastructure)

In addition to his engagement as the Manager of Administration of Infrastructure, Mr Visnapuu has, in different periods, served as the management board and supervisory council member of another Group company (TS Energia OÜ). Mr Visnapuu holds a ship manager certificate from the Tallinn Maritime School and a degree in maritime law from Tartu University.

Mr Hanno Hussar (Head of IT)

In the last five years, Mr Hussar has served as the management board member of Starman AS (a major Estonian internet and television service provider that was recently merged with Elisa Eesti AS), Elisa Teleteenused, AS, Changelogic OÜ, Webmedia OÜ, Nortal AS and Husaar Services OÜ. Mr Hussar holds a bachelor's degree in mathematics from Tartu University and has completed an International Executive Program at Insead, a graduate business school.

[11] Pursuant to the relevant Section, the provisions of the State Assets Act that are not in accordance with the requirements applicable on a regulated securities market with respect to governance, disclosure of information and conducting of a special audit shall not apply to companies with state holding whose shares are admitted to trading on the regulated securities market or where an application has been submitted for admission of the shares of that company to trading on the regulated securities market.

Ms Sirle Arro (Head of Marketing and Communication Department)

In the last five years, Ms Arro has not held any other positions in addition to being the Head of Marketing and Communication Department of the Company. Ms Arro holds a bachelor's degree in business administration from Tallinn University of Technology and a master's degree in management and marketing from Tallinn University of Technology.

Ms Kristi Vinkel (Head of Internal Audit Department)

In addition to her role in the Company, Kristi Vinkel is a management board member of OÜ Krimar and a supervisory council member of AS Exact Geomark. Ms Vinkel holds a bachelor's degree in law from Tartu University and a master's degree in international business management from the Estonian Business School.

Ms Egle Saska (Head of Human Resources)

Prior to taking the position of the Head of Human Resources of the Company, Ms Saska worked as the Head of Human Resources in AS Eesti Raudtee, the national railway company. Ms Saska is also a management board member of Sajoko OÜ. Ms Saska holds a master's degree in organisational behaviour from the Tallinn University. Ms Saska also holds a diploma in law studies from Tallinn School of Economics as well as a diploma in economy from Tallinn University of Technology. Ms Saska has also obtained a certificate in personnel management.

Ms Erly Lüdig (Head of Legal Department)

Prior to taking the position of the Head of Legal Department of the Company, Ms Lüdig worked as the Head of Legal Department in retail store chain operator Maxima Eesti OÜ as well as the lawyer of one of the biggest commercial real estate developers in the Baltic States E.L.L. Kinnisvara AS. Ms Lüdig also acts as the management board member of OÜ Express Control. In the last five years, Ms Lüdig has also acted as the management board member of Investment Tegevus OÜ and the supervisory council member of Viru Väljaku Arenduse AS. Ms Lüdig holds a master's degree in business administration from Tallinn University of Technology as well as a master's degree in law from University Nord.

D) Committees

(a) Audit Committee

The Company has an Audit Committee, which is an advisory body formed by and subject to the monitoring of the Supervisory Council. The Company has formed an Audit Committee in accordance with the requirements of the Auditors' Activities Act. The function of an Audit Committee is to monitor and analyse:

1) processing of financial information;

2) efficiency of risk management and internal control;

3) the process of auditing of annual accounts or consolidated accounts; and

4) independence of an audit firm and a sworn auditor representing an audit firm and the compliance of their activities with other requirements of the Auditors' Activities Act and, where appropriate, with requirements of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

The Audit Committee must have at least two members, at least one of whom shall be an expert in accounting or auditing. The Audit Committee as a whole must have competence in the relevant sector in which the audited entity operates. The following persons may not be appointed as members of the Audit Committee: a person entitled to manage everyday business and make transactions, a procurator, an internal auditor and a person performing the audit of the Company.

According to the Auditors' Activities Act, the majority of the Audit Committee members, including the chairman of the Audit Committee, must be independent of the Company as the entity audited by the Audit

Committee, except in the case where all the Audit Committee members are also members of the body that formed the committee. The Chairman of the Supervisory Council of the Company may not act as the Chairman of the Audit Committee.

The Audit Committee of the Company includes three members elected for up to three years by the Supervisory Council. Currently, the following persons act as members of the Audit Committee of the Company: Urmas Kaarlep (Chairman of the Audit Committee, current independent member of the Supervisory Council), Kati Kusmin (former member of the Supervisory Council, recently recalled by the General Meeting of Shareholders) and Raigo Uukkivi (current member of the Supervisory Council). Due to replacement of Kati Kusmin in the Supervisory Council of the Company as of 17 April 2018, the Supervisory Council may consider replacing Ms Kusmin also in the Audit Committee. No definitive decision has yet been taken in this respect.

Please see Part XI (Management), section 1 (Management Structure), subsection B (Supervisory Council) for the *curriculum vitae* information of Urmas Kaarlep and Raigo Uukkivi. The *curriculum vitae* information of Kati Kusmin is set out below.

Ms Kati Kusmin (Member)

Ms Kusmin has been a member of the Audit Committee since 17 October 2017. In the last five years, Ms Kusmin has been the management board member of Eesti Kaupmeeste Liit MTÜ (Estonian Traders Association), AS Baltika (one of the leading fashion brand houses in the Baltics), OÜ Baltika Retail and Silvano Fashion Group AS, a publicly listed international lingerie distributor as well as the supervisory council member of OÜ Baltman. Ms Kusmin currently serves as the chairman of the management board of Riigi Kinnisvara AS, a provider of real estate services to the executors of state authority, since December 2017, and as a management board member of Talentex OÜ. Ms Kusmin holds a bachelor degree in economics from Tallinn University of Technology.

(b) Remuneration Committee

The Company does not have a remuneration committee.

E) Internal Auditor

The Company is obliged to create a position of internal auditor or to commission the services of an internal auditor[12]. The Company has formed an Internal Audit Department, engaged in auditing of the activities of the Company and advising the managing bodies and employees on risk management. The internal auditor of the Company reports to the Audit Committee and the Supervisory Board.

According to the Auditors' Activities Act, professional activities of an internal auditor are independent, objective activities providing assurance and advice which are aimed to add value to and improve the activities of the Company. The activities of an internal auditor must facilitate the achievement of the objectives of the Company. An internal auditor is required to approach the assessment and improvement of the efficiency of risk management, control and management processes in a systematic, regular and consistent manner. One of the objects of the professional activities of an internal auditor is internal control as a system and concurrently the efficiency of an internal audit as a process is analysed and the compliance thereof to the requirements provided for in legislation is assessed.

In their activities, the internal auditors must abide by:

1) the standards prepared pursuant to the principles of the Institute of Internal Auditors and on the basis of the international standards for internal auditing;

[12] The relevant obligation applies if on the balance sheet date of the reporting year at least two of the following three conditions exceed the following thresholds calculated on consolidated basis: (i) sales revenue at least six million euros; (ii) balance sheet total at least three million euros and (iii) the number of employees at least 75.

2) other standards relating to professional practice of internal auditors in the part which is not covered by the above international standards.

Currently, Kristi Vinkel serves as Head of the Internal Audit Department of the Company.

F) Observance of the Corporate Governance Recommendations

In its corporate governance matters the Company observes the provisions of the Commercial Code of Estonia. In addition, the Company as a company wholly-owned by the Government Shareholder has been complying with the corporate governance rules set out in the State Assets Act. Due to the Government Shareholder's majority holding in the Company, the principal rules that will continue to apply with the respect to the corporate governance of the Company after the Listing are summarised above in this Part XI (Management), section 1 (Management Structure) and in Part XII (Information on Company, Shares and Share Capital), section 3 (Shareholder of the Company). The Company has also adopted work procedure rules for all managing bodies to further specify the division of assignments and resolution-making within the Management Board, Supervisory Council and Audit Committee. Members of managing bodies and the key executives are also required to adhere to internal policy on avoiding conflicts of interests in the business dealings.

Further to the above, the Company mostly follows the principles of good corporate governance arising from the Estonian Corporate Governance Recommendations (the **"CGR"**) as adopted by the Estonian Financial Supervision Authority and the relevant reports are published as part of the annual reports of the Company. The CGR is binding on the basis of "comply or explain principle". The requirements which were not fully followed by the Company during the business year are described in its Corporate Governance Report made available in the audited consolidated financial statements of the Group. The guidelines that the Company did not observe in 2017 and the explanations for such non-compliance are set out under Note 9 of the 2017 Audited Financial Statements. Non-compliance with the relevant guidelines of the CGR mostly pertained to the procedure for calling and holding the General Meeting and the election of the members of the Supervisory Council that emanates from the Company having the Government Shareholder as its sole shareholder. The Company intends to comply with the CGR after the Listing.

2. MANAGEMENT HOLDINGS

None of the members of the Supervisory Council or the Management Board nor any of the other key executives owns any Shares in the Company as at the date of this Prospectus.

3. MANAGEMENT REMUNERATION AND BENEFITS

A) Remuneration and benefits paid by the Company

For 2017, the Company paid remuneration to its Management Board members in the aggregate amount of EUR 305,000 (gross). The Company also paid remuneration to its Supervisory Council members for 2017 in the aggregate amount of EUR 40,500 (gross).

The Company pays monthly remuneration to the chairman of the Management Board Mr Valdo Kalm in the amount of EUR 10,000 (gross). The Company may also pay annual bonus to Mr Kalm in the amount of up to fourfold average monthly remuneration paid in the previous financial year. In addition, the Company provides a business car to Mr Kalm which may be used also for personal purposes. The Company covers the leasing expenses of the business car in the amount of up to EUR 750 per month (+ VAT) as well as the tax expenses relating to personal use of the car. In the case of termination of the Service Agreement without material reason, the Company must inform Mr. Kalm at least 3 months in advance and must pay severance fee to Mr Kalm in the amount of his three months' remuneration.

According to the service agreements concluded with the members of the Management Board they are required to abstain, during 12 months following the termination of their service, from acting as an employee, public servant, consultant, self-employed person as well as concluding employment contracts, service agreements or other agreements under civil law, participate in the management or conclude cooperation agreements with competitors of the Company, i.e. companies which engage in operating ports or provision of port services in any Scandinavian, Baltic or Russian ports. A compensation in the amount of 50% of service fee is to be paid to the members of the Management Board for the compliance with the above-referred non-compete undertaking during the relevant period.

The Company pays monthly remuneration to the Management Board member Mr Marko Raid in the amount of EUR 8,000 (gross). The Company may also pay annual bonus to Mr Raid in the amount of up to fourfold average monthly remuneration paid in the previous financial year. In addition, the Company provides a business car to Mr Raid which may be used also for personal purposes. The Company covers the leasing expenses of the business car in the amount of up to EUR 700 per month (+ VAT) as well as the tax expenses relating to personal use of the car. In the case of termination of the Service Agreement without material reason, the Company pays severance fee to Mr Raid in the amount of his three months' remuneration.

The Company pays monthly remuneration to the Management Board member Mr Margus Vihman in the amount of EUR 7,500 (gross). The Company may also pay annual bonus to Mr Vihman in the amount of up to fourfold average monthly remuneration paid in the previous financial year. In addition, the Company provides a business car to Mr Vihman which may be used also for personal purposes. The Company covers the leasing expenses of the business car in the amount of up to EUR 700 per month (+ VAT) as well as the tax expenses relating to personal use of the car. In the case of termination of the Service Agreement without material reason, the Company pays severance fee to Mr Vihman in the amount of his three months' remuneration.

The Company also pays monthly remuneration to the Supervisory Council members in the amount of EUR 750 (gross) each, and to the chairman of the Supervisory Council in the amount of EUR 1,500 (gross).

B) Remuneration and benefits paid by the other Group companies

TS Laevad pays remuneration in the amount of EUR 4,500 to Jaak Kaabel and EUR 4,000 to Mart Loik and Pille Kauber. Remuneration is also paid to the Supervisory Council members of TS Laevad who are not members of the managing bodies of the Company as follows: EUR 236.47 (gross) per month to the Chairman of the Supervisory Council and EUR 118.24 (gross) to each of the members of the Supervisory Council. In the case of termination of the Service Agreement without material reason, the Company pays severance fee to the Management Board members in the amount of the member's three months' remuneration.

TS Shipping pays monthly remuneration to its Management Board member Ülo Eero in the amount of EUR 8,100 (gross) until the Clarkson Offshore Index reaches 89 points but not longer than until 1 May 2018. From such date onwards, the remuneration will be EUR 9,500 (gross). Remuneration is also paid to the Supervisory Council members who are not members of the managing bodies of the Company as follows: EUR 472.95 (gross) per month to the Chairman of the Supervisory Council and EUR 354.71 (gross) to each of the members of the Supervisory Council. In the case of termination of the Service Agreement without material reason, the Company pays severance fee to Mr Eero in the amount of his three months' remuneration.

Green Marine pays remuneration in the amount of EUR 3,800 (gross) to each of its Management Board members Carl-Jüri Piht and Aivar Sülla. Remuneration is paid also to the Supervisory Council members as follows: EUR 354.71 (gross) per month to the Chairman of the Supervisory Council and EUR 236.47 (gross) to each other member of the Supervisory Council. Remuneration is not paid to the Supervisory Council members who are also members of the managing bodies of the Company.

The Company and its subsidiaries have not set aside nor accrued any amounts to provide pensions, retirement or any other similar benefits, as the Company and its subsidiaries have not established (and are not obliged to establish) any programmes or plans for pensions, retirement or any other similar benefits.

4. CONFLICT OF INTERESTS OF SUPERVISORY COUNCIL MEMBERS, MANAGEMENT BOARD MEMBERS AND KEY EXECUTIVES

The Management Board is not aware of any conflicts of interest or potential conflicts of interest between any duties of members of the Supervisory Council, the Management Board and other key executives to the Group and their private interests and other duties. The Management Board does not consider any position held by any member of the Management Board or Supervisory Council or other Key Executive referred to in this Part XI (Management) as raising any conflicts of interest or potential conflicts of interest.

5. OTHER LEGAL ISSUES AND DECLARATIONS

The Management Board is not aware of any convictions in relation to fraudulent offences with respect to the current members of the Supervisory Council, the Management Board or other key executives of the Group. The Management Board is not also aware that any official public incrimination and/or sanctions of any of the members of the Supervisory Council, Management Board or other key executives by statutory or regulatory authorities (including designated professional bodies) and that any such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between the key executives and/or members of the Management Board and/or Supervisory Council and/or other members of administrative, management, and supervisory bodies and other senior management of the Group.

The Management Board is not aware of any liquidations or bankruptcies of companies in which any of the members of the Supervisory Council, Management Board or other key executives has acted as a member of the supervisory, management or administrative body at any time in the previous five years, except for the bankruptcy of AS Estonian Air in which Mr Ahti Kuningas served as a member of the supervisory council. AS Estonian Air was the flag carrier airline of Estonia between 1991 and 2015 which went bankrupt after the European Commission declared the government funding received by the airline illegal.

PART XII. INFORMATION ON COMPANY, SHARES AND SHARE CAPITAL

1. GENERAL INFORMATION ON THE COMPANY

The legal (business) name of the Company is aktsiaselts TALLINNA SADAM. The Company is a public limited liability company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered with the Estonian Commercial Register under registration code 10137319. The Company's registered office is in Tallinn, Estonia at the address Sadama 25, Tallinn, 15051, Estonia, telephone (+372) 6 31 8555.

The Company was registered in the Estonian Commercial Register on 5 November 1996. The Company has been established for an indefinite term. The financial year of the Company starts on 1 January and closes on 31 December. The Company's principal field of activity is provision of port and waterway operation services. The Company does not intend to change its principal field of activity in 2018.

The Company is the operating parent company of the Group. See Part X (Business), section 4 (Group's Structure) for further information on the shareholdings of the Company.

2. INFORMATION ON SHARE CAPITAL AND SHARES

As at the date of this Prospectus, the Company's registered share capital is EUR 187,595,032 divided into 187,595,032 authorised, fully paid and issued Shares with a nominal value of EUR 1 each. The existing Shares have been issued under the laws of the Republic of Estonia. All existing Shares have been fully paid for. All existing Shares rank *pari passu* in all respects with each other. The Shares are registered in book-entry form in the Estonian Register of Securities (ERS) maintained by Nasdaq CSD Estonian branch, under ISIN EE3100021635.

Free transferability of the Shares has not been restricted in the Company's Articles of Association, nor are the Shares subject to any general transfer restrictions.

As at the date of this Prospectus the Shares of the Company are not listed or admitted to trading on any regulated market.

3. SHAREHOLDER OF THE COMPANY

As at the date of this Prospectus, the sole shareholder of the Company is the Republic of Estonia acting through the Ministry of Economic Affairs and Communications. Pursuant to the list of shareholders of the Company as maintained by the ERS, as at the date of this Prospectus all shares of the Company were held in a single securities' account of the Ministry of Economic Affairs and Communications (acting for and, for the purposes of the ERS in the capacity of, the Government Shareholder).

Name of the owner	Balance (No. of Shares)	Holding in the Company (%)	Type of securities' account
Ministry of Economic Affairs and Communications	187,595,032	100%	ordinary account

Following the completion of the Offering, the shareholding in the Company owned by the Government Shareholder shall be reduced as decribed in Part XII (Information on Company, Shares and Share Capital), section 5 (Issue of New Shares and Dilution). As at the date of this Prospectus the Management is not aware of any arrangements the operation of which may at a subsequent date result in a change in control over the Company.

The Government Shareholder of the Company does not have voting rights different from those described in Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights) .

In addition to the Commercial Code and the Articles of Association of the Company, the participation in the Company and exercise by the Government Shareholder of the shareholders' rights, as well as dealing by the Government Shareholder with the Shares of the Company is subject to the provisions of the State Assets Act. The State Assets Act regulates, among other, the decisions and actions that the Ministry of Economic Affairs and Communications may vote on, when exercising the voting rights attached to the Shares belonging to the Government Shareholder, only with the prior authorisation from Government of the Republic of Estonia, the procedure for appointment by the Government Shareholder of the candidates to the Supervisory Council of the Company and the requirements to such candidates, the requirements to the Articles of Association of the Company as a company with a state majority interest and the requirements for submission of information concerning the business and affairs of the Group to the Government Shareholder. On 7 April 2018, the Act Amending the State Assets Act came into force, pursuant to which the provisions of the State Assets Act that are not in accordance with the requirements applicable on a regulated securities market with respect to governance, disclosure of information and conducting of a special audit by companies whose shares are admitted to trading on the regulated securities market or for admission of which an application has been submitted, shall not be applied. With the relevant amendments to the State Assets Act, after submitting the application for the admission of the Shares to trading on Tallinn Stock Exchange, the Company is entitled to rely on the above-mentioned exemption and accordingly, refrain from the fulfilment of the obligations under the State Assets Act which conflict the requirements with respect to governance, disclosure of information and conducting of a special audit.

The Minister of Economic Affairs and Infrastructure has on 19 April 2018 approved a policy document titled "State's primary objectives in connection with the majority interest in AS Tallinna Sadam" which outlines the considerations and objectives of the Government Shareholder as a shareholder of the Company in relation to holding the interest and exercising its shareholders rights in the Company. The document includes strategic as well as financial objectives (for the Government Shareholder's expectation on dividends to be paid by the Company, see Part VI (Dividends and Dividend Policy) that the Government Shareholder sets as a policy for its participation in the Company, which include:

- the Government Shareholder's shareholding in the Company earns income to the Government Shareholder;
- the Company, as the largest port operator has an important role in procuring the provision of port services, which are important from the perspective of public interests and through its activities can develop and influence the Estonian entrepreneurial environment in the field of port services;
- TS Laevad OÜ, a subsidiary of the Company, is obliged to provide ice-breaking services under the agreement entered into with the EMA (see Part XVIII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements)), using its multifunctional ice-breaker Botnica, and could possibly be interested in participating in future tenders for ice-breaking services by the State of Estonia;
- TS Laevad OÜ, a subsidiary of the Company, is obliged to provide ferry services under the agreement entered into with the ERA (see Part XVIII (Additional Information), section 1 (Material Contracts), subsection B (Financing Agreements)), using its four new built ferries Tiiu, Leiger, Tõll and Piret, and using the fifth ferry Regula (a used ferry acquired by TS Laevad OÜ) as backup, and could possibly be interested in participating in future tenders for ferry services by the Republic of Estonia; and
- the Company owns a substantial amount of real estate of strategic importance in the Old City Harbour (which is in the Tallinn city centre), as well as in Muuga Harbour and Paldiski South Harbour.

The document further states that upon exercising its rights as a shareholder of the Company (see Part XII (Information on Company, Shares and Share Capital), section 7 (Shareholder Rights) the Government Shareholder is guided by the following main goals:

- earning optimal and stable income from its shareholding, by the profitable, sustainable and effective activities of the Company in each chosen field of activity;
- inclusion of the Company in the fulfilment of the strategic goals of the State, taking into account the area of activity of the Company and commercial interests, as well as the laws and regulations applicable to the Company; and
- promotion and execution of good corporate governance, corporate social responsibility and exceptional business culture.

The document "State's primary objectives in connection with the shareholding in AS Tallinna Sadam" prescribes that the goals established in the document will be reviewed and updated (if needed) by the Government Shareholder once a year.

4. CHANGES IN THE SHARE CAPITAL

Since the registration of the Company in the Estonian Commercial Register on 5 November 1996, the amount of the share capital has changed as follows:

	Change in share capital	**New share capital**	**Registered in the Commercial Register**
Registration of the Company in the Commercial Register		EEK 1,350,000,000	5 November 1996
Increase of share capital	+EEK 1,400,000,000	EEK 2,750,000,000	27 October 1999
Decrease of share capital	-EEK 100,000,000	EEK 2,650,000,000	29 January 2003
Increase of share capital	+EEK 100,000,000	EEK 2,750,000,000	28 May 2004
Increase of share capital	+EEK 10	EEK 2,750,000,010	18 April 2006
Increase of share capital	+EEK 5,619,000	EEK 2,755,619,010	15 August 2006
Increase of share capital	+EEK 21,750,000	EEK 2,777,369,010	18 April 2007
Increase of share capital	+EEK 8,835,000	EEK 2,786,204,010	2 November 2007
Increase of share capital	+EEK 81,400,000	EEK 2,867,604,010	12 October 2010
Conversion to EUR	+EUR0.4	EUR183,273,300	13 May 2011
Increase of share capital	+EUR600,000	EUR183,873,300	31 August 2011
Increase of share capital	+EUR2	EUR183,873,302	19 June 2012
Increase of share capital	+EUR9,000	EUR183,882,302	19 December 2012
Increase of share capital	+EUR1,320,730	EUR185,203,032	31 October 2013
Increase of share capital	+EUR 2,392,000	EUR187,595,032	20 April 2018

5. ISSUE OF NEW SHARES AND DILUTION

In the Offering the Company offers up to 75,404,968 New Shares. The New Shares will be of the same class as all existing Shares and will also be registered in the book-entry form in the ERS under ISIN code EE3100021635 (during the Offering, the New Shares will have a temporary ISIN, which will be changed to the permanent ISIN EE3100021635 before the Settlement occurs). Please also see Part XII (Information on Company, Shares and Share Capital), section 2 (Information on Share Capital and Shares).

The New Shares will be issued and registered in the ERS pursuant to a resolution of the Management Board to be made after the end of the Offer Period in reliance on the Resolution on the conditional increase the share capital of the Company expected to be adopted by the General Meeting of Shareholders (for details please see Part III (The Offering). The Management Board will be entitled to resolve to issue the New Shares provided that the conditional increase of the share capital of the Company has been registered with the Estonian Commercial Register and that the New Shares are fully paid for. The Company expects to submit necessary application for the registration of the conditional increase of share capital to the Commercial Register on 25 May 2018.

Following the completion of the Offering assuming that all offered New Shares will be subscribed for and issued and all Secondary Shares sold, the Offer Shares will represent approximately 32.97% of the Company's share capital (provided that all Secondary Shares remain in public hands), or 28.67% of the Company's share capital if all Secondary Shares are sold back to the Government Shareholder in accordance with the terms of the Put Option.

6. OPTION RIGHTS, CONVERTIBLE SECURITIES AND SECURITIES WITH WARRANTS

Unless the Articles of Association explicitly authorise the Management Board or Supervisory Council to increase the share capital, only the General Meeting of the Shareholders has the right to decide on capital changes. According to Estonian law, convertible bonds are the only debt instrument that provide conversion right into the company's shares. The general meeting of shareholders can decide on the issue of convertible bonds, if the Articles of Association allow this.

In addition to the above, share subscription rights may be granted to the employees and members of managing bodies of the company, if so decided by the general meeting of shareholders.

The Company's Articles of Association allow the Company to issue convertible bonds. The Company has not issued any convertible bonds or option rights, securities or warrants, capital loans or other securities or instruments convertible into Shares.

7. SHAREHOLDER RIGHTS

A) Right to participate in general meetings of shareholders

Under the Estonian Commercial Code, shareholders exercise their right to decide on corporate matters at general meetings of shareholders. The general meeting of shareholders considers, among other things, the annual report and the distribution of profits, election and recall of the Supervisory Council members, appointment of auditors and special controller. Resolutions may be adopted at either annual or extraordinary general meetings.

According to the Articles of Association of the Company, an annual general meeting of shareholders must be held, if possible, within four months after the end of a financial year, but in any case within six months at the latest. An extraordinary general meeting of shareholders must be convened in cases set forth by the Estonian Commercial Code, for example, if the net assets decrease below the legally required minimum level, if the Supervisory Council, the auditor of the company or shareholders whose shares represent at least one-twentieth of the share capital (one-tenth in case of non-listed companies) make such a request to the Management Board, or if this is clearly in the interests of the company. If the Management Board does not convene an extraordinary general meeting within one month following the receipt of a request of one or more shareholders, the Supervisory Council or the auditor, the person or the persons who have submitted the respective request are entitled to convene an extraordinary general meeting themselves.

Notices to convene annual general meetings of shareholders must be given at least three weeks prior to the meeting (one week in case of extraordinary general meeting of a non-listed company). Meeting notices must be sent to shareholders by registered mail to their registered addresses (entered in the shareholders' register of the company as maintained in the ERS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such other address. Notices may be sent also by unregistered mail, fax or e-mail provided that the letter, fax or e-mail is accompanied by a notice requesting the recipient to immediately return the confirmation of receipt to the Management Board. However, if the company has more than 50 shareholders, notices need not be sent to shareholders, but must be published in at least one national daily newspaper in Estonia. A listed company must additionally publish the notice via methods that ensure fast access to the information contained therein, using media that can be assumed to effectively transmit information to the public within the entire European Union. A listed company must public the notice through the information system of Tallinn Stock Exchange.

Agenda of the general meetings of shareholders is determined by the Supervisory Council. If, however, the shareholders or the auditor convene a general meeting of shareholders, they also determine the agenda of that meeting. The Management Board or one or more shareholders whose shares represent at least one-tenth of the share capital of the company - one twentieth in case of listed companies - are entitled to request that additional items be included on the agenda of an ordinary general meeting of shareholders, if such a request is made not later than 15 calendar days before the day of the general meeting. In addition, they can make resolution proposals on items listed in the agenda.

If, upon convening a general meeting of shareholders, the requirements of law or the articles of association have been materially breached, no decision may be adopted at the meeting unless all shareholders participate or are represented at the meeting. Resolutions adopted at such meeting are void unless the shareholders with respect to whom the procedure for calling the meeting was breached approve the resolutions.

Shareholders may vote on items that were previously not included on the agenda at the approval of at least nine-tenths of the shareholders participating in the general meeting, if their shares represent at least two-thirds of the share capital of the company, except shareholders participating in the general meeting via mail or electronic voting.

In order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the shareholders' register on the cut-off date which is seven days before the meeting. A shareholder whose shares are registered in the name of a nominee may exercise the voting rights only if the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders has quorum if more than one-half of the votes represented by shares held by the shareholders are present at the meeting. If the meeting has no quorum, the Management Board must call a new general meeting of shareholders for a date not later than within three weeks but not earlier than 7 calendar days after the date of the original meeting. The new meeting has quorum regardless of the number of participants.

The rules described are also applicable to the General Meetings of Shareholders of the Company.

B) Voting rights

The Company has one class of Shares. Each Share entitles the holder to one vote.

Pursuant to Estonian Commercial Code, a shareholder may attend and vote at a general 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 meeting. 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, reorganisation 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 3/4 of the votes represented at the general meeting. Issuing a different class of shares requires amendment of the articles of association by a 2/3 majority of votes represented at the general meeting.

The rights attaching to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of 4/5 of all votes and 9/10 of the shareholders whose rights are proposed to be amended.

The rules described above are also applicable to the voting rights attached to the Shares.

C) Shareholders' right to information

Shareholders have the right to obtain information on the activities of the Company from the Management Board at the general meeting of shareholders. The Management Board may refuse to give information if there is a basis to presume that this may cause significant damage to the interests of the Company. If the Management Board refuses to give information, the shareholder may demand that the general meeting of shareholders decide on the legality of the shareholder's request or to file, within two weeks after the general meeting of shareholders, a petition to a court by way of proceedings on petition in order to oblige the Management Board to give information.

The shareholders of the Company have the right to information as described above.

D) Dividends and other distributions

Pursuant to the Estonian Commercial Code, the management board of a public limited company must present a profit distribution proposal to the general meeting of shareholders together with submitting an annual report for approval of the general meeting of shareholders. The Supervisory Council has the right to make changes to the proposal of the management board before submission to the general meeting. The general meeting of shareholders decides the payment of dividends, amount and procedure of payment on the basis of the approved annual report. The general meeting of shareholders may also decide on payment of the dividends in several instalments. The decision on the payment of dividends is adopted by a simple majority of votes represented at the general meeting of shareholders.

As a general rule, 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, under the Articles of Association of the Company the Management Board has the right, upon the consent of the Supervisory Council, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one half of the amount that may be distributed among shareholders.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report 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 the articles of association, may not be distributed to the shareholders.

In addition to cash dividends, the shareholders may consent to payment of dividends in other property forms (e.g. a bonus issue). The shareholders decide the dividend annually.

Dividends of listed companies are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ERS on the respective record date. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be earlier than the end of the tenth business day of the T2S settlement system used by the ERS after the date of the relevant general meeting of shareholders.

All existing Shares rank *pari passu* with regard to dividends and other distributions of the Company (including distribution of assets in the event of dissolution). The Company's Articles of Association do not provide for different rules in respect of dividend payments as compared to those set out in the Commercial Code and described above.

E) Pre-emptive subscription rights

According to the Estonian Commercial Code, upon issue of new shares by a public limited company, existing shareholders of the company have pre-emptive rights to subscribe for new shares in the company pro rata to their existing shareholdings. A resolution waiving pre-emptive rights must be approved by at least 3/4 of all votes represented at the general meeting of shareholders. Such pre-emptive right is also attached to the Shares.

F) Right to liquidation proceeds

According to the Estonian Commercial Code, upon liquidation of the Company the assets remaining after satisfying or securing all the creditors' claims (and depositing the money for this purpose) are distributed among the shareholders pro rata to the nominal value or book value of their shares pursuant to the asset distribution plan prepared by the liquidators. Assets may be distributed no earlier than six months after the entry of the dissolution of the public limited company in the commercial register and no earlier than two months after the date on which the shareholders were informed that the final balance sheet and asset distribution plan are presented to the shareholders for examination, provided that the balance sheet or asset distribution plan have not been contested in court, the action has not been heard or has not been satisfied, or if the proceeding in the matter has been concluded. According to the Estonian Commercial Code, liquidation proceeds are distributed by way of monetary payments unless the articles of association prescribe otherwise. The Articles of Association of the Company do not currently provide for any alternative forms of payment of liquidation proceeds.

G) Acquisition by a company of own shares

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

- the acquisition occurs within five years after the adoption of a resolution of the general meeting of shareholders which specifies the conditions and term for the acquisition and the amounts to be paid for the shares;
- the sum of the nominal value of the shares held by the company does not exceed 1/10 of its share capital; and
- the shares are paid for from assets excluding the share capital, reserve capital and premium.

Regardless of the above, a public limited company may acquire its shares by inheritance. A public limited company may also acquire its shares by a resolution of the Supervisory Council without requiring a resolution of the general meeting of shareholders if the acquisition of the shares is necessary to prevent significant damage to the company. In such case, the shareholders must be informed of the circumstances and details of the acquisition of the company's own shares at the next general meeting of shareholders.

If the shares are obtained in compliance with the law but form more than 1/10 of the share capital, the excess shares must be disposed of within three years of their acquisition. In case 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 one year of acquisition.

The rules regarding the 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.

The above-referred rules are also applicable to the acquisition of Shares by the Company.

H) Disclosure of shareholdings

Information concerning the shareholders is accessible to the public via ERS. In case of shares deposited in nominee accounts, only the data of the owner of the nominee account is available through ERS.

In addition to the above, the Management Board is, under the Estonian Commercial Code required to submit to the Estonian Commercial Register, together with the approved annual report, a list of shareholders holding more than 10% of the votes as at the date of the approval of the annual report by the general meeting of shareholders. Through such filing, the respective information becomes publicly available in the Estonian Commercial Register.

I) Squeeze-out rules

According to the Estonian Commercial Code, a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90% of the share capital of a public limited company, is entitled to request that the general meeting of shareholders approves taking over by that shareholder of the remaining outstanding shares of the company for fair monetary compensation ("squeeze-out"). The squeeze-out must be approved at the general meeting of shareholders by at least 95% of the votes represented by the shares of the company. Squeeze-out of minority shareholders of a public limited company may also be carried out according to the Estonian Commercial Code in the course of a merger between two companies, if the surviving company owns at least 90% of the shares of the company being merged. In such a case the squeeze-out is approved if at least 90% of the votes represented by the shares of the company are cast in favour of the relevant resolution at the general meeting of shareholders of the company being merged.

In addition to the above, a special squeeze-out regime applies to listed companies under the Estonian Securities Market Act in case a person reaches at least a 90% shareholding in a company as a result of making a voluntary or a mandatory takeover bid to the company's shareholders. In such a case the relevant acquirer may request the general meeting of shareholders of the company to be called within 3 months after the expiry of the takeover term and to vote on the takeover of the remaining shares belonging to the shareholders of the company ("squeeze-out") for a fair compensation (not being less than the takeover bid price). In such a case, a resolution on the takeover of the remaining shares of the target is adopted if at least 90% of all votes represented by shares of the company (not merely those attending the meeting or voting) are cast in favour of the resolution. If a squeeze-out resolution has not been passed in the above-mentioned scenario, then the takeover bid term is to be extended for up to 3 months after the date of disclosure of the takeover bid results, with respect to the target persons who, within the framework of the takeover bid, did not agree to taking over their shares.

J) Taxation of dividends

Please see Part XIV (Taxation) for the overview of the taxation of dividends.

K) Specific features relating to shares held in a nominee account

Pursuant to the Estonian Securities' Register Maintenance Act ("**ESRMA**") nominee accounts can be set up for the purpose of administering securities held for the clients of the owner of the nominee account (i.e. the nominee). Through a nominee account, securities are held for and on behalf of another person (client). Securities may be held in a nominee account only for the performance of a mandate submitted for the purpose of holding securities in a nominee account or on the basis of another similar legal relationship, and securities received as income from securities held in the nominee account, including securities received as dividends or in the course of replacing or exchanging securities and other securities received on account of respective securities.

Under the ESRMA the securities acquired by the holder of a nominee account for the performance of a mandate of a client or, on the basis of another similar legal relationship, in the name of the holder but on behalf of the client, and securities transferred to the holder of a nominee account on the basis of an agreement or another legal relationship for the execution thereof by the client are, with regard to the holder of the nominee account and the creditors thereof, deemed to be the securities of the client.

If the holder of a nominee account holds, in connection with the nominee account, money for and on behalf of a client in a payment account opened in the name of the holder, the holder is required to maintain records on the money held on the payment account for each client. The holder of a nominee account shall dispose the money of a client in a payment account related to the nominee account according to the instructions given on the basis of a mandate of the client or another similar legal relationship. The money held on behalf of a client by the holder of a payment account related to the nominee account is, with regard to the holder of the nominee account and the creditors thereof, deemed to be the money of the client.

The securities and money of a client held on a nominee account cannot be subject to a claim for payment against the holder of a nominee account in an enforcement procedure and they are not part of the bankruptcy estate of the holder of the nominee account. Measures for securing an action filed against the holder of a nominee account or other restrictions on transfer of the assets of the holder of the nominee account, applied in the course of proceedings conducted with regard to the holder of the nominee account, do not extend to securities of third parties held in the nominee account.

The holder of a nominee account is entitled to exercise the rights arising from securities in the nominee account and is liable for performance of the obligations arising from such securities. In the exercise of voting rights and other rights arising from a security, the holder of a nominee account shall follow the instructions of the client. At the request of the client, the holder of a nominee account shall grant authorisation in the required format to the client in order for the client to represent the holder in the exercise of rights arising from securities.

PART XIII. ESTONIAN SECURITIES MARKET

The summary in this Part XIII (Estonian Securities Market) is based on the Estonian laws as in effect on the date of this Prospectus and is subject to changes in such laws. Furthermore, the following summary only provides a general overview of the legal environment in Estonia and does not constitute an exhaustive description of legal acts and regulations governing listed companies or companies generally in Estonia or applicable to investors and/or shareholders of an Estonian company. Investors should seek qualified legal advice to gain a thorough overview of any rights and obligations they may have under Estonian law.

1. TALLINN STOCK EXCHANGE AND THE ESTONIAN SECURITIES MARKET

A) Tallinn Stock Exchange

Tallinn Stock Exchange is Estonia's only regulated securities market. The ultimate owner of the Tallinn Stock Exchange is Nasdaq Nordic, which in turn is owned by Nasdaq, Inc, the world's largest exchange company, providing trading, exchange technology and public company services across six continents, with over 3,900 listed companies.

Nasdaq stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market representing a joint offering of Nasdaq's exchanges in Tallinn, Riga, and Vilnius. The Baltic Market includes a common Baltic equities market with harmonised trading rules and market practices, same trading system, joint trading lists, harmonised indexes, a single membership, trading and settlement currency allowing investors easy access to all Baltic listed financial instruments through any of the pan-Baltic members.

Nasdaq Tallinn is a self-regulated organisation, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures within the framework of European Union and Estonian legal acts. It is licensed and supervised by the Estonian Financial Supervision Authority.

Nasdaq Tallinn uses the Nasdaq trading platforms INET Nordic and Genium INET, which are also used by exchanges in Sweden, Finland, Denmark, Iceland, Latvia and Lithuania.

B) ERS and Registration of Shares

The register of shareholders of a public limited liability companies (including those that are traded on the Tallinn Stock Exchange) are held with the ERS. The ERS is a register of shares, debentures and other securities in the ESRMA and of operations performed by such securities. The ERS is maintained by Nasdaq CSD SE, the regional central securities depository in the Baltics.

All securities are registered at the ERS in book-entry form on the securities accounts of their owners. All the transactions are recorded and can be performed through account administrators. Account administrators may be either credit institutions or investment companies operating in Estonia, or other entities approved pursuant to the ESRMA. No physical share certificates are issued. The ESRMA regulates the operation of security accounts and holding of shares in Estonia.

All domestic and foreign persons can open a securities account with an Estonian securities account administrator (subject to KYC, AML and other checks as may be applied by that securities account administrator).

In addition to the regular securities accounts, professional participants of the securities market (account holders) can open a nominee account for the benefit of their clients. This account type gives the account holder the right to hold securities in its own name but on behalf of another person (a client). The client retains the right to dispose of the securities and use rights arising therefrom. Legally the nominee account holder is considered as the exerciser of the shareholders rights, but must exercise such rights pursuant to the instructions of its client. The shares held in the nominee account are deemed to be the client's shares, and not the shares of the nominee account owner, and thus are excluded from the bankruptcy estate of the nominee account holder.

The Securities Register Maintenance Act recognises the possibility to hold shares without an Estonian securities account (either via a linked system or otherwise) on a nominee account held by a central depository of certain EU member states.

C) Listing on the Tallinn Stock Exchange

Nasdaq Baltic Stock exchanges present all companies listed on either Nasdaq Tallinn Stock Exchange, Nasdaq Riga Stock Exchange or Nasdaq Vilnius Stock Exchange in unified pan-Baltic lists which are categorised as follows:

- Baltic Main List;
- Baltic Secondary List;
- Baltic Bond List;
- Baltic Fund List; and
- First North (alternative marketplace, multilateral trading facility, not a regulated market).

However, legally, although the companies appear on the unified pan-Baltic lists, each company is usually listed on its domestic market (either in Estonia, Latvia or Lithuania) and supervised by the corresponding local financial supervision authority.

The Baltic Main List includes the highest-quality blue chip companies. In order to list the shares of a company on the Main List of the Tallinn Stock Exchange, a number of requirements must be met. Among other, a company must have 3 years of operating history, an established financial position, market capitalisation of not less than EUR 4 million and a sufficient proportion of the company's shares must be floated for the market to function, which is generally considered 25% of the total number of shares of the company.

D) Trading on the Tallinn Stock Exchange

Nasdaq Baltic Stock Exchanges employ two trading systems:

- INET Nordic – the electronic trading system used for trading in equity-market instruments traded on the regulated market and the alternative market place First North;
- Genium INET – the electronic trading system used for trading in fixed-income instruments on the regulated market, as well as for the execution of auctions and special procedures, such as tender offers, public share sales, IPOs.

Commonly recognised as the most sophisticated trading platform in the world, INET is the proprietary core technology utilised across Nasdaq's global markets.

Transactions can be effected in two ways – automatic matching, which means that buy and sell orders are matched by the trading system automatically according to price, displayed volume and time priorities; and manual trades – trades negotiated between stock exchange members outside of the trading system, with brokers entering the deal in the trading system within three minutes after its conclusion.

The trading system of the Tallinn Stock Exchange is open for trading to its members. Trading on the Tallinn Stock Exchange takes place on each business day from 10:00 a.m. to 3:55 p.m. (Estonian time). From 3:55 p.m. to 4:00 p.m. on the Tallinn Stock Exchange, the pre post-market trading is carried out. From 4:00 p.m. to 4:30 p.m. the Tallinn Stock Exchange carries out post-market trading.

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. According to the Estonian Securities Market Act such information must be accurate, clear, precise and complete.

E) Supervision

The operations of the Tallinn Stock Exchange are supervised by the Estonian Financial Supervision Authority with the purpose of ensuring the compliance with the rules and requirements applicable in respect of the operations of regulated markets.

Compliance with the Nasdaq Tallinn Stock Exchange Rules by its members is monitored by the Nasdaq Tallinn Listing and Surveillance Committee.

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 conduct 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 the law. The operator of the Tallinn Stock Exchange also supervises the disclosure of adequate information to the investors, protection of the interests of the investors as well as their fair and equal treatment, in addition to the Estonian Financial Supervision Authority.

2. DISCLOSURE OF TRANSACTIONS AND OWNERSHIP

As a general rule, if the number of votes in an issuer belonging to a person constitutes 5, 10, 15, 20, 25 or 50%, or 1/3 or 2/3 of all the votes represented by the shares issued by such issuer or exceeds any notification threshold either when increasing or decreasing, the person must notify the issuer of the shares and the Estonian Financial Supervision Authority in respect of the number of votes held by the person. For the purposes of this requirement, shares are considered to belong to a person if the person holds or exercises the rights arising from such shares: (i) directly; (ii) together with one or several controlled companies; (iii) by one or several companies controlled by the person; or (iv) by a person or a company controlled by the person upon agreement with a third party, or if the voting rights arising therefrom are deemed to belong to a person. The Estonian Securities Market Act stipulates the requirements and exceptions to such notification obligation, as well the rules to determine under which circumstances is a company considered to be controlled by a person.

Under the Nasdaq Tallinn Stock Exchange Rules an issuer is required to ensure that shareholders holding 5% and more of the votes represented by the shares of the issuer disclose information, through the Issuer, on 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.

The list of shareholders of any issuer is public and can be obtained from the website of Nasdaq CSD SE (the registrar of ERS). With respect of shares held on a nominee account, only the nominee account owner is visible as the shareholder. The nominee account client agreement must ensure that the client complies with, among other, the notification obligations under Estonian law.

3. MARKET ABUSE AND INSIDE INFORMATION

Regulation (EU) No 596/2014 ("**MAR**"), prohibiting market abuse in financial markets, is directly applicable in Estonia.

Broadly speaking, market abuse under MAR consists of insider dealing, unlawful disclosure of inside information or market manipulation in relation to any financial instruments which have, inter alia, been admitted to trading on a regulated market or with respect to which a request for admission to trading on a regulated market has been made. Any other conduct or action which can have an effect on such financial instrument, irrespective of whether it takes place on a trading venue or not, may also constitute market abuse under MAR.

MAR sets forth the definition of "inside information" and stipulates it must, amongst other things, be precise and must, if made public, be likely to have a significant effect on price (using the reasonable investor test).

Insider dealing arises where a person possesses inside information and uses that information by acquiring or disposing of, for its own account or for the account of a third party, directly or indirectly, financial instruments to which that information relates. The use of inside information by cancelling or amending an order concerning a financial instrument to which the information relates where the order was placed before the person concerned possessed the inside information, shall also be considered to be insider dealing. Recommending or inducing another person to engage in insider dealing may also constitute insider dealing.

Unlawful disclosure of inside information arises where a person possesses inside information and discloses that information to any other person, except where the disclosure is made in normal exercise of an employment, a profession or duties.

Market manipulation comprises various specified activities which have the effect of misleading and/or distorting the market for financial instruments or benchmarks.

The Estonian Securities Market Act establishes a number of administrative offences related to misuse of inside information and market abuse that are punishable with fines of variable gravity. Dependant on the circumstances of the offence, misuse of inside information and market manipulation may be qualified as criminal offences under the Estonian Penal Code.

4. MANDATORY TAKEOVER BIDS

The legal regime applicable to takeover bids is provided in the Estonian Securities Market Act which implements the rules stipulated in the Takeover Directive.

If a person (either directly or together with any persons acting in concert) acquires dominant influence over an Estonian listed company such person is required to make a mandatory offer to all remaining shareholders for acquisition of the shares held by them in the relevant company (i.e. mandatory takeover bid). Dominant influence over the issuer is deemed to have been gained by the person, for instance, upon acquisition by the person (alone or together with persons acting in concert) of more than 50% of the shares in the issuer. The obligation to make a mandatory takeover bid is triggered when the acquirer becomes the holder of the voting rights attached to the shares of the issuer representing the majority of all votes. The obligation to make a mandatory takeover bid may be triggered also regardless of the stake acquired, if:

- the person, as the issuer's shareholder, has the right to appoint or remove the majority of the target's supervisory council or management board members; or
- the person, as the issuer's shareholder, controls alone the majority of votes on the basis of an agreement with other shareholders; or
- the person has dominant influence or control over the issuer and the possibility to exercise it.

The mandatory takeover bid must be published within 20 days of gaining a dominant influence over the issuer.

The price offered under a mandatory takeover bid must be fair, which is determined by specific parameters stipulated in the Estonian Securities Market Act and the Takeover Rules enacted by the Minister of Finance.

5. CORPORATE GOVERNANCE

The corporate governance principles described below apply generally to all public limited liability companies incorporated in Estonia, including the Company. See Part XI (Management) and Part XII (Information on the Company, Shares and Share Capital) for an overview of the composition and competence of the governing bodies of the Company and the requirements applicable to the corporate governance of the Company under its Articles of Association and the State Assets Act.

A public limited liability company has a statutory three-tier corporate governance structure: the general meeting of shareholders, the supervisory council and the management board. The competence of each managing body is set out in the Estonian Commercial Code and the articles of association of the company. The articles of association can stipulate the competence and operational aspects regarding each managing body that deviate from the statutory default, although to a certain extent only within the mandatory provisions of the Estonian Commercial Code, the Nasdaq Tallinn Stock Exchange Rules and other relevant legislation.

The general meeting of shareholders is the highest governing body and is responsible for deciding on, among other, amending the articles of association, increase and decrease of the share capital, distribution of dividends and approving the annual financial report. The general meeting of shareholders meets annually and when summoned on an extraordinary basis. The general meeting of shareholders also approves the audited annual report, after the supervisory council has compiled a report on the annual report.

The supervisory council is the supervisory body of at least three members exercising oversight over the management board and involved in the strategic planning of the activities of the company. Customarily the management board must have the approval of the supervisory council for transactions and actions outside the ordinary course of business, are not budgeted and/or exceeding certain value thresholds. Such parameters may be stipulated in the articles of association of the company and breach of such requirements by the management board could trigger the liability of the relevant management board member, without, however, generally affecting the validity of the transaction.

The management board of the company is responsible for the day-to-day operations of the company and can legally represent the company (each member individually or together, as may be regulated). The management board members are required to seek the approval of the supervisory council for certain transactions. The management board members may agree internally on their respective responsibilities.

The management board and supervisory council members have statutory loyalty, confidentiality and diligence obligations towards the company. Breach of such obligations may result in the personal civil, and potentially even criminal, liability of such person.

Further, a company may form other voluntary or compulsory bodies which have internally agreed or statutorily stipulated responsibilities and competence, e.g. a voluntary managing body representing a wider range of directors and Underwriters without representation rights, or an audit committee as required for companies of a certain size.

A public limited company is required to engage an auditor. The auditor is appointed by the general meeting of shareholders which also determines the principles of remuneration of the company's auditors.

Annual reports of a public limited company must be audited and approved by the general meeting of shareholders. The management board is required to present the annual report (comprising the annual accounts and management report), the sworn auditor's report and a proposal regarding the distribution of profit to the general meeting of shareholders for approval. The annual report and the profit distribution proposal is reviewed by the supervisory counsel before submission to the general meeting of shareholders. The opinion of the supervisory council indicating whether or not the supervisory council approves the annual report must be presented to the general meeting of shareholders together with the annual report.

Minority shareholders of a listed public limited company have several rights to block certain resolutions or demand specific actions, the most important of which are summarised below. The general meeting of shareholders may decide by at least 2/3 of votes represented at the meeting to include certain further provisions expanding the rights of minority shareholders, e.g. by setting forth higher quorum or majority requirements for certain matters within the competence of the general meeting of shareholders.

1) Blocking opportunities upon voting

Shareholders holding at least 1/20 + 1 of votes may block the adoption of a squeeze-out resolution (except if the squeeze-out is put to vote after and in conjunction with a takeover bid or merger, in which case 1/10 + 1 vote is required to block the relevant resolution).

Shareholders holding at least 1/4 + 1 of votes at a general meeting may block the adoption of the resolution excluding the pre-emptive right of shareholders to subscribe to additional shares upon share capital increase (in proportion with the shareholding).

Shareholders holding at lease 1/3 + 1 of votes at a general meeting may block decisions on: (i) amendment of the articles of association; (ii) increase or decrease of the share capital; (iii) recalling of the supervisory board members prior to the expiry of their term of office; (iv) liquidation, merger, division and reorganisation of the company.

2) Rights to make demands

Shareholders whose shares represent at least 1/20 of the share capital may: (i) request calling an extraordinary meeting of shareholders; (ii) request adding items to the agenda of the general meeting of shareholders; (iii) submit draft resolutions with respect to each item on the agenda of the general meeting of shareholders; (iv) demand adoption of a resolution approving the merger agreement (in a situation where the contemplated merger would take place between the company and its 90% (or more) subsidiary, with the company being the surviving entity, where passing of a merger resolution would otherwise not be mandatory).

Shareholders whose shares represent at least 1/10 of the share capital may: (i) request a special audit of the company; (ii) request the substitution of the auditor for the special audit appointed by the shareholders; (iii) request a court to change an auditor appointed by the general meeting if the impartiality of the person appointed by the general meeting is doubtful; (iv) request appointment of liquidators by a court; (v) request recalling of the liquidator and removal of a member of the supervisory board by a court; (vi) request the participation of the auditor who prepared the sworn auditor's report of the annual report at the general meeting of shareholders, and request the auditor to provide explanations concerning the sworn auditor's report; (vii) request the minutes of the general meeting to the prepared in notarised form.

PART XIV. TAXATION

1. ESTONIAN TAX

The below summary is based on the Estonian tax laws as in effect on the date of this Prospectus and is subject to changes in such laws. Furthermore, the following summary only provides a general overview of the Estonian tax regime applicable to corporate income received, profits distributed and capital gains realised in Estonia, as well as to acquisition and transfer of Shares. The below overview is in no way exhaustive and is not meant to constitute professional advice to any person. Each person is encouraged to consult its own professional tax advisors as to establish particular tax consequences applicable under the laws of Estonia or any other jurisdiction in relation to the Offering or the Shares.

A) Corporate Income Tax

The Estonian Corporate Income Tax ("**CIT**") system is unique, in that only distributions are taxed. Under this system, retained earnings are effectively exempt from CIT. However, credit institutions are subject to different taxation and under certain circumstances, loans provided to shareholders by an Estonian resident company may also be deemed to be profit distributions. The exemption of undistributed profit includes all active income (e.g., trading income), and all types of passive income (e.g., royalties, dividends, interest), as well as capital gains from the sale of all types of assets (including shares and other securities, immovable property). Consequently, the Estonian CIT system shifts the triggering event of corporate taxation from the moment of earning profit to the moment of distribution (deferred corporate income tax). CIT is charged on direct profit distributions, such as dividends, and on implicit (deemed) distributions, including fringe benefits, transfer pricing adjustments, gifts and donations, and expenditures or payments not related to the business activities of the company. Although the CIT is imposed at the time of these profit distributions, the tax is generally imposed on the corporation. The CIT rate on gross profit distribution is 20% although, according to the Income Tax Act of Estonia, the tax is imposed on the net amount of profit distribution by applying a "gross-up" tax rate of 20/80.

B) Dividends

A resident company must pay income tax on profit distributed as dividends upon payment thereof in monetary or non-monetary form. Dividends are subject to income tax at the rate of 20/80 of the net payment, i.e. 20% on the gross amount of profit distribution.

As of 1 January 2018, regularly distributed dividends are subject to lower income tax rate of 14/86 of the net payment, i.e. 14% on the gross amount of profit distribution. The lower income tax rate on the regularly distributed dividends applies to dividends that are paid in the amount not exceeding the annual average amount of the taxed dividends (taxed with 20% or 14% rate) and capital distributions paid in the previous three (3) years. 2018 will be the first year which is taken into account upon the calculation of the 3-year historical average amount of the taxed dividends, meaning that the full effect of the new regime will be realised in 2021 (i.e. when companies will be able to take into account the distributions of full three years - 2018, 2019 and 2020). In the interim period, the following regime will apply - in 2019, a company may distribute 1/3 of the 2018 distributed taxed dividends with the lower tax rate and in 2020, a company may distribute 1/3 of the aggregate amount of the 2018 and 2019 distributed taxed dividends with the lower tax rate. Tax exempt dividends are not included in the calculation. The rest of the distributed profit, i.e. the part which exceeds the 3-year historical average, will be taxed at the standard income tax rate of 20%.

For the corporate shareholders (including both resident and non-resident), dividends are not taxable income and additional income tax is not withheld of the amount of dividend.

For individual recipient of dividends (including both resident and non-resident), additional income tax is withheld in the amount of 7% (as of 1 January 2018) if the dividends are distributed with the lower tax rate of 14%. If, however, the dividends are subject to standard tax rate of 20/80 or are exempt from tax (e.g. redistribution of dividends), then no withholding tax applies. Furthermore, if there is a tax treaty in place between the Republic of Estonia and the country of residence of the individual shareholder, the withholding rate may be lower than 7% (e.g. 5% or 0%), if the tax treaty provides for a more favourable withholding rate. Moreover, dividends received by a non-resident individual may be subject to tax in the country of residence of the relevant recipient. In order to assess the applicable tax consequences more precisely, investors are advised to seek specialist assistance.

Under certain conditions, redistribution of dividends is not subject to taxation. Namely, income tax is not charged on redistributed dividends received by an Estonian company from a subsidiary domiciled in an EEA member state or Switzerland if that Estonian company holds at least 10% of the shares or votes in the relevant subsidiary. Additionally, dividends received from a subsidiary domiciled in other foreign countries (i.e. except EEA member state or Switzerland) are exempt if the Estonian company holds at least 10% of the shares or votes in the subsidiary and income tax has been withheld or paid in the foreign country. This exemption does not apply to companies located in a low tax rate territory.

C) Capital Gains

Considering that all earnings of an Estonian resident company, including capital gains, are taxed only upon distribution, capital gains of the Estonian resident company are not subject to immediate taxation.

Gains realised by an Estonian resident individual upon the sale or exchange of securities are subject to income tax at the rate of 20%. Moreover, payments received by an Estonian resident individual during the reduction of share capital or redemption of shares are also taxable as capital gains, if the amount of the received payment exceeds the acquisition cost of the shareholding, unless the portion of the payments have been taxed at the corporate level.

As a general rule, capital gains received by non-residents (both individual and corporate) from the sale or exchange of securities are not taxed in Estonia. However, tax (at the rate of 20%) could be due on capital gains derived by a non-resident (both individual and corporate) from the sale or exchange of securities in case a shareholding is transferred in a company of whose property, at the time of the transfer or during a period within two years before transfer, more than 50% was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10% at the time of transfer. As at the date of this prospectus and during the period of two years before the date of this prospectus, more than 50% of the property of the Company does comprise and has comprised of immovables or structures as movables located in Estonia and thus, at the date of this prospectus the Company satisfies the criterion described in the previous sentence. However, the satisfaction of the said criterion may change in time and should be assessed by each non-resident upon each sale of securities.

If tax is due on capital gains derived by a non-resident (both individual and corporate) from the sale or exchange of securities, the non-resident is required to submit an income tax return concerning such gains derived during the calendar year to the Tax and Customs Board not later than by 31 March of the following year. The income tax must be paid into the bank account of the Tax and Customs Board within three months after the due date for submitting income tax return.

D) Investment Account

Resident individuals can defer their income tax liability on income earned from transactions in certain financial assets (including securities) when using a specific investment account system. An investment account is a monetary account opened with a credit institution of EEA or the OECD member state through which the transactions with the financial assets are executed. Therefore, the moment of taxation of the financial income held on an investment account is postponed until respective income (that is calculated as the amount by which the funds withdrawn from the account exceed the funds previously deposited into the account) is withdrawn from the investment account. Hence, such financial income held at the investment account may be re-invested tax exempt until it is withdrawn from the investment account.

E) Stamp Duty and Other Transfer Taxes

There are no stamp duties or other transfer taxes payable on the transfer of shares in Estonia.

2. CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a description of certain material U.S. federal income tax consequences that may be relevant to the acquisition, ownership and disposition of Offer Shares. This description addresses only the U.S. federal income tax considerations of U.S. Holders (as defined below) that are initial purchasers of Offer Shares pursuant to the Offering and that will hold such Offer Shares as capital assets within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). This description does not purport to address all material tax consequences of the ownership of Offer Shares and does not address aspects of U.S. federal income taxation that may be applicable to investors that are subject to special tax rules, including without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities, including "Section 401" pension plans;
- individual retirement accounts and other tax deferred accounts;
- persons who receive Offer Shares as compensation for the performance of services;
- persons that will hold Offer Shares as part of a "hedging", "conversion" or constructive sale transaction or as a position in a "straddle" for U.S. federal income tax purposes;
- certain U.S. expatriates;
- "dual resident" corporations;
- persons that have a "functional currency" other than the U.S. dollar; or
- holders that own (directly, indirectly or constructively) 10% or more, by voting power or value, of the equity interests of the Company.

Further, this description does not address state, local, non-U.S. or other tax laws, nor does it address the 3.8% U.S. Federal Medicare Tax on net investment income, the alternative minimum tax or the U.S. federal gift and estate tax consequences of the acquisition, holding or disposition of Offer Shares. This description, furthermore, does not address the tax consequences of owning options or warrants or similar instruments on Offer Shares, or any tax consequences applicable to the holder of an equity interest in a holder of Offer Shares.

This description is based on the Code, its legislative history, final, temporary and proposed regulations promulgated thereunder, published rulings and court decisions, as well as on the Income Tax Convention

Between the United States of America and the Republic of Estonia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Treaty**"), in each case as in effect on the date of this Prospectus, all of which are subject to change (or to changes in interpretation), possibly with retroactive effect.

A) U.S. Holders

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of an Offer Share that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or any political subdivision thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Offer Shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the U.S. federal income tax consequences of acquiring, holding, or disposing of Offer Shares.

The summary of U.S. federal income tax consequences set out below is for general information only. All prospective purchasers should consult their tax advisors as to the particular tax consequences to them of owning the Offer Shares, including the applicability and effect of state, local, non-U.S. and other tax laws and possible changes in tax law.

B) Taxation of Distributions

Subject to the discussion below under Part XIV (Taxation), section 2 (Certain US Federal Income Tax Considerations), subsection D (Passive Foreign Investment Company) U.S. Holders of Offer Shares will include in gross income as foreign-source dividend income, when actually or constructively received by the U.S. Holder, the gross amount of any cash or the fair market value of any property distributed by the Company in respect of Offer Shares (including any amount withheld in respect of Estonian withholding taxes) to the extent such distribution is paid out of the Company's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). The Company does not intend to compute (or to provide U.S. Holders with information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders generally should expect to treat all distributions as taxable dividends.

Dividends will not be eligible for the dividends received deduction allowed to U.S. corporate shareholders in respect of dividends received from other U.S. corporations. Subject to applicable holding period and other limitations, the U.S. dollar amount of dividends received on the Offer Shares by certain non-corporate U.S. Holders will be subject to taxation at a maximum rate of 20% if the dividends are "qualified dividends". Dividends paid on the Offer Shares would be treated as qualified dividends if (i) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules, and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC. While the Treaty has been approved by the IRS for the purposes of the qualified dividend rules, it is not certain that the Company would be eligible for treaty benefits under the Treaty. Although the stock of the

Company will be publicly traded on the Tallinn Stock Exchange (which is a "recognised stock exchange" for purposes of the Treaty), the Company's stock must also be "regularly traded" on the exchange in order for the Company to be a "qualified resident" of Estonia. It is not currently known whether trading in the Company's stock will satisfy the "regularly traded" requirement contained in the Treaty. See Part XIV (Taxation), section 2 (Certain US Federal Income Tax Considerations), subsection D (Passive Foreign Investment Company) below for discussion of the application of the PFIC rules to the Company. Prospective investors should consult their own tax advisors regarding whether they are entitled to a reduced tax rate under the qualified dividend rules.

If the Company pays a dividend in a currency other than the U.S. dollar, any such dividend will be included in the gross income of the U.S. Holder in an amount equal to the U.S. dollar value of the currency on the date of receipt, determined at the spot foreign currency/U.S. dollar exchange rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars at that time. U.S. Holders will have a tax basis in the currency received equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss from U.S. sources. If dividends received in a foreign currency are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

Dividend distributions with respect to Offer Shares generally will be treated as "passive category" income from sources outside the United States for purposes of determining a U.S. Holder's U.S. foreign tax credit limitation. Subject to the limitations and conditions provided in the Code and the applicable U.S. Treasury Regulations, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability in respect of any Estonian income taxes withheld at the appropriate rate applicable to the U.S. Holder from a dividend to such U.S. Holder. Alternatively, the U.S. Holder may deduct such Estonian income taxes from its U.S. federal taxable income, provided that the U.S. Holder elects to deduct rather than credit all foreign income taxes for the relevant taxable year. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

C) Sale or Exchange of Offer Shares

Subject to the discussion below under Part XIV (Taxation), section 2 (Certain US Federal Income Tax Considerations), subsection D (Passive Foreign Investment Company), upon a sale or other disposition of Offer Shares, a U.S. Holder will recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realised and the U.S. Holder's adjusted tax basis (determined in U.S. dollars) in such Offer Shares. A U.S. Holder's initial tax basis in the Offer Shares will be the U.S. dollar value of the foreign currency-denominated purchase price established on the date of purchase. U.S. Holders should consult their tax advisors regarding whether they will recognise any foreign currency gain or loss in acquiring the Offer Shares.

Generally, gain or loss recognised upon the sale or other disposition of Offer Shares will be capital gain or loss, will be long-term capital gain or loss if the U.S. Holder's holding period for such Offer Shares exceeds one year. For non-corporate U.S. Holders, the United States income tax rate applicable to net long-term capital gain currently will not exceed 20%. The deductibility of capital losses is subject to significant limitations. Gain, if any, realised by a U.S. Holder on a sale or other disposition of the offer Shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if an Estonian withholding tax is imposed on the sale or disposition of Offer Shares, a U.S. Holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Estonian taxes. U.S. Holders should consult with their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Offer Shares.

A U.S. Holder that receives foreign currency from a sale or disposition of Offer Shares generally will realise an amount equal to the U.S. dollar value of the foreign currency on the date of sale or disposition or, if such U.S. Holder is a cash basis or electing accrual basis taxpayer and the Offer Shares are treated as being traded on an "established securities market" for this purpose, the settlement date. If the Offer Shares are so treated and the foreign currency received is converted into U.S. dollars on the settlement date, a cash basis or electing accrual basis U.S. Holder will not recognise foreign currency gain or loss on the conversion. If the foreign currency received is not converted into U.S. dollars on the settlement date, the U.S. Holder will have a basis in the foreign currency equal to the U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the foreign currency generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. U.S. Holders should consult their own tax advisors regarding the U.S. tax consequences of receiving payments in a currency other than the U.S. dollar.

D) Passive Foreign Investment Company

In general, a corporation organised or incorporated outside the United States is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75% of its gross income is classified as "passive income" or (ii) at least 50% of the average quarterly value attributable to its gross assets produce or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company expects to derive sufficient active revenues and to hold sufficient active assets, so that it does not expect to be classified as a PFIC for its current taxable year and does not believe that it will be classified as a PFIC in the foreseeable future. However, the PFIC tests are applied annually, and it is possible that the Company will become a PFIC in a future year. Changes in the nature of our income or assets, the manner and rate at which the Company utilises the proceeds of the Offering or a decrease in the trading price of the Offer Shares may cause the Company to be considered a PFIC in the current or any subsequent year. If the Company were classified as a PFIC in any year that a U.S. Holder was a shareholder, the Company generally would continue to be treated as a PFIC for that U.S. Holder in all succeeding years, regardless of whether the Company continued to meet the income or asset test described above. If the Company were a PFIC in any taxable year, materially adverse U.S. federal income tax consequences and additional filing requirements could result for U.S. Holders.

If the Company is a PFIC for any taxable year during which an investor is a U.S. Holder, gain recognised by a U.S. Holder on a sale or other taxable disposition (including certain pledges) of the Offer Shares would generally be allocated rateably over the U.S. Holder's holding period for the Offer Shares. The amounts allocated to the taxable year of the sale or other taxable disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for that year, as appropriate, and an interest charge (at the rate generally applicable to an underpayment of tax) would be imposed. Further, to the extent that any distribution received by a U.S. Holder on its Offer Shares exceeds 125% of the average of the annual distributions on the Offer Shares received during the shorter of the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, as described immediately above.

The adverse tax consequences of the PFIC rules could potentially be mitigated if a U.S. Holder made a "mark-to-market" election. In this case, a U.S. Holder would include gain or loss on the Offer Shares as ordinary income or loss under a mark-to-market method, provided that the Offer Shares were regularly traded on a qualified exchange. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that the Company owns, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by the Company that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. The Code also provides an alternative election (a "**QEF election**") to U.S. Holders that may mitigate the adverse U.S. federal income tax consequences to an electing U.S. Holder should the Company be classified as a PFIC. However, the Company does not intend to provide holders with the information necessary to make a QEF election. U.S. Holders should consult their tax advisors regarding the availability and advisability of the mark-to-market election in the event the Company was determined to be a PFIC.

If the Company were regarded as a PFIC, a U.S. Holder of Offer Shares generally would be required to file an information return on IRS Form 8621 for any year in which the holder received a direct or indirect distribution with respect to the Offer Shares, recognised gain on a direct or indirect disposition of the Offer Shares, or made an election with respect to the Offer Shares, reporting distributions received and gains realised with respect to the Offer Shares. In addition, if the Company were regarded as a PFIC, a U.S. Holder would be required to file an annual information return (also on IRS Form 8621) relating to the holder's ownership of the Offer Shares. This requirement would be in addition to other reporting requirements applicable to ownership in a PFIC.

U.S. Holders should consult their tax advisors concerning the U.S. federal tax consequences of holding the Offer Shares if the Company were considered to be a PFIC.

E) U.S. Backup Withholding Tax and Information Reporting

Payments of dividends and other proceeds with respect to Offer Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Backup withholding tax is not an additional tax. A U.S. Holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such U.S. Holder's U.S. federal income tax liability, and such amounts may be refunded (or credited against such U.S. Holder's U.S. federal income tax liability, if any), provided the required information is furnished to the IRS in a timely manner.

U.S. Holders who acquire Offer Shares for cash may be required to file an IRS Form 926 (Return by a U.S. Transferor of Property to a Foreign Corporation) with the IRS and to supply certain additional information to the IRS if (i) immediately after the transfer, the U.S. Holders owns directly or indirectly (or by attribution) at least 10% of the Company's total voting power or value or (ii) the amount of cash transferred in exchange for the Offer Shares when aggregated with all related transfers under applicable regulations, exceeds US $100,000. Substantial penalties may be imposed on a U.S. Holder who fails to comply with this reporting requirement. Each U.S. Holder is urged to consult with its own U.S. tax advisor regarding this reporting obligation.

F) Foreign Asset Reporting

Certain U.S. Holders who are individuals (and certain specified entities) are required to report information with respect to investments in the Offer Shares not held through an account with a U.S. financial institution by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their U.S. federal income tax return. U.S. Holders that fail to report required information could become subject to substantial penalties. Potential U.S. investors are encouraged to consult with their own independent tax advisors about these and any other reporting obligations arising from their proposed investment in the Offer Shares.

PART XV. LEGAL MATTERS

In respect of Estonian law, certain legal matters will be passed upon for the Company by Advokaadibüroo COBALT OÜ, Estonian counsel to the Company, address Pärnu mnt 15, Tallinn, 10141, Estonia.

In respect of English and US law, certain legal matters will be passed upon for the Company by Baker & McKenzie, LLP, English and US counsel to the Company, address 100 New Bridge Street, London EC4V 6JA, United Kingdom.

In respect of Estonian law, certain legal matters will be passed upon for the Underwriters by Advokaadibüroo SORAINEN AS, Estonian counsel to the Underwriters, address Pärnu mnt 15, 10141 Tallinn, Estonia.

In respect of English and US law, certain legal matters will be passed upon for the Underwriters by Cleary Gottlieb Steen & Hamilton LLP, address 2 London Wall Place, London EC2Y 5AU, United Kingdom.

The legal counsels referred to in this Part XV (Legal Matters) are not liable for the information contained in the Prospectus. In respect of the persons responsible for the information contained in this Prospectus, please read "Responsibility" under "Notices to Investors" on page 220 hereof.

PART XVI. INDEPENDENT AUDITORS

In accordance with the Estonian Commercial Code, the General Meeting of Shareholders elects the auditor of the Company. Pursuant to a resolution dated 20 May 2015, the General Meeting of Shareholders of the Company appointed AS Deloitte Audit Eesti (address: Roosikrantsi 2, Tallinn 10119, Estonia) as auditor of the Company for the period 2015 - 2017. AS Deloitte Audit Eesti is a member of the Estonian Auditing Board.

The consolidated financial statements of the Group as of and for the years ended 31 December 2017, 2016 and 2015 have been audited by AS Deloitte Audit Eesti, independent auditors, as stated in their reports. The interim financial information of the Group as of and for the three months ended 31 March 2018 (together with comparative interim financial information for the three months ended 31 March 2017) have been reviewed by AS Deloitte Audit Eesti. However, as stated in their report, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Due to the conclusion of the term of the auditing agreement with AS Deloitte Audit Eesti finishing the audit of the consolidated financial statements for the year ending 31 December 2017, the Company carried out a public procurement for the auditor to audit the annual consolidated financial statements of the Company for the period 2018 – 2020, which was won by KPMG Baltics OÜ (address: Narva mnt 5, Tallinn 10117, Estonia). Pursuant to a resolution dated 25 April 2018, the General Meeting of Shareholders of the Company appointed KPMG Baltics OÜ, effective as of the date of the General Meeting of Shareholders, as auditor of the Company for the period 2018 - 2020. KPMG Baltics OÜ is a member of the Estonian Auditing Board.

PART XVII. INFORMATION INCORPORATED BY REFERENCE

Some documents or parts thereof have been incorporated into this Prospectus by reference. The documents or parts thereof which have been incorporated into this Prospectus by reference constitute an inseparable part of this Prospectus:

- the audited consolidated financial statements of the Group for the year ended 31 December 2016, incorporated by reference to pages 25 to 72 of the Company's annual report for the year ended 31 December 2016, publicly available on the Company's website (investor.ts.ee). The audit report on the audited consolidated financial statements for the year ended 31 December 2016 is neither included in the Prospectus nor incorporated by reference. Investors should refer to the audit report included in this Prospectus on the 2017 Audited Financial Statements as this reflects the most recent financial information of the Group.

PART XVIII. ADDITIONAL INFORMATION

1. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group: (a) within the two years immediately preceding the date of this Prospectus which are, or may be, material to the Company or any member of the Group, and (b) at any time and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this Prospectus:

A) Underwriting Agreement

See Part III (Offering), section 2 (Underwriting) for details of the underwriting agreement, which the Company expects to enter into or or about 25 May 2018.

B) Financing Agreements

(a) Loan Agreement with Nordic Investment Bank

The Company has entered into a term loan agreement with the Nordic Investment Bank for an amount of up to EUR 25,000,000, originally dated 8 April 2013 (as may be amended from time to time thereafter), for the purposes of financing the acquisition of the multipurpose ice-breaker Botnica. The loan agreement includes terms and conditions largely customary for such financing arrangements. The repayment is by way of substantially equal consecutive instalments pursuant to an amortisation table with the final repayment date of the last instalment being 17 January 2028. As of 31 March 2018 the outstanding principal amount of the loan was EUR 20,000,000.

The loan agreement stipulates financial covenants – equity to total assets ratio must be at least 50% and debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) ratio must not exceed 4.5 – as well as other covenants customary for these types of financing that may restrict certain activities of the Company. See Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection Q (Additional indebtedness could have an adverse effect on the Group's operations and financial condition) and Part VI (Dividends and Dividend Policy) for examples of such restrictions. The Company is working on reducing the equity to total assets covenant to 40%.

(b) Loan Agreements with European Investment Bank

The Company has entered into two term loan agreements with the European Investment Bank.

The loan agreement for an amount of up to EUR 40,000,000, originally dated 12 February 2009 (as may be amended from time to time thereafter), for the purposes of financing the expansion of the container terminal at Muuga Harbour and constructing new quays at the Paldiski South Harbour. The loan agreement includes terms and conditions largely customary for such financing arrangements. The repayment is by way of consecutive instalments pursuant to an amortisation table with the final repayment date of the last instalment being 13 March 2024. As of 31 March 2018 the outstanding principal amount of the loan was EUR 24,000,000.

The loan agreement for an amount of up to EUR 11,500,000, originally dated 14 December 2009 (as may be amended from time to time thereafter), for the purposes of financing the expansion of the container terminal at Muuga Harbour. The loan agreement includes terms and conditions largely customary for such financing arrangements. The repayment is by way of substantially equal consecutive instalments pursuant to an amortisation table with the final repayment date of the last instalment being 25 November 2025. The amount drawn under this loan agreement was EUR 9,191 and as of 31 March 2018 the outstanding principal amount of the loan was EUR 6,127,333.36.

The loan agreements stipulate financial covenants – equity to total assets ratio must be at least 50% and debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) ratio must not exceed 4.5 – as well as other covenants customary for these types of financing that may restrict certain activities of the Company. See Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection Q (Additional indebtedness could have an adverse effect on the Group's operations and financial condition) and Part VI (Dividends and Dividend Policy) for examples of such restrictions. The Company is working on reducing the equity to total assets covenant to 40%.

(c) Bonds subscribed by Swedbank AS

The Company has issued two sets of bonds subscribed by Swedbank AS.

An unsecured and unsubordinated 10-year serial bond issue, dated 30 August 2016, in the amount of EUR 75,000,000. As serial bonds, the Company is obliged to redeem a portion of the bonds annually with the final redemption date for the final outstanding amount (bullet at the end) being 26 October 2026. As of 31 March 2018 the amount of the outstanding bonds was EUR 71,250,000.

The terms of the bonds stipulate financial covenants - equity to total assets ratio must be at least 50% and the debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) ratio must not exceed 4.5 - as well as other covenants customary for these types of financing that may restrict certain activities of the Company.

An unsecured and unsubordinated 10-year serial bond issue, dated 16 November 2017, in the amount of EUR 105,000,000. As serial bonds, the Company is obliged to redeem a portion of the bonds annually with the final redemption date for the final outstanding amount (bullet at the end) being 22 November 2027. As of 31 March 2018 the amount of the outstanding bonds was EUR 105,000,000.

The terms of the bonds stipulate financial covenants – equity to total assets ratio must be at least 40% and debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) ratio must not exceed 4.5 – as well as other covenants customary for these types of financing that may restrict certain activities of the Company. See Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection Q (Additional indebtedness could have an adverse effect on the Group's operations and financial condition) and Part VI (Dividends and Dividend Policy) for examples of such restrictions.

(d) Bonds subscribed by Nordea Bank AB (publ)

An unsecured and unsubordinated 10-year serial bond issue, dated 12 November 2007, in the amount of EUR 25,600,000. As serial bonds, the Company is obliged to redeem a portion of the bonds annually with the final redemption date being 19 November 2018. As of 31 March 2018, the amount of the outstanding bonds was EUR 3,650,000.

The loan agreement stipulates financial covenants – the total EBITDA of the Company for each calendar year must be at least EUR 20,000,000 and debt to EBITDA (Consolidated Total Borrowings to Consolidated EBITDA) ratio must not exceed 4.5 – as well as other covenants customary for these types of financing that may restrict certain activities of the Company. See Part II (Risk Factors), section 1 (Risks Relating to the Group's Business), subsection Q (Additional Indebtedness could have an Adverse Effect on the Group's Operations and Financial Condition) and Part VI (Dividends and Dividend Policy) for examples of such restrictions.

C) Commercial Agreements

(a) Ice-Breaking Services Contract with the EMA

On 23 October 2012, the Company entered into an ice-breaking services contract with the EMA, which is valid until 20 April 2022. By an amendment to the contract, dated 15 January 2013, all rights and obligations of the Company under the contract were transferred to its subsidiary, TS Shipping OÜ. Under the contract, TS Shipping OÜ undertakes to provide ice-breaking services in Estonian waters with its ice-breaker Botnica during the winter navigation period which generally lasts from 20 December until 20 April. For the said service, TS Shipping OÜ is entitled to a fee at a daily rate calculated in accordance with the provisions of the contract. With the currently applicable daily rate and duration of the ice-breaking period, the annual revenue from the ice-breaking contract equals to EUR 4.7 million.

The contract provides a list of circumstances in case of which the EMA could extraordinarily cancel the contract, most of which are related to a breach of the contract by TS Shipping OÜ. In addition to the cancellation right, in case of a breach of obligations by TS Shipping OÜ, the EMA has a right to claim compensation for damages from TS Shipping in the amount equal to 50% of the charter amount for the previous charter period, should the EMA decide not to enter into a new charter contract with TS Shipping OÜ for the next charter period.

Pursuant to the ice-breaking services contract TS Shipping OÜ is not allowed to enter into any contracts with third parties, the fulfilment of which would prevent TS Shipping OÜ from using Botnica for ice-breaking services set out in the ice-breaking services contract during the ice-breaking period stipulated therein. Moreover, all contracts entered into by TS Shipping OÜ during the period of the ice-breaking services contract must permit TS Shipping OÜ to provide the ice-breaking services set out in the ice-breaking services contract during the ice-breaking period stipulated therein.

(b) Public Services Contract with the ERA for Providing Maritime Transport for Passengers on Rohuküla-Heltermaa and Virtsu-Kuivastu Route

On 11 December 2014, TS Laevad OÜ and TS Shipping OÜ jointly entered into a public services contract with the Republic of Estonia, represented by the Ministry of Economic Affairs and Communications, for providing maritime transport for passengers on Rohuküla-Heltermaa and Virtsu-Kuivastu routes, effective from 1 October 2016 and valid until 30 September 2026 (a service period of 10 years). Due to changes in the Estonian Public Transportation Act, as of 1 January 2018, the rights and obligation of the Ministry of Economic Affairs and Communication under the Contract have transferred to the ERA, a government agency operating within the administrative area of the Ministry of Economic Affairs and Communications. Under the contract, TS Laevad OÜ and TS Shipping OÜ are obliged to provide maritime transport service for passengers on Rohuküla-Heltermaa and Virtsu-Kuivastu routes. Rohuküla-Heltermaa route connects Estonian mainland to Hiiumaa Island, which is the second biggest island in Estonia. Virtsu-Kuivastu route connects Estonian mainland to Muhumaa Island, which is adjacent to Saaremaa Island (the biggest island in Estonia) and is connected to Saaremaa Island by a causeway. The services under the contract are provided by TS Laevad OÜ, using its four newly built ferries, Tiiu, Leiger, Tõll and Piret, and using the fifth ferry Regula (a used ferry acquired by TS Laevad OÜ) as backup. The ferry services were used by 2.2 million passengers and 956 thousand vehicles on 20 thousand ferry trips in 2017. In 2017 financial year, the Group's revenue from domestic ferry services was EUR 27.1 million.

Under the terms of the Ferry Service Agreement, the Group earns contractual income for the provision of ferry services consisting of a fixed fee (coverage of capital and interest costs), a variable fee (coverage of fixed operating costs, this fee being linked to the CPI and the Estonian wage inflation index) and a voyage fee (coverage of variable cost, this fee being indexed to fuel prices and the CPI). To the extent the Group's ferry ticket sales do not equal the contractual income amount, any shortfall is paid to the Group by the ERA as a subsidy, rendering the domestic ferry services as a stable revenue stream that is not affected by fluctuations in the numbers of passengers and/or vehicles taking the ferry.

Under the public services contract, the Ministry of Economic Affairs and Communications has a call option entitling it to acquire one to four ferries (at its discretion) from TS Laevad OÜ by notifying TS Laevad OÜ of such intention at least four years before the end of the term of the services contract (i.e. by September 2022 at the latest). The price per ferry is set at EUR 26.6 million but is subject to adjustment (and the price could decrease on certain grounds as set out in the services contract).

The contract provides that the ERA has a right to extraordinarily cancel the contract by notifying TS Laevad OÜ and TS Shipping OÜ at least two months in advance, if TS Laevad OÜ and TS Shipping OÜ have repeatedly (at least three times during a one-year period) materially breached their obligations under the contract, and the ERA has within reasonable time after becoming aware of the breach notified TS Laevad OÜ and TS Shipping OÜ thereof in writing and warned TS Laevad OÜ and TS Shipping OÜ of the cancellation of the contract in the case of repeated breaches.

Pursuant to the contract, should TS Laevad OÜ and TS Shipping OÜ unilaterally cease to provide the maritime transport service set out in the public service contract or should the ERA extraordinarily cancel the public service contract, the ERA has a right to demand payment of a contractual penalty in the amount of up to EUR 5,000,000 from TS Laevad OÜ and TS Shipping OÜ. As an exception, the ERA does not have such a right if TS Laevad OÜ and TS Shipping OÜ cease to provide the maritime transport service due to the failure by the ERA to pay the agreed public transport subsidy for two calendar months.

Additionally, the public service contract allows the ERA to demand the payment of certain other contractual penalties (in the amount of EUR 100,000 or EUR 25,000, depending on the breach) from TS Laevad and TS Shipping upon a breach of the public service contract by TS Laevad OÜ or TS Shipping OÜ. The contract further provides that if the Ministry of Economic Affairs and Communications exercises the call option entitling it to acquire one to four ferries (at its discretion) and TS Laevad OÜ fails to enter into the respective sale agreement, fails to transfer title to the ferry or ferries for which the call option is exercised, if the title to ferry or ferries for which the call option is exercised does not belong to TS Laevad OÜ or TS Shipping OÜ at 31 March 2023 or if such ferry or ferries are at that time encumbered by an encumbrance not related to the construction or acquisition of the relevant ferry or ferries, TS Laevad OÜ and TS Shipping OÜ are obliged to pay to the Ministry of Economic Affairs and Communications a contractual penalty in the amount of 50% of the price of the call option for the relevant ferry or ferries.

In accordance with the contract, TS Laevad OÜ and TS Shipping OÜ are obliged to provide to the Ministry of Economic Affairs and Communications a first demand guarantee letter from a credit institution or insurance company which meets certain requirements prescribed for in the agreement, in the amount of EUR 5 million, to secure the payment of the above described contractual penalties. At this time, the respective guarantee letter has been issued by OP Corporate Bank plc Estonia branch.

The Ferry Services Agreement includes a provision according to which TS Laevad OÜ and OÜ TS Shipping, respectively, may not earn excessive revenue, and the remunerated expenses and costs are subject to the "Altmark criteria" (ie the criteria for determining state aid, established by ruling C-280/00 of the European Court of Justice) and Communication from the Commission on the Application of the European Union State Aid Rules to Compensation Granted for the Provision of Services of General Economic Interest (2012/C 8/02). The Ferry Services Agreement provides that if the public transfer subsidy paid to TS Laevad OÜ and OÜ TS Shipping does not satisfy the Altmark criteria or breaches the state aid rules, the excessive amount must be compensated to the ERA with interest.

(c) Shipbuilding Contracts with Sefine Denizcilik Tersanecilik Turizm San. Ve Tic. A.S. and Remontowa Shipbuilding S.A.

On 16 October 2014, TS Laevad OÜ entered into two shipbuilding contracts with shipbuilder Sefine Denizcilik Tersanecilik Turizm San. Ve Tic. A.S, under which the shipbuilder built the ferries M/S Leiger and M/S Tiiu. On 23 October 2014, TS Laevad OÜ entered into two shipbuilding contracts with shipbuilder Remontowa Shipbuilding S.A., under which the shipbuilder built the ferries M/S Piret and M/S Tõll. The ferry M/S Leiger was delivered to TS Laevad OÜ on 4 November 2016, M/S Tiiu on 9 March 2017, M/S Tõll on 5 January 2017 and M/S Piret on 30 March 2017.

The period during which the shipbuilder remains liable under each of the contracts is three years. Furthermore, the total amount of liability of the shipbuilder is capped at 10% of the contract price under the contracts for M/S Tiiu and M/S Leiger. The contracts for M/S Tõll and M/S Piret do not contain such limitation of liability. The guarantee period under each of the contracts is 12 months (with the exception of engines and thrusters, for which the guarantee period is 24 months) and the obligations of the shipbuilders are guaranteed by guarantee letters from credit institutions. The guarantee letters for M/S

Leiger and M/S Tiiu are valid (and have been extended) until 10 June 2018, for M/S Piret until 29 May 2018 and for M/S Tõll (has been extended) until 30 May 2018.

2. RELATED PARTY TRANSACTIONS

The Group companies have entered into several agreements with related parties. All transactions with related parties are executed by the Group companies in the ordinary course of business. The terms and conditions of the transactions with related parties do not deviate materially from the terms and conditions of similar transactions in the areas of activity of the Group companies. Please see Note 24 of the 2017 Audited Financial Statements for the details on the volumes of the related party transactions.

3. INTERNAL ANTICORRUPTION POLICIES

Since the accusations of corruption by the previous members of the Company's Management Board, Mr. Ain Kaljurand and Mr. Allan Kiil, and a previous employee of the company, Mr. Martin Paide, surfaced, a number of actions have been taken to seek to reduce the risk of corruption within the Group and/or by persons associated with the Group. Remediation measures have been undertaken by the Government Shareholder and the Group. First, the Government Shareholder replaced the entire Management Board and Supervisory Council (a majority of the new Supervisory Council members were "independent" within the meaning of the Estonian Corporate Governance Recommendations). Second, under the amendments made to the State Assets Act, since 2017, a nomination committee has been formed for the nomination of members to the Supervisory Council of companies owned by the State, which makes proposals to the Government Shareholder in relation to: (i) the selection of candidates for membership, including chairmanship, in the Supervisory Council, and concerning the recalling of members from the Supervisory Council; (ii) the number of members in the Supervisory Council, and the duration of the members' mandate; and (iii) the rate of remuneration payable to members of the Supervisory Council. The nomination committee comprises of four representatives of the private sector and ex officio representatives of the State, who in relation to any recommendations made with respect to the Supervisory Council of the Company are the Secretary-General of the Ministry of Finance and the Secretary-General of the Ministry of Economic Affairs and Communications. Third, the Group introduced new policies and controls, particularly anti-bribery and anti-corruption procedures, which are described in greater detail below. For further information regarding the new members of the Supervisory Council, see Part XI (Management).

Significant compliance measures undertaken by the Company include:

- the creation of a new organisational structure (which includes increasing the number of management board members from two to three) and clarification of the organisation of competences and responsibilities between the Management Board and Supervisory Council;
- regular engagement of various working committees upon passing of decisions;
- adoption and implementation of updated and amended procedures for entering into transactions;
- reorganisation of the management of subsidiaries, which includes the centralisation of support functions to the Company and merger of TS Energia OU into the Company;
- enhancement of corruption prevention measures, including:
    - establishment of a requirement for Supervisory Council members, Management Board members and key employees to declare their business interests and the creation of a list of entities with which conflict of interest may occur in transactions;
    - carrying out conflict of interest checks before negotiating and concluding transactions;
    - strengthening of rules for avoiding conflict of interest, including the declaration of business interests of the Management Board and the Supervisory Council and key employees;

    - providing anti-corruption related trainings to employees and managers;
    - controls over gifts; and
- strengthening of anti-corruption measures on the basis of external audits.

4. APPLICABILITY OF THE GUIDELINES FOR FINANCIAL ACCOUNTING AND REPORTING FOR PUBLIC SECTOR

As the Government Shareholder owns and controls 100% of the Shares outstanding prior to the Offering and will own and control 67.03% of all the Shares outstanding (provided that all Secondary Shares remain in public hands) or 71.33% of all the Shares outstanding (if all Secondary Shares are put back to the Government Shareholder in accordance with the terms of the Put Option) immediately following the Offering, the Group is and will after the Offering remain subject to certain requirements arising from the Guidelines for Financial Accounting and Reporting for the Public Sector. In accordance with the Guidelines, the Group is and will remain obliged to:

- Maintain and carry out its accounting in compliance with the Guidelines for Financial Accounting and Reporting for the Public Sector;
- Within seven business days from the approval of the annual report of the Company, submit the annual report to the Ministry of Economic Affairs and Communication; and
- Submit its statement of balances to the State Support Service Centre as at the end of the quarter by the 25th day following the end of the quarter, and as at the end of the previous year by 25th March each year.

5. AUDITING BY THE ESTONIAN NATIONAL AUDIT OFFICE

As the Government Shareholder owns and controls 100% of the Shares outstanding prior to the Offering and will own and control 67.03% of all the Shares outstanding (provided that all Secondary Shares remain in public hands) or 71.33% of all the Shares outstanding (if all Secondary Shares are put back to the Government Shareholder in accordance with the terms of the Put Option) immediately following the Offering, the Group is and will after the Offering remain subject to the auditing by the Estonian National Audit Office. The auditing of the Group by the Estonian National Audit Office includes the assessment of:

- The Group’s internal control, financial management, financial accounting and financial statements;
- The legality of the Group’s economic activities, including economic transactions; and
- The reliability of the Group’s information technology systems.

6. CERTAIN INFORMATION ON THE PROSPECTUS

This Prospectus has been prepared by the Company in connection with the Offering and the Listing in accordance with the Estonian laws implementing the Prospectus Directive and in accordance with the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive, as amended (the "**Prospectus Regulation**").

This Prospectus has been registered with the Estonian Financial Supervision Authority (*Finantsinspektsioon*) (the "**Authority**").

Prospective investors should rely only on the information contained in this Prospectus. No person has been authorised to give any information or to make any representation in connection with the Offering or Listing other than as contained in this Prospectus. If given or made, such information or representation must not be relied upon as having been authorised by the Company, the Advisors, Citigroup Global Markets Limited and Carnegie Investment Bank AB (the "**Joint Global Coordinators**"), Erste Group Bank AG and Swedbank AS (the "**Joint Bookrunners**") or AS LHV Pank (the "**Joint Lead Manager**", and together with the Joint Global Coordinators and the Joint Bookrunners, the "**Underwriters**"). Neither the delivery of this Prospectus nor any sale or assignment based thereon shall, under any circumstances, create any implication that the information contained in the Prospectus is correct as of any time subsequent to the date hereof or that the operations of the Company have not since changed.

Citigroup Global Markets Limited
Canada Square
Canary Wharf
London, E14 5LB
United Kingdom

Carnegie Investment Bank AB, Finland Branch
Eteläesplanadi 22
FI-00130 Helsinki
Finland

Erste Group Bank AG
Am Belvedere 1
1100 Vienna
Austria

Swedbank AS
Liivalaia 8
15040 Tallinn
Estonia

AS LHV Pank
Tartu mnt 2
10145 Tallinn
Estonia

7. NOTICES TO INVESTORS

A) Responsibility

This Prospectus has been prepared by the Company in connection with the Offering and the Listing and solely to enable potential investors to consider purchasing the Offer Shares.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. It is prohibited to copy or distribute the Prospectus or to reveal or use the information contained herein for any other purpose than considering the purchase of Offer Shares.

In accordance with the Prospectus Regulation and pursuant to Section 24 of the Estonian Securities Markets Act, aktsiaselts TALLINNA SADAM, with its registered office at Sadama 25, 15051 Tallinn, Estonia, company registration number 10137319, states that it is responsible for the information in this Prospectus. The Company accepts responsibility for the fullness and correctness of the information contained in this Prospectus as of the date hereof. Having taken all reasonable care to ensure that such is the case, the Company believes that information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts, and that no information likely to affect its import has been omitted.

Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely based on the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Tallinn, 7 May 2018

Management Board of aktsiaselts TALLINNA SADAM

[*signed digitally*]	[*signed digitally*]	[*signed digitally*]
Valdo Kalm *Chief Executive Officer*	Margus Vihman *Board Member*	Marko Raid *Chief Financial Officer*

B) Restrictions on Distribution of Prospectus and Offer and Subscription

No person has been authorised to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, or by any of the Underwriters, and the Advisors. This Prospectus does not constitute an offer to sell or issue or a solicitation of an offer to buy or subscribe for any of the Offer Shares or other Shares in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Prospectus and the Offering for subscription or sale of the Offer Shares in certain jurisdictions is restricted by law. No action has been taken to register or qualify the Offer Shares to be offered in the Offering or otherwise permit a public offering of the Offer Shares in any jurisdiction outside of Estonia. Accordingly, any person who resides in any country other than Estonia may not be permitted to receive this Prospectus and no Offer Shares are offered to any such person in the course of the Retail Offering. Persons into whose possession this Prospectus may come are required by the Company and the Underwriters to inform themselves of and observe all such restrictions. Neither the delivery of this Prospectus nor any offer for subscription or sale made in connection with the Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Company have not since changed. This Prospectus may not be distributed or published in connection with the Offering in such countries or otherwise in such circumstances in which the Offering, such distribution or publication would be unlawful or require measures other than those required under Estonian laws and taken by the Company. Further information with regard to restrictions on offering and sale of the Offer Shares and the distribution and publication of this Prospectus is set out in Part II (Offering), section 13 (Selling and Transfer Restrictions).

C) Notice to U.S. Investors

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold within the United States, except in a transaction not subject to, or pursuant to an exemption from, the registration requirements of the U.S. Securities Act, and in compliance with any applicable state securities laws.

The Offer Shares are being offered and sold: (i) in the United States only to QIBs as defined in, and in reliance on Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that any seller of the Offer Shares may be relying on the exemption from the registration provisions of the U.S. Securities Act provided by Rule 144A. The Offer Shares are not transferable except in accordance with the restrictions described in Part III (The Offering), section 14 (Selling and Transfer Restrictions).

THE OFFER SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE OFFER SHARES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

D) Available Information

The Company has agreed that, so long as any Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the U.S. Securities Act upon the request of such holder or beneficial owner.

This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the U.S. Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Offer Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis to QIBs in the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Offer Shares offered hereby, is prohibited. Each potential investor in the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

E) Notice to Investors in the European Economic Area

This Prospectus has been prepared on the basis that all offers of Offer Shares in any Member State of the European Economic Area which has implemented the Prospectus Directive other than Estonia (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the Offer Shares. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Offer Shares which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer or to passport this Prospectus. Neither the Company nor the Underwriters have authorised, nor do they authorise, the making of any offer of the Offer Shares in circumstances in which an obligation arises for the Company or the Underwriters to publish or supplement a prospectus for such offer or to passport this Prospectus into a jurisdiction other than Estonia. The expression Prospectus Directive includes any relevant implementing measure in the Relevant Member State.

F) Notice to UK Investors

This Prospectus is only being distributed to and is only directed at: persons who (i) are outside the United Kingdom; (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order (high net worth companies, unincorporated associations, etc.); or (iv) are persons to whom this Prospectus may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

IN ADDITION TO AND NOTWITHSTANDING THE ABOVE, SUBJECT TO CERTAIN EXEMPTIONS, THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR ISSUE OR A SOLICITATION OF AN OFFER TO BUY OR SUBSCRIBE FOR ANY OF THE OFFER SHARES TO ANY PERSON WITHIN THE UNITED STATES, CANADA, JAPAN, SOUTH AFRICA, OR AUSTRALIA OR ANY OTHER JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION IN SUCH JURISDICTION. NONE OF THE COMPANY NOR ANY OF THE UNDERWRITERS OR ANY OF THEIR RESPECTIVE AFFILIATES ACCEPTS ANY LEGAL RESPONSIBILITY FOR **ANY SUCH VIOLATIONS, WHETHER OR NOT A PROSPECTIVE INVESTOR SUBSCRIBING FOR THE OFFER SHARES IS AWARE OF SUCH RESTRICTIONS. PLEASE ALSO READ PART III (OFFERING), SECTION 14 (SELLING AND TRANSFER RESTRICTIONS).**

Each prospective investor subscribing for the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes for, offers or sells the Offer Shares or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Company and the Underwriters shall have any responsibility for these obligations.

The Underwriters are acting exclusively for the Company in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing any advice in relation to the Offering. Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by Estonian law or the regulatory regime established thereunder or under the regulatory regime of any jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offering. Each of the Underwriters accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of such document or any such statement.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal advisor, business advisor or tax advisor as to legal, business and tax advice.

G) Availability of the Prospectus

This Prospectus and its Estonian and Russian language summaries are available as of [●] 2018 in an electronic form on the website of the Estonian Financial Supervision Authority (www.fi.ee) and on the website of the Company (investor.ts.ee).

Any interested party may request delivery of an electronic copy of the Prospectus and its Estonian and Russian language summaries from the Company and the Underwriters without charge.

8. PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

A) Financial Information

The financial information included in this Prospectus has been extracted or derived from (i) consolidated audited financial statements as of and for the year ended 31 December 2017, including the audited comparative financial statements as of and for the year ended 31 December 2016 (the "**2017 Audited Financial Statements**") and (ii) consolidated audited financial statements as of and for the year ended 31 December 2015, including the comparative financial statements as of and for the year ended 31 December 2014 (the "**2015 Audited Financial Statements**", and together with the 2017 Audited Financial Statements, the **"Audited Financial Statements"**) of the Group prepared in accordance with the International Financial Reporting Standards as adopted in the European Union ("**IFRS**") and the Estonian Accounting Act. Audited Financial Statements have been audited by AS Deloitte Audit Eesti. 2017 Audited Financial Statements and 2015 Audited Financial Statements, together with the respective audit reports thereon, are included in this Prospectus.

The interim financial information included in this Prospectus as of and for the three months ended 31 March 2018 and 2017, has been extracted or derived from the unaudited consolidated condensed interim report as of 31 March 2018 (the **"Interim Financial Report"**) prepared in accordance with IAS 34. The Interim Financial Report has been reviewed by AS Deloitte Audit Eesti. The Interim Financial Report, together with the respective review report thereon, are included in this Prospectus. The Audited Financial Statements, together with the Interim Financial Report are referred as the **"Financial Statements"** in this Prospectus.

On 1 January 2017, the Group early adopted IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**") and IFRS 9, Financial Instruments ("**IFRS 9**"). IFRS 15 was applied using the full retrospective transitional approach and therefore the 2016 comparatives have been adjusted to reflect the changes required to the comparative period. IFRS 9 has been applied retrospectively for 2016; however because the impact was not material, no restatements were required or applied as it relates to IFRS 9. In addition to the changes in accounting policy due to the early adoption of IFRS 9 and IFRS 15 the Group has voluntarily applied changes in accounting policies retrospectively for the presentation of certain government grants under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and the presentation of loss allowance in order to provide more reliable and relevant information. For more information please see the consolidated financial statements as of and for the year ended December 31, 2017 and 2016.

The audited consolidated financial statements as of and for the year ended 31 December 2015 do not reflect the changes from the application of IFRS 15 and IFRS 9 and the accounting policies changes noted above. Those audited consolidated financial statements applied International Accounting Standard ("**IAS**") 18, *Revenue* ("**IAS 18**") and IAS 39, *Financial Instruments: Recognition and Measurement* ("**IAS 39**"), which were the accounting standards in effect at that time. Therefore, due to the adoption of the new accounting standards and the accounting policies changed applied, the consolidated financial statements as of and for the year ended 31 December 2017, including the comparative financial statements as of and for the year ended 31 December 2016, are not directly comparable with the consolidated financial statements as of and for the year ended 31 December 2015.

The financial information included in this Prospectus was derived or extracted from the Financial Statements referred to above.

The financial information relating to the Group, as set out in this Prospectus was not prepared in accordance with accounting principles generally accepted in the U.S. ("**U.S. GAAP**"), not audited in accordance with the auditing standards generally accepted in the U.S. ("**U.S. GAAS**"), or the auditing standards of the U.S.

Public Company Accounting Oversight Board (the "**PCAOB Standards**"). No opinion or any other assurance with regard to any financial information was expressed under U.S. GAAP, U.S. GAAS or PCAOB Standards, and the financial information relating to the Group is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification, reformulation or exclusion of certain financial measures. In addition, changes would be required in the presentation of certain other information. Potential investors should consult their own professional advisors to gain an understanding of the financial information relating to the Group.

B) Non-IFRS Financial Measures

The Group uses certain measures to assess the financial performance and liquidity of its business. Certain of these measures are termed “non-IFRS financial measures” because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. These non-IFRS financial measures, include Adjusted EBITDA, Adjusted EBITDA margin, cash conversion and Adjusted cash conversion (together "**Non-IFRS Financial Measures**"). These Non-IFRS Financial Measures are used by the Group's management to monitor the underlying performance of the business and the operations.

These Non-IFRS Financial Measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing these Non-IFRS Financial Measures as reported by the Group to the similar Non-IFRS Financial Measures as reported by other companies. These Non-IFRS Financial Measures described in this Prospectus have not been prepared in accordance with IFRS or any other generally accepted accounting principles. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC and will not be subject to review by the SEC; compliance with its requirements would require the Group to make changes to the presentation of this information.

None of these Non-IFRS Financial Measures is a measurement of performance under IFRS or any other generally accepted accounting principles and investors should not consider these Non-IFRS Financial Measures as an alternative to profit for the year, operating profit, cash flows from operating activities or other financial measures determined in accordance with IFRS or other generally accepted accounting principles. These Non-IFRS Financial Measures have limitations as analytical tools, and you should not consider them in isolation.

An explanation of the relevance of each of the Non-IFRS Financial Measures, a reconciliation of the non-IFRS financial measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below. The Group does not regard these Non-IFRS Financial Measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

(a) Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that is defined by the Group as profit for the period excluding the impact of income tax expense, finance income and costs (net), depreciation, amortization and impairment, and amortisation of grants received. The Group presents Adjusted EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. Adjusted EBITDA is the measure used by management to assess the profitability of our business and is also a measure of segment profit that the Group presents under IFRS. Adjusted EBITDA is also presented on a consolidated basis because the Management Board believes it is important to consider our profitability on a basis consistent with that of our reportable segments. When presented on a consolidated basis, adjusted EBITDA is a non-IFRS measure.

For a quantitative reconciliation of Adjusted EBITDA, to the most directly comparable amounts reported in accordance with IFRS, profit for the period see Part VII (Selected Financial Information).

(b) Adjusted EBITDA Margin

Adjusted EBITDA Margin is a non-IFRS financial measure that is defined as Adjusted EBITDA divided by total revenue, expressed as a percentage. The Group presents Adjusted EBITDA Margin because the Group considers it to be useful for comparing the Group's margins in respect of its profitability between periods without the impact adjustments as described above in Adjusted EBITDA. Adjusted EBITDA margin by segment is also a non-IFRS financial measure.

For a quantitative reconciliation of Adjusted EBITDA Margin to the most directly comparable amounts reported in accordance with IFRS, net profit margin, see Part VII (Selected Financial Information).

Adjusted EBITDA and Adjusted EBITDA margin have limitations as analytical tools. Some of these limitations are:

- they do not reflect the finance cost, which reflect the financial leverage model used by the Group;
- although depreciation and amortisation are non-monetary charges, the assets being depreciated and amortised will often need to be replaced in the future and Adjusted EBITDA-based measures do not reflect any cash requirements that would be required for such replacements;
- Adjusted EBITDA-based measures do not reflect the impact of certain charges resulting from matters the Group considers not to be indicative of their ongoing operations;
- Adjusted EBITDA – based measures do not reflect the impact of income tax expense on the Groups' performance; and
- further adjustments made in calculating Adjusted EBITDA-based measures are those that management consider are not representative of the underlying operations of the Group and therefore are subjective in nature.

(c) Cash conversion and adjusted cash conversion

Cash conversion is a non-IFRS measure that is defined as Adjusted EBITDA less adjusted capital expenditure divided by Adjusted EBITDA, expressed as a percentage. The Group presents cash conversion as it represents the Group's ability to generate cash earnings to service debt and ultimately distribute earnings, after satisfying necessary regular capital expenditures.

In addition, the Group also presents adjusted cash conversion. Adjusted cash conversion is a non-IFRS measure that is defined as Adjusted EBITDA less adjusted capital expenditure divided by Adjusted EBITDA, expressed as a percentage. Adjust capital expenditure is total capital expenditure less capital expenditures incurred by the Ferry segment. The Group presents adjusted cash conversion as it represents the Group's ability to generate cash earnings to service debt and ultimately distribute earnings, after satisfying necessary regular capital expenditures that do not include those incurred by the Ferry segment during 2015, 2016 and 2017, which are related mostly to investments in assets to start operations.

Cash conversion, adjusted cash conversion and similar measures are used by different companies and for differing purposes and are calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing cash conversion and adjusted cash conversion as reported by the Group to cash conversion and adjusted cash conversion of other companies.

Cash conversion and Adjusted cash conversion do not represent the residual cash flow available for discretionary expenditures and have limitations as an analytical tool. Some of these limitations are:

- they do not reflect the Group's cash expenditures or future requirements for capital expenditure or contractual commitments;

- they do not reflect changes in, or cash requirements for, the Group's working capital needs;
- they do not reflect the cash requirements necessary to service interest or principal payments, on the Group's debt;
- they do not reflect any restrictions on the transfer of cash and cash equivalents within the Group; and
- Adjusted cash conversion does not reflect major capital investments.

For a quantitative reconciliation of Cash conversion and Adjusted cash conversion to the most directly comparable amounts reported in accordance with IFRS, cash flows from operating activities less cash flow used in investment activities divided by cash from operating activities, expressed as a percentage, see Part VII (Selected Financial Information), section 6 (Additional Financial Information).

C) Approximation of Numbers

Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values etc.) are presented with such precision, which is considered by the Group to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented do not necessarily add up to the respective totals due to the effects of the approximation. Exact numbers may be derived from the Financial Statements of the Group, to the extent that the relevant information is reflected therein.

D) Currencies

Unless otherwise indicated in this Prospectus, all references to "**EUR**", "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community. All references to "**USD**", "**$**" or "**dollar**" refer to the lawful currency of the United States of America.

In this Prospectus, financial information is presented in EUR.

For reference, please see the table below with information about EUR/USD currency exchange rates:

	EUR per US $1.00			
	High	**Low**	**Average**	**Period end**
As at 31 March 2018	0.8381	0.8004	0.8136	0.8116
Year ended 31 December				
2017	0.9629	0.8292	0.8870	0.8338
2016	0.9649	0.8644	0.9039	0.9487
2015	0.9477	0.8304	0.9019	0.9185
2014	0.8237	0.7167	0.7539	0.8237
2013	0.7832	0.7239	0.7532	0.7255

Source: *The European Central Bank*

E) Documents on Display

For the period of validity of this Prospectus, copies of the following documents will be available for inspection on the website of the Company (investor.ts.ee):

- this Prospectus;
- the Company's Articles of Association.

Any interested party may download a copy of these items from the above-referred websites without charge. The original language of the documents annexed to this Prospectus or referred to in this Prospectus is Estonian. Any reference to an unofficial translation is a reference to the document being translated into English.

The Company is not required to file periodic reports under Sections 13 or 15(d) of the Exchange Act. In the event the Company is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, in order to preserve the exemption for resales and transfers under Rule 144A, the Company will provide upon request to the holder of any Share, and to each prospective purchaser designated by any such holder, the information specified in, and meeting the requirements of Rule 144A(d)(4).

F) Third Party Information

Where certain information contained in this Prospectus has been derived from third party sources, such sources have been identified herein. The Company confirms that such third party information has been accurately reproduced herein and as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted, which would render the reproduced information inaccurate or misleading.

G) Market and Industry Data

Certain information relating to the market share and industry data provided by Royal Haskoning presented in this Prospectus under the headings Part I (Summary), Part VIII (Operating and Financial Review), Part IX (Industry Overview), Part X (Business) has been reproduced from a report dated 21 March 2018 prepared by Royal Haskoning (the "**Royal Haskoning Report**").

Furthermore, certain information relating to market share and other industry data contained in this Prospectus is based on independent industry publications, information published by the Statistics Estonia or other published independent sources. The Company has not independently verified market share, ranking or other industry data from the Royal Haskoning Report or other third party sources.

H) Updates

The Company will update the information contained in this Prospectus only to such extent, at such intervals and by such means as required by applicable law or considered necessary and appropriate by the Company at its absolute discretion. The Company is under no obligation to update or modify forward-looking statements included herein.

9. FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking". Forward-looking statements appear in various locations, including in Part I (Summary), Part II (Risk Factors), Part IV (Background, Reasons for Offering and Use of Proceeds), Part VI (Dividends and Dividend Policy), Part VIII (Operating and Financial Review) and Part X (Business), and located elsewhere in this Prospectus regarding the prospects of the Group's industry and the Group's prospects, plans, financial position and business strategy. Forward-looking statements can often be identified by the use of terms such as "estimates", "projects", "anticipates", "expects", "intends", "believes", "will", "may", "should" or the negative of these terms. All forward-looking statements, including discussions of strategy, plans, objectives, goals and future events or performance, involve risks and uncertainties.

While these statements are based on sources believed to be reliable and on the current knowledge and best belief of the Management Board, they are merely estimates or predictions and cannot be relied upon. They are subject to certain risks, uncertainties and assumptions. These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Company. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements.

The list of important factors in Part II (Risk Factors) is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider those factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except to the extent required by applicable law. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on the Company's behalf.

The Company does not intend, and does not assume any obligation, to update the forward looking statements included in this Prospectus as at the date set forth on the cover.

The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regards thereto or any change in events, conditions or circumstances on which any such statement is based.

10. GOVERNING LAW AND JURISDICTION

This Prospectus and the Retail 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 Retail Offering shall be settled by Harju County Court (*Harju maakohus*) in Estonia unless the exclusive jurisdiction of any other court is provided for by the provisions of law, which cannot be derogated from by an agreement of the parties.

11. ENFORCEABILITY OF JUDGEMENTS

The Company is a public limited company incorporated under the laws of Estonia. All of the directors and executive officers of the Company are citizens or residents of countries other than the United States. All or a substantial portion of the assets of such persons and substantially all the assets of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or the Company, or to enforce or collect judgements of U.S. courts against them, including judgements predicated upon civil liabilities under the securities laws of the United States or any State or territory of the United States.

PART XIX. DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise:

"2015 Audited Financial Statements"	consolidated audited financial statements as of and for the year ended 31 December 2015, including the comparative financial statements as of and for the year ended 31 December 2014
"2017 Audited Financial Statements"	consolidated audited financial statements as of and for the year ended 31 December 2017, including the audited comparative financial statements as of and for the year ended 31 December 2016
"Advisors"	STJ Advisors Group and Superia Corporate Finance
"Articles of Association"	the Company's articles of association
"Audit Committee"	the audit committee of the Company
"Audited Financial Statements"	2015 Audited Financial Statements and 2017 Audited Financial Statements
"Authority"	Estonian Financial Supervision Authority
"BOT"	Build Operate Transfer
"Botnica Service Agreement"	an agreement between the Group and the EMA for the provision of ice-breaking services dated 23 October 2012
"CAGR"	Compound Annual Growth Rate
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"CGR"	Estonian Corporate Governance Recommendations
"CIS"	Commonwealth of Independent States
"CIT"	Estonian Corporate Income Tax
"Code"	Section 1221 of the U.S. Internal Revenue Code of 1986, as amended
"Commercial Register"	the Commercial Register of the Republic of Estonia
"Company"	aktsiaselts TALLINNA SADAM
"CPI"	Estonian Consumer Price Index
"Deloitte"	AS Deloitte Audit Eesti
"EIB"	European Investment Bank
"EMA"	Estonian Maritime Administration
"ERA"	Estonian Road Administration
"ERS"	Estonian Register of Securities
"ESPO"	European Sea Ports Organisation
"ESRMA"	Estonian Securities Register Maintenance Act
"EUR" or "€"	Euro, the official currency of the Eurozone
"Euribor"	Euro Interbank Offered Rate
"European Union" or "EU"	the economic and political union established in 1993 by the Maastricht Treaty, with the aim of achieving closer economic and political union between member states that are primarily located in Europe
"Exchange Act"	United States Securities Exchange Act of 1934, as amended
"Ferry Services Agreement"	an agreement between the Group and the ERA for the provision of domestic ferry services dated 11 December 2014

"Financial Promotion Order"	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
"Financial Statements"	Audited Financial Statements and Interim Financial Report
"FSMA"	Financial Services and Markets Act 2000, as amended
"General Meeting of Shareholders"	the Company's general meeting of shareholders
"HHLA"	Hamburger Hafen und Logistik AG
"Joint Bookrunners"	Erste Group Bank AG and Swedbank AS
"Joint Global Coordinators"	Citigroup Global Markets Limited and Carnegie Investment Bank AB
"Joint Lead Manager"	AS LHV Pank
"Government Shareholder"	the Republic of Estonia, acting through the Ministry of the Economic Affairs and Communications, the sole shareholder of the Company
"Governmental Order"	order by the Government of Estonia dated 29 March 2018, as amended by the order dated 3 May 2018
"Group"	the Company together with its consolidated subsidiaries, OÜ TS Shipping and OÜ TS Laevad and joint venture AS Green Marine (unless the context otherwise requires)
"IAS"	International Accounting Standards
"IFRIC"	International Financial Reporting Interpretations Committee
"IFRS"	International Financial Reporting Standards
"Institutional Offering"	the offering of the Offer Shares to certain institutional and other investors, including QIBs in the United States, as described in Part II (The Offering)
"Institutional Offer Shares"	the Primary Shares and the Secondary Shares
"Interim Financial Report"	the unaudited consolidated condensed interim report of the Group as of 31 March 2018
"ISPS"	International Ship and Port Facility Security
"IT"	information technology
"Listing"	the listing of the Offer Shares on the Nasdaq Baltic Main List of the Tallinn Stock Exchange
"LNG"	liquefied natural gas
"Management Board"	the management board of the Company
"MAR"	Regulation (EU) No 596/2014, as amended
“MARPOL”	International Convention for the Prevention of Pollution from Ships
"Masterplan"	the Old City Harbour Masterplan 2030 report by Zaha Hadid Architects dated 15 December 2017
"New Shares"	up to 75,404,968 newly issued ordinary Shares of the Company with nominal value of EUR 1 each
"NIB"	Nordic Investment Bank
"Offer Period"	the period during which the Offer Shares are available for subscription in the Offering
"Offer Price"	the price at which each Offer Share is to be issued or sold under the Offering
"Offer Price Range"	the range within which the Offer Price will be set, being between EUR [●] to EUR [●]

"Offer Shares"	the New Shares to be offered and issued by the Company as part of the Institutional and Retail Offering and the Secondary Shares to be offered by the Government Shareholder as part of the Institutional Offering
"Offering"	the Retail Offering and the Institutional Offering jointly
"PCAOB Standards"	auditing standards of the U.S. Public Company Accounting Oversight Board
"PFIC"	passive foreign investment company
"Port of Tallinn"	the Company together with its consolidated subsidiaries, OÜ TS Shipping and OÜ TS Laevad and joint venture AS Green Marine (unless the context otherwise requires)
"Primary Shares"	the New Shares offered to institutional investors in the Institutional Offering
"Prospectus"	this document
"Prospectus Directive"	Directive (2003/71/EC) (and amendments thereto, including Directive (2010/73/EU), to the extent implemented in a Relevant Member State) and includes all relevant implementing measures in each Relevant Member State and Estonia
"Prospectus Regulation"	Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive, as amended
"Put Option"	put option granted by the Government Shareholder to the Stabilising Manager or its agent, on behalf of the Underwriters, to sell Offer Shares to the Government Shareholder at such prices at which the Stabilising Manager or its agent may acquire them in the open market in connection with the stabilisation transactions
"QEF election"	an alternative election to U.S. Holders that may mitigate the adverse U.S. federal income tax consequences to an electing U.S. Holder should the Company be classified as a PFIC
"qualified institutional buyers" or "QIBs"	has the meaning given by Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Member State"	Member State of the European Economic Area which has implemented the Prospectus Directive
"Retail Offering"	the offering of the Offer Shares to the public in Estonia, as more particularly described in Part III (The Offering), section 1 (The Offering)
"Retail Offer Shares"	the New Shares offered to retail investors in the Retail Offering
"ro-ro"	roll-on/roll-off cargo
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Secondary Shares"	up to 11,300,000 existing ordinary Shares of the Company with the nominal value of EUR 1 each
"Settlement Agent"	Swedbank AS
"Shares"	ordinary shares with a nominal value of EUR 1 each in the capital of the Company

"Stabilisation Period"	any time on or before the 30th calendar day after the commencement of trading in the Shares on the Tallinn Stock Exchange
"Stabilising Agent"	Swedbank AS
"Stabilising Manager"	Citigroup Global Market Limited
"Subscription Price"	the upper limit of the Offer Price Range, i.e. EUR [●] per Offer Share
"Subscription Undertaking"	a subscription undertaking to be submitted by an investor in the Retail Offering via the relevant custodian
"Supervisory Council"	the supervisory board of the Company
"Tallink"	Aktsiaselts Tallink Grupp
"Tallinn Stock Exchange"	the Baltic Main List of Nasdaq Tallinn
"TEN-T"	Trans-European Transport Network
"TEU"	the standard industry measurement of a 20-foot equivalent unit
"Time of Sale"	the date and time at which pricing and allocation of the Offer Shares occurs
"Underwriters"	the Joint Global Coordinators and the Joint Bookrunners and the Joint Lead Manager
"Underwriting Agreement"	the underwriting agreement, expected to be entered into between the Company, the Government Shareholder, the directors of the Company, and the Underwriters described in Part III (Offering), section 2 (Underwriting)
"United States" or "US"	the United States of America, its territories and possessions, any State of the United States of America, and District of Columbia
"USD"	United States Dollars, the lawful currency of the United States of America
"U.S. GAAP"	accounting principles generally accepted in the U.S.
"U.S. GAAS"	auditing standards generally accepted in the U.S.
"U.S. Holder"	a beneficial owner of an Offer Share that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any political subdivision thereof, including the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source; or a trust if (A) a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (B) such trust has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"VAT"	value added taxes
"WWCE"	Worldwide Cargo Establishment

PART XX FINANCIAL INFORMATION

INDEX TO FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros	Note	31.03.2018	31.12.2017
ASSETS			
Current assets			
Cash and cash equivalents		20,188	6,954
Trade and other receivables	4	8,505	9,271
Contract assets	10	234	0
Inventories		319	301
Total current assets		**29,246**	**16,526**
Non-current assets			
Investments in joint venture	5	1,256	1,256
Other long-term receivables	4	272	272
Property, plant and equipment	6	573,707	577,125
Intangible assets		1,896	1,958
Total non-current assets		**577,131**	**580,611**
Total assets		**606,377**	**597,137**
LIABILITIES			
Current liabilities			
Loans and borrowings	8	19,423	21,989
Derivative financial instruments		545	609
Provisions		881	1,503
Government grants		161	303
Taxes payable		1,223	698
Trade and other payables	7	7,497	7,777
Contract liabilities	10	3,663	33
Total current liabilities		**33,393**	**32,912**
Non-current liabilities			
Loans and borrowings	8	210,611	213,611
Government grants		23,687	23,826
Other payables	7	64	64
Contract liabilities	10	938	932
Total non-current liabilities		**235,300**	**238,433**
Total liabilities		**268,693**	**271,345**
EQUITY			
Share capital	9	185,203	185,203
Statutory reserve capital		18,520	18,520
Hedge reserve		-545	-609
Retained earnings		122,678	96,253
Profit for the period		11,828	26,425
Total equity		**337,684**	**325,792**
Total liabilities and equity		**606,377**	**597,137**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the 3 months ended 31 March

Consolidated statement of profit or loss

in thousands of euros	Note	2018	2017
Revenue	3, 10	29,414	29,849
Other income	11	203	3,898
Operating expenses	12	-7,584	-10,163
Personnel expenses		-4,189	-4,057
Depreciation, amortization and impairment	3	-5,403	-4,550
Other expenses		-102	-251
Operating profit	**3**	**12,339**	**14,726**
Finance income and costs			
Finance income		0	4
Finance costs		-511	-475
Finance costs - net		**-511**	**-471**
Profit/loss from investments in joint venture under equity method of accounting		0	51
Profit before income tax		**11,828**	**14,306**
Profit for the period		**11,828**	**14,306**
Attributable to:			
Owners of the Parent		11,828	14,306
Basic earnings and diluted earnings per share (in euros)		0,06	0,08
Basic earnings and diluted earnings per share - continuing operations (in euros)		0,06	0,08

Other comprehensive income

in thousands of euros	2018	2017
Profit for the period	**11,828**	**14,306**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gain on hedging instruments entered into for cash flow hedges	64	168
Total other comprehensive income	**64**	**168**
Total comprehensive income for the period	**11,892**	**14,474**
Attributable to:		
Owners of the Parent	11,892	14,474

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the 3 months ended 31 March

in thousands of euros	Note	2018	2017
Cash receipts from sale of goods and services		35,237	34,569
Cash receipts related to other income		3	327
Payments to suppliers		-8,987	-11,705
Payments to and on behalf of employees		-3,517	-2,934
Payments for other expenses		-99	-590
Income tax paid on dividends		0	-8,657
Cash flows from operating activities		**22,637**	**11,010**
Purchases of property, plant and equipment (PPE)		-2,984	-12,973
Purchases of intangible assets		-130	-236
Proceeds from sale of PPE		0	250
Interest received		0	3
Cash used in investing activities		**-3,114**	**-12,956**
Repayments of loans	8	-3,000	-3,000
Change in overdraft	8	-2,565	0
Finance lease principal repayments		-1	-1
Interest paid		-707	-789
Other payments related to financing activities		-16	0
Cash used in financing activities		**-6,289**	**-3,790**
NET CASH FLOW		**13,234**	**-5,736**
Cash and cash equivalents at beginning of the period		6,954	49,918
Change in cash and cash equivalents		13,234	-5,736
Cash and cash equivalents at end of the period		20,188	44,182

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 3 months ended 31 March

In thousands of euros	Share capital	Statutory capital reserve	Cash flow hedging reserve	Retained earnings	Total equity attributable to the owners of the Parent
Equity at 31 December 2017	**185,203**	**18,520**	**-609**	**122,678**	**325,792**
Profit for the period	0	0	0	11,828	**11,828**
Other comprehensive income for the period	0	0	64	0	**64**
Total comprehensive income for the period	*0*	*0*	*64*	*11,828*	***11,892***
Equity at 31 March 2018	**185,203**	**18,520**	**-545**	**134,506**	**337,684**
Equity at 31 December 2016	**185,203**	**18,520**	**-1,008**	**144,253**	**346,968**
Profit for the period	0	0	0	14,306	**14,306**
Other comprehensive income for the period	0	0	168	0	**168**
Total comprehensive income for the period	*0*	*0*	*168*	*14,306*	***14,474***
Equity at 31 March 2017	**185,203**	**18,520**	**-840**	**158,559**	**361,442**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as the "Parent" or the "Company") is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The interim condensed consolidated financial statement of AS Tallinna Sadam as at and for the 3 months ended 31 March 2018 comprise the Parent and its subsidiaries (together referred to as the "Group"). The Parent's core business line is rendering of port services in the capacity of a landlord port (AS Tallinna Sadam owns the land on which it operates) whose tasks involve managing and developing port infrastructure and organising vessel traffic in the port basin.

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

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

Companies belonging to the Group as at 31 March 2018:

Subsidiary	Domicile	Ownership interest (%)	Core business line
OÜ TS Shipping	The Republic of Estonia	100	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	The Republic of Estonia	100	Rendering a domestic ferry service with passenger ferries

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

The address of the Parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

2. ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the 3 months ended 31 March 2018 have been prepared in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting". Current interim condensed consolidated financial statements for the 3 months ended 31 March 2018 is the first interim financial report that complies with IAS 34.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's consolidated annual report for the year ended 31 December 2017. See note 2 to the consolidated financial statements in the 2017 annual report for additional information regarding significant accounting policies.

As disclosed in note 2 of the Group's annual consolidated financial statement for the year ended 31 December 2017; for the period commencing 1 January 2017 the Group adopted IFRS 15 *Revenue from Contracts with Customer* and IFRS 9 "Financial Instruments". In addition, the Group has also changed certain accounting policies in order to provide more relevant and reliable information.

Note 2 continued

Since the aforementioned changes in accounting policies were applied retrospectively, in the financial statements for the 3 months ended 31 March 2018 and 2017 no further adjustments were made to the comparative period as the amounts are fully comparable.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group´s annual consolidated financial statements for the year ended 31 December 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.
The interim condensed consolidated financial statements have been presented in thousands of euros.

3. OPERATING SEGMENT REPORTING

Seasonality

The Passenger Harbours segment experiences highly seasonal passenger flows that are driven by holiday periods. The winter season reduces the demand for passenger services. The number of international ferry liner port calls and the passenger volumes are generally lower during the months of January to March than at other times of the year. The main season for traditional cruise vessels and passengers is between May and October.
The Group provides ice-breaking services with its owned ice-breaker Botnica (included in segment Other) according to 10-year contract (expiring in December 2022) with the Estonian Maritime Administration. The ice-breaking period according to the contract is from December 20th until April 20th. During ice-free season (typically May to November) Botnica can be rented out by the Group for providing various maritime support services. Due to depressed offshore services market, Botnica has lacked utilisation during ice-free seasons since 2015.

Geographical information

The Group's revenues and non-current assets were 100% attributed to its country of domicile (Estonia), in both 3 months ended 31 March 2018 and 2017.

Information about major customers

Included in Group total revenue of EUR 29,414 thousand (2017: 29,849 thousand) are revenues of EUR 8,400 thousand (2017: EUR 7,974 thousand) which arose from sales to the Group's largest customer, whose revenues were reported under the Ferry and Other segments. In 2018, the Group's second largest customer also contributed 10% or more to the Group's total revenue, whose revenues of EUR 5,886 thousand (2017: EUR 6,111 thousand) were reported under the Passenger harbours and Cargo harbours segments. No other single customer contributed 10% or more to the Group's total revenue for 3 months ended 31 March 2018 or 2017.

Note 3 continued

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
	3 months ended 31 March 2018				
Vessel dues	4,530	4,989	0	0	**9,519**
Cargo charges	368	1,338	0	0	**1,706**
Passenger fees	3,123	24	0	0	**3,147**
Sale of electricity	242	1,604	0	0	**1,846**
Sale of ferry services - revenue from ticket sales	0	0	1,598	0	**1,598**
Sale of other services	205	274	16	0	**495**
Rental income	375	2,244	84	0	**2,703**
Charter fees	0	0	0	3,443	**3,443**
Sale of ferry services - government support	0	0	4,957	0	**4,957**
Total Segment Revenue*	**8,843**	**10,473**	**6,655**	**3,443**	**29,414**
Segment Adjusted EBITDA	**5,480**	**6,713**	**2,738**	**2,672**	**17,603**
Depreciation and amortisation	-1,354	-2,167	-1,402	-480	**-5,403**
Impairment loss	0	0	0	0	**0**
Amortisation of Grants received	24	115	0	0	**139**
Profit/loss from investments in joint venture under equity method of accounting	0	0	0	0	**0**
Segment operating profit	**4,150**	**4,661**	**1,336**	**2,192**	**12,339**
Finance income and costs, net					-511
Profit/loss from investments in joint venture under equity method of accounting					0
Income tax expense					0
Profit for the period					**11,828**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 5 thousand and EUR 36 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which has been eliminated during consolidation

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
	3 months ended 31 March 2017				
Vessel dues	4,884	5,213	0	0	**10,097**
Cargo charges	398	1,600	0	0	**1,998**
Passenger fees	3,134	8	0	0	**3,142**
Sale of electricity	199	1,349	0	0	**1,548**
Sale of ferry services - revenue from ticket sales	0	0	1,676	0	**1,676**
Sale of other services	200	254	11	0	**465**
Rental income	495	2,398	56	0	**2,949**
Charter fees	0	0	0	3,375	**3,375**
Sale of ferry services - government support	0	0	4,599	0	**4,599**
Total Segment Revenue*	**9,310**	**10,822**	**6,342**	**3,375**	**29,849**
Segment Adjusted EBITDA	**6,254**	**7,290**	**3,311**	**2,342**	**19,197**
Depreciation and amortisation	-1,026	-2,171	-757	-580	**-4,534**
Impairment loss	-16	0	0	0	**-16**
Amortisation of Grants received	13	117	0	0	**130**
Profit/loss from investments in joint venture under equity method of accounting	0	0	0	-51	**-51**
Segment operating profit	**5,225**	**5,236**	**2,554**	**1,711**	**14,726**
Finance income and costs, net					-471
Profit/loss from investments in joint venture under equity method of accounting					51
Income tax expense					0
Profit for the period					**14,306**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 9 thousand and EUR 51 thousand for the Passenger Harbours and Cargo Harbours segments, respectively, which has been eliminated during consolidation

4. TRADE AND OTHER RECEIVABLES

In thousands of euros	**31.03.2018**	**31.12.2017**
Receivables from customers	9,586	9,293
Allowance for doubtful receivables	-2,282	-2,384
Prepaid taxes	281	673
Outstanding government grants	237	189
Other prepayments	610	620
Receivables from joint venture (note 16)	27	27
Other receivables	318	1,125
Total trade and other receivables	**8,777**	**9,543**
Incl. short-term receivables	8,505	9,271
long-term receivables	272	272

Trade receivables provision matrix

In thousands of euros		Days past due				
31.03.2018	Not past due	0-30	31-60	61-90	>90	**Total**
Expected credit loss rate	0,8%	1,5%	3,0%	80,0%	100,0%	
Total gross carrying amount	7,270	53	10	156	2,098	9,586
Lifetime expected credit loss (ECL)	-58*	-1	0	-125	-2,098	-2,282
						7,304
31.12.2017						
Expected credit loss rate	5,1%	1,5%	3,0%	40,0%	100,0%	
Total gross carrying amount	7,015	180	47	49	2,002	9,293
Lifetime expected credit loss (ECL)	-358	-3	-1	-20	-2,002	-2,384
						6,909

*The gross carrying amount of an individually impaired receivable as at 31 December 2017 in amount of EUR 301 thousand was subsequently collected.

5. INVESTMENTS IN JOINT VENTURE

In thousands of euros	**3 months ended 31 March 2018**	**3 months ended 31 March 2017**
Operating income	777	715
Operating expenses	769	610
Net profit	5	100

In thousands of euros	**31.03.2018**	**31.12.2017**
Net assets of the joint venture	2,462	2,462
Proportion of the group's ownership interest in the joint venture	51%	51%
Carrying amount of the group's interest in the joint venture	1,256	1,256

6. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Prepayments	Total
At 31 December 2017						
Cost	591,570	234,606	6,887	9,053	15	**842,131**
Accumulated depreciation and impairment losses	-199,964	-59,905	-5,137	0	0	**-265,006**
Carrying amount at 31 December 2017	**391,606**	**174,701**	**1,750**	**9,053**	**15**	**577,125**
Movements within 3 months ended 31 March 2018						
Acquisition and reconstruction	124	20	172	1,462	61	**1,839**
Depreciation charge	-2,729	-2,419	-109	0	0	**-5,257**
Reclassified at carrying amount	0	15	0	-15	0	**0**
At 31 March 2018						
Cost	591,687	234,641	7,059	10,500	76	**843,963**
Accumulated depreciation and impairment losses	-202,686	-62,324	-5,246	0	0	**-270,256**
Carrying amount at 31 March 2018	**389,001**	**172,317**	**1,813**	**10,500**	**76**	**573,707**

7. TRADE AND OTHER PAYABLES

In thousands of euros	31.03.2018	31.12.2017
Trade payables	3,424	4,994
Payables to employees	1,507	966
Interest payable	328	534
Accrued tax payable on remuneration	829	557
Advances for goods and services	1,071	381
Payables to joint venture (note 16)	121	115
Other payables	281	294
Total trade and other payables	**7,561**	**7,841**
Incl. current liabilities	7,497	7,777
non-current liabilities	64	64

8. LOANS AND BORROWINGS

In thousands of euros	31.03.2018	31.12.2017
Current portion		
Loans and borrowings	6,766	9,332
Debt securities	12,650	12,650
Finance lease liability	7	7
Total current portion	**19,423**	**21,989**
Non-current portion		
Loans and borrowings	43,361	46,361
Debt securities	167,250	167,250
Total non-current portion	**210,611**	**213,611**
Total loans and borrowings	**230,034**	**235,600**

Note 8 continued

Debt securities

All debt securities have been issued in euros with a floating interest rate (with the base interest rate of 3 month or 6 month Euribor plus a fixed risk margin) and with final maturities in 2018, 2026 and 2027. According to the repayment schedules, the debt securities were not redeemed during the 3 month period ended 31 March 2018. Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 March 2018 was 0.677% (31 December 2017: 0.676%).

Loans

All loan agreements are denominated in euros and based on a floating interest rate (the base interest is 6 month Euribor). The final maturities of outstanding loans fall into the years from 2024 to 2028. In 3 months 2018, loan principal repayments amounted to EUR 3,000 thousand (3 months 2017: EUR 3,000 thousand). Also overdraft repayments in the amount of EUR 2,565 thousand were made on the maturity date.
As at 31 March 2018, the weighted average interest rate on drawn loans was 0.693% (31 December 2017: 0.805%). Considering the effect of derivative transactions used to hedge the interest rate risk, the average interest rate on loans as at 31 March 2018 was 1.650% (31 December 2017: 1.710%).

Contractual maturities of loans and borrowings

In thousands of euros	**31.03.2018**
Up to 12 months	19,423
1–5 years	63,063
> 5 years	147,548
Total loans and borrowings	**230,034**

Fair value

As in the reporting period the evaluation of the risk level of the Group has not changed and there have not been any large scale movements in the international financial market interest rates, the Group estimates that similarly to the period ended as at 31 December 2017 the fair values of loans and debt securities recognized at amortized cost do not differ significantly from their carrying amounts stated in the Group's consolidated statement of financial position as at 31 March 2018.
All derivatives are recognised at fair value in the statement of financial position. The fair value of derivatives is evaluated on monthly basis using pricing provided by banks based on the forward-looking yield curves of interest rate swap transactions from market information providers. In terms of fair value hierarchy this qualifies as level 2 measurement.

All outstanding debt agreements are unsecured liabilities, i.e. no assets have been pledged to cover the obligations, and none of the debt securities are listed. The Group has performed all its contractual obligations stipulated in loan and debt securities agreements which concern meeting special terms, as at 31 March 2018 the Group was in compliance with the required financial covenants.

9. EQUITY

Share capital

At 31 March 2018 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period at 31 December 2017: also 185,203,032 shares. The par value of a share is EUR 1. All shares of the limited company are held by the Republic of Estonia. The shares are held and the shareholder's right is exercised by the Ministry of Economic Affairs and Communications. At the general meetings of shareholders, the Ministry is represented by the Minister of Economic Affairs and Infrastructure.

Note 9 continued

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association was 664,000,000 (in the comparative year 2017: also 664,000,000). As at 31 March 2018 and at 31 December 2017 all shares issued had been fully paid for.

	3 months ended 31 March 2018	3 months ended 31 March 2017
Weighted average number of shares (pcs)	185,203,032	185,203,032
Consolidated net profit for the reporting period (in thousands of euros)	11,828	14,306
Basic earnings and diluted earnings per share (in euros)	0,06	0,08

The Parent's unrestricted equity as at 31 March 2018 amounted to EUR 134,506 thousand (31.12.2017: EUR 122,678 thousand). Consequently, the maximum possible dividend income tax liability which would become payable if unrestricted equity were to be fully distributed would be EUR 33,627 thousand (31.12.2017: EUR 30,670 thousand).

The Company has proposed dividend of EUR 105,000 thousand on ordinary shares. The proposed dividend on ordinary shares are subject to approval at the annual general meeting and are not therefore recognized as a liability as at 31 March 2018. The 2018 proposed dividend was approved by the annual general meeting on 25 April 2018 (as at 25 April 2018 the Company had 187 595 032 shares and dividend per share of EUR 0.56).

10. REVENUE

In thousands of euros	3 months ended 31 March 2018	3 months ended 31 March 2017
Revenue from contracts with customers		
Vessel dues	9,519	10,097
Cargo charges	1,706	1,998
Passenger fees	3,147	3,142
Sale of electricity	1,846	1,548
Sale of ferry services - revenue from ticket sales	1,598	1,676
Sale of other services	495	465
Total revenue from contracts with customers	**18,311**	**18,926**
Revenue from other sources		
Rental income from operating leases	2,703	2,949
Charter fees	3,443	3,375
Sale of ferry services - government support	4,957	4,599
Total revenue from other sources	**11,103**	**10,923**
Total revenue	**29,414**	**29,849**

Vessel dues include tonnage charge on the basis of the gross tonnage of the vessel for each port call of the vessel. For vessels visiting the port based on a pre-agreed schedule and having a prospective volume discount during the year the transaction price is allocated between the tonnage services and the option for discounted tonnage services based on the estimated total number of port calls by that vessel during the calendar year. Revenue from tonnage dues is recognised based on the yearly average tariffs and estimated volume as described above. The difference with amounts charged to customers was recognised as a contract asset in the amount of EUR 54 thousand (revenue recognised is higher than revenue charged) and as a contract liability in the amount of EUR 3,523 thousand (revenue recognised is smaller than revenue charged) as of 31 March 2018.

Some cargo charge contracts set a minimum annual cargo volume whereby if the cargo operator handles less than the minimum, the Group has the right at the end of the calendar year to charge the customer based on the minimum volume. Management has estimated the Group's remaining right to consideration based on minimum cargo volumes and fees already received from customers as of 31 March 2018 and as a result, the Group has recognised a contract asset in the amount of EUR 180 thousand. Revenue received from some customers as of 31

Note 10 continued

March 2018 has exceeded the Management's estimate and as a result the Group has recognised a contract liability in the amount of EUR 80 thousand, to recognise the estimated revenue evenly throughout interim periods of 2018.

When connecting to the electricity network, customers pay a connection fee based on the expenses incurred by the Group on connecting them to the network. The connection service does not represent a separate performance obligation as the customer does not benefit from this service separately from the electricity itself. Therefore, connection fees form part of the consideration for the electricity and are recognised as revenue over the estimated period during which customers obtain the electricity. Amounts received for the connection fee not yet included in revenue are recognized in the statement of financial position as contract liabilities. As at 31.03.2018 such liabilities amounted to EUR 938 thousand (31.12.2017: 932 thousand).

Revenue from the ticket sales is recognised over time as the ferry transfers the passengers and/or vehicles, which happens in a single day, or at the point in time when the ticket expires. Consideration received from tickets sold for trips not yet performed is deferred and recognized in the statement of financial position as contract liability. As at 31.03.2018 such liabilities amounted to EUR 60 thousand (31.12.2017: 33 thousand).

11. OTHER INCOME

In thousands of euros	**3 months ended 31 March 2018**	**3 months ended 31 March 2017**
Penalties, interest on arrears*	15	3,768
Income from government grants	188	130
Total other income	**203**	**3,898**

*Penalties recognised in 3 months ended 31 March 2017 include EUR 3,750 thousand for delay in delivery of the new passenger ferries which were under construction.

12. OPERATING EXPENSES

In thousands of euros	**3 months ended 31 March 2018**	**3 months ended 31 March 2017**
Fuel, oil and energy costs	3,009	2,770
Technical maintenance and repairs of non-current assets	873	846
Services purchased for infrastructure	699	653
Tax expenses	827	797
Consultation and development expenses	162	61
Services purchased	942	964
Acquisition and maintenance of insignificant items	324	339
Advertising expenses	94	70
Rental expenses*	110	2,986
Insurance expenses	188	155
Other operating expenses	356	522
Total operating expenses	**7,584**	**10,163**

*Rental expenses, includes vessel charters by EUR 2,867 thousand in 3 months ended 31 March 2017 due to delay in delivery of the new ferries.

13. COMMITMENTS

At 31 March 2018, the Group's contractual liabilities related to acquisition of property, plant and equipment; repairs; and research and development expenditures totaled EUR 2,085 thousand; at 31 December 2017, the above liabilities amounted to EUR 2,962 thousand.
In addition to contractual liabilities the Group has committed to co-finance the construction of Reidi tee (Reidi road) in the amount of up to EUR 3,300 thousand according to the memorandum of understanding signed with City of Tallinn in 2016. The aim of the co-financing is to provide for best possible connections between the Reidi road and Old City Harbour belonging to the Group in order to facilitate the smooth flow of passengers and vehicles.

14. CONTINGENT LIABILITIES

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

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

Due to significant decrease in the cargo volumes handled, one of the Group's long-term customers has lodged a claim with the aim to void select conditions in long-term cooperation contracts concluded between the Group and the customer from 1 January 2017. The select conditions set the minimum cargo volumes that the customer is required to handle per each calendar year and thus also set the annual minimum cargo charge obligation for the client. The annual minimum cargo charge for all cooperation contracts combined for this particular customer is EUR 1.6 million. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Therefore, the management board did not consider it necessary to establish provision to cover the claim.

Also another Group's long-term customer has sent a claim to the Group and is threatening to start legal proceedings unless the Group returns the contractual minimum cargo volume penalties it has already paid for years 2015-2017, on the basis of the cooperation agreement signed between the parties and unless the Company declares null and void certain sections of the cooperation agreement which relate to the contractual minimum cargo volume penalties. The contractual minimum cargo volume penalties of the customer for years 2015-2017 amount to EUR 0.45 million. The annual minimum cargo charge is EUR 0.31 million. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Therefore, the management board did not consider it necessary to establish provision to cover the claim.

15. INVESTIGATIONS CONCERNING THE GROUP

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

16. RELATED PARTY TRANSACTIONS

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

In thousands of euros	3 months ended 31 March 2018	3 months ended 31 March 2017
Transactions with joint venture		
Revenue	49	38
Operating expenses	279	320
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	3	2
Operating expenses	2	2
Other expenses	6	4
Transactions with government agencies and companies in which the state has control		
Revenue	8,613	9,838
Operating expenses	2,000	1,689
Acquisition of property, plant and equipment	5	54

In thousands of euros	31.03.2018	31.12.2017
Trade receivables from and payables to joint venture		
Receivables (note 4)	27	27
Payables (note 7)	121	115
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Payables	1	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	1,380	445
Payables	807	1,206

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

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

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

17. EVENTS AFTER REPORTING PERIOD

On 05 April 2018 the sole shareholder (the Republic of Estonia) decided to increase the share capital by non-monetary payment in the amount of EUR 2,392,000 by issuing 2,392,000 new shares with nominal value of EUR 1 each. The increase of the share capital was registered in the Estonian Commercial Register on 20 April 2018 with the new share capital being EUR 187,595,032.

On 25 April 2018 the sole shareholder decided to give to the Management Board of the Company the right to carry out an initial public offering (IPO) of the Company shares and apply for a listing on Nasdaq Tallinn stock exchange. The Company is planning to offer up to 75,404,968 newly issued ordinary shares with the nominal value of EUR 1 each and the current sole shareholder is planning to offer up to 11,300,000 existing shares with the nominal value of EUR 1 each, effectively offering to investors approximately one third of the Company's shares.

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[Translation from Estonian original]

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholder of aktsiaselts TALLINNA SADAM:

Introduction

We have reviewed the accompanying interim condensed consolidated statements of financial position of aktsiaselts TALLINNA SADAM and its subsidiaries as of 31 March 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, interim condensed consolidated statements of cash flows and interim condensed consolidated statements of changes in equity for the three-months periods ended 31 March 2018 and 31 March 2017, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted in the European Union. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (Estonia). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted in the European Union.

03 May 2018

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

M. Akkermann

Mariel Akkermann
Certified Auditor, No. 574

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

Consolidated statement of profit or loss

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

Other comprehensive income

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

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

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

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

The address of the Parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

The management board authorised these consolidated financial statements for issue on 13 April 2018. Under the Commercial Code effective in the Republic of Estonia the annual report must be approved by the supervisory board and the shareholder. The shareholder may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand preparation of a new annual report.

2. ACCOUNTING POLICIES

Basis of measurement

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

Note 2 continued

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

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

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

IFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

Note 2 continued

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

*in thousands of euros

Changes in Accounting Policies

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

IAS 20 "Government Grants"

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

Presentational Change for the Loss Allowance

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

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

Note 2 continued

Adjustments to the consolidated statement of profit or loss

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

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

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

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

Adjustment to the consolidated statement of cash flows

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

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

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

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

IFRS 8 "Operating Segments"

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

Note 2 continued

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

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

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

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

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

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

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

Amendments or new accounting standards issued, not yet effective:

IFRS 16 "Leases"

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

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

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

Note 2 continued

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation
Effective for annual periods beginning on or after 1 January 2019. This amendment clarifies that negative compensation received for early termination of a contract should be considered as contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The management board does not expect the amendment will have a material impact on the Group’s financial statements. This amendment has not yet been endorsed by the EU.

Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures
Effective for annual periods beginning on or after 1 January 2019. IFRS 9 must also be applied to other financial instruments in an associate or joint venture to which the equity method is not applied. The financial instruments recorded by the Group’s joint venture are not material thus, the management board does not expect the amendment will have a material impact on the Group’s financial statements. This amendment has not yet been endorsed by the EU.

Amendments to IAS 40 “Investment Property”
Effective for annual periods beginning on or after 1 January 2018. The amendments provide more stringent bases for transferring a property to, or from, investment property. The management board does not expect the amendment will have a material impact on the Group’s financial statements. This amendment has not yet been endorsed by the EU.

Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”
Annual Improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) made to eliminate inconsistency in IFRSs and clarify wording. Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the Group’s financial statements.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
Effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the Group’s financial statements. This interpretation has not yet been endorsed by the EU.

Note 2 continued

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

Basis of consolidation

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

a) Subsidiaries

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

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

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

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

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

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

b) Joint ventures

A joint venture is a joint arrangement the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or apportion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit and loss and other comprehensive income of the joint venture. When the Group's share of loses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further loses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.
The requirements of IAS 28 are applied to determine whether it is necessary to recognise any impairment loss with the respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less of cost of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any

Note 2 continued

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

Foreign Currencies

a) Functional and presentation currency

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

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

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

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

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

Revenue

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

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

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

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

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

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

Note 2 continued

Vessel dues

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

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

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

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

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

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

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

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

Cargo charges

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

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

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

Note 2 continued

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

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

Passenger fees

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

Sale of electricity

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

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

Sale of ferry services - revenue from ticket sales

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

Revenue from other sources

Rental income

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

Charter fees

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

Note 2 continued

Sale of ferry services - government support

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

Financial instruments

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

Financial assets

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

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

Classification

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

a) Amortised cost

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

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

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

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

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

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

Note 2 continued

b) Fair value through other comprehensive income (FVTOCI)

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

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

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

c) Fair value through profit or loss (FVTPL)

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

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

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

Gains or losses arising from changes in the fair value of the assets classified as financial assets at fair value through profit or loss are presented in the statement of profit or loss within "*Finance income" or "Finance costs*" in the period in which they arise.
The allocation of financial assets and liabilities to categories is presented in note 6.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and lease receivables. The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.
The Group has applied the simplified approach in recognising lifetime ECL as presented by IFRS 9 for trade receivables and lease receivables (see note 4). The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.
For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

Note 2 continued

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

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

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

Write-off policy

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

Financial liabilities

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

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

Offsetting financial instruments

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

Derivative instruments and hedge accounting

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

Note 2 continued

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in mitigating the changes in fair values or cash flows of the hedged items.
The fair values of derivatives used for hedging purposes and movements in the hedging reserve in equity are disclosed in the statement of comprehensive income and notes 17 and 19 to these consolidated financial statements.

Cash flow hedge

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

Fair value measurement

In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
Level 1 – quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included in level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).
If the inputs used to measure the fair value or an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Cash and cash equivalents

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

Inventories

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

Note 2 continued

Property, plant and equipment

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

a) Cost

An item of property, plant and equipment is initially recognised at cost, which comprises the purchase price and any costs directly attributable to the acquisition which are necessary for bringing the asset to its operating condition and location. Subsequent improvement-related expenditures are added to the asset's cost if they meet the definition of property, plant and equipment, and recognition criteria. If a part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item and the replaced part is written off the statement of financial position. Ongoing repairs and maintenance are expensed as incurred.

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

b) Borrowing costs

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

c) Depreciation

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

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

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

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

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

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

Land is not depreciated.

Note 2 continued

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

Intangible assets

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

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

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and commence using it or sell it;
- there is the ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the asset;
- the expenditure during its development can be reliably measured.

Other research and development expenditures that do not meet the criteria to be classified as intangible non-current assets are recognised as an expense as incurred.

Impairment of non-financial assets

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

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

Note 2 continued

Corporate income tax

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

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

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

Employee benefits

a) Short-term employee benefits

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

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

b) Termination benefits

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

Provisions and contingent liabilities

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

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

Statutory capital reserve

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

Earnings per share

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

Leases

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

a) The Group as the lessee

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

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

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

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

b) The Group as the lessor

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

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

Note 2 continued

Government grants

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

Government grants related to property, plant and equipment

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

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

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

Government grants related to income

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

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

Government grants related to domestic ferry service

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

Statement of cash flows

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

Related party transactions

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

3. OPERATING SEGMENTS

Services whose revenues account for segment revenues

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

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

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

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

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

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

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

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

Note 3 continued

Segment revenues and performance result

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

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

Geographical information

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

Information about major customers

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

Segment revenues and results

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

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

Note 3 continued

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

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

4. FINANCIAL RISK MANAGEMENT

The Group's operations are exposed to several financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group uses derivative instruments to hedge certain risk positions.
Risk management is performed by the Group's risk management professionals in accordance with the policies approved by the management board. The management board stipulates in written form the policies of risk management and regulations covering specific risk areas.

Market risk

a) Currency risk

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

b) Price risk

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

Note 4 continued

c) Interest rate risk

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

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

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

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

in thousands of euros

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

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

To assess the Group's exposure to interest rate risk, sensitivity analysis is used which describes the impact of interest rate risk exposure on the Group's profit through estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2017 had been higher/lower by 100 basis points, i.e. 1 percentage point, the Group's profit for the financial year would have increased/decreased by EUR 1,886 thousand (31 December 2016: EUR 1,930 thousand) assuming all other variables remained constant.

Credit risk

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

In thousands of euros

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

* Impairment losses have been deducted from receivables from customers

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

To reduce customer related credit risk exposure, advance payments or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, a customer's due diligence is performed prior to entering into any major contracts. Other methods for managing customer-related credit risk exposure include day-to-day monitoring of customers' payment behaviour and prompt application of appropriate measures. Based on the Group's analysis loss allowance for credit-impaired receivables was recognised. Further details on the credit quality of financial assets are disclosed in note 6.2. to these consolidated financial statements.

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

Note 4 continued

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

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

Trade receivables provision matrix

In thousands of euros		Days past due				
31.12.2017	Not past due	0-30	31-60	61-90	>90	**TOTAL**
Expected credit loss rate	5.1%	1.5%	3.0%	40.0%	100.0%	
Total gross carrying amount	7,015	180	47	49	2,002	**9,293**
Lifetime expected credit loss (ECL)	-358	-3	-1	-20	-2,002	**-2,384**
						6,909
31.12.2016						
Expected credit loss rate	12,7%	0.1%	3.0%	40.0%	100.0%	
Total gross carrying amount	8,428	430	4	1	512	**9,375**
Lifetime expected credit loss (ECL)	-1,067	0	0	0	-512	**-1,579**
						7,796

In 2017 partial loss allowance for a customer at the amount of EUR 302 thousand was recognised in the category not past due as after the balance sheet date the customer contested a receivable by the Group related to penalty from unmet minimum cargo volumes.
In 2016 loss allowance for a customer with gross carrying amount of EUR 1 067 thousand was recognised in the category not past due as after the balance sheet date the company declared bankruptcy. The allowance for these two customers is presented as credit impaired in the table below.
The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

Trade receivables lifetime expected credit loss (ECL)*

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

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

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

Note 4 continued

Liquidity risk

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

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

In the following liquidity analysis, the Group's financial liabilities are grouped by contractual maturity. The balances shown in the table are contractual undiscounted cash flows, which comprise of the principal and accrued interest for interest bearing loans and borrowings. On calculating interest accrued on interest bearing loans and borrowings (bank loans and issued debt securities), the forward-looking yield curves of interest rate swap transactions from market information providers have been used as the basis for Euribor forecast as follows: for year-end 2017 as at 26 January 2018; for year-end 2016 as at 13 February 2017.

Liquidity analysis

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

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

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

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Classification of leased out assets

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

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

Useful life of property, plant and equipment

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

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

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

Impairment of property, plant and equipment

The Group assesses whether there is any indication that any item of property, plant and equipment may be impaired. If such indications occur, the recoverable amount of the asset is assessed and compared with its carrying amount recognised in the statement of financial position. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value can be derived based on the recent transactions by the Group involving similar assets or estimated with the help of professional valuators using the market information available to them. If the fair value of an asset cannot be determined reliably or is likely to be lower, a future cash flow model is developed to calculate its value in use. Value in use calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of the services sold used as inputs in order to estimate the future cash flows expected to arise from the asset or cash generating unit and a suitable discount rate and growth rate in order to calculate present value. If circumstances change in future, either additional impairment is recognised or the previously recognised impairment loss is reversed either in part or in full.

Assets are tested for impairment at the end of each reporting period when circumstances indicate that assets might be impaired or events that led to a previous write-down of assets might have ceased. Information about impairment losses incurred is disclosed in note 10.

Note 5 continued

Revenue recognition

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

Classification of AS Green Marine as a joint venture

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

Classification of the passenger transport public service contract

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

6. FINANCIAL INSTRUMENTS

6.1. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros At 31 December	**2017**	**2016**
Financial assets carried at amortised cost	*15,188*	*64,468*
Cash and cash equivalents (note 7)	6,954	49,918
Trade and other receivables - financial assets (note 8)	8,234	14,550
Total financial assets	**15,188**	**64,468**

Financial liabilities

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

Note 6 continued

Fair value

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

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

6.2. CREDIT QUALITY OF FINANCIAL ASSETS

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

Cash in current accounts and deposits by rating*

In thousands of euros

At 31 December	**2017**	**2016**
Aa2[4]	0	40,000
Aa3	6,606	9,886
No rating[5]	292	0
Total in cash and cash equivalents	**6,898**	**49,886**

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

7. CASH AND CASH EQUIVALENTS

In thousands of euros

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

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

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

[4] Moody's credit ratings are used in the table
[5] Overnight deposits in Luminor Bank, owned by Nordea and DNB

8. TRADE AND OTHER RECEIVABLES

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

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

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

9. INVESTMENTS IN JOINT VENTURE

AS Green Marine

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

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

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

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

The financial statements of AS Green Marine have been prepared in accordance with Estonian Accounting Act and Estonian Financial Reporting Standard. According to management estimates the financial results of AS Green Marine would not be significantly different if the financial statements had been prepared in accordance with IFRS (EU).

Note 9 continued

Changes in investments in joint venture

In thousands of euros At 31 December	**2017**	**2016**
Carrying value at beginning of period	1,086	710
Share in profit under the equity method	348	376
Dividends paid	-178	0
Carrying value at end of period	**1,256**	**1,086**

Joint venture AS Green Marine

In thousands of euros At 31 December	**2017**	**2016**
Current assets	1,494	1,565
Non-current assets	2,006	1,615
Current liabilities	526	524
Non-current liabilities	512	527
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,131	1,059
Current loans and borrowings	230	206
Non-current loans and borrowings	512	527
Revenue	4,101	3,786
Profit or loss from continuing operations	683	741
Profit (loss) for the period	683	741
Total comprehensive income for the period	683	741
The above profit (loss) for the period include the following:		
Depreciation and amortization	266	388
Interest expense	17	20
Income tax expense (income)	88	0
Net assets of the joint venture	2,462	2,130
Proportion of the Group's ownership interest in the joint venture	51%	51%
Carrying amount of the Group's interest in the joint venture	1,256	1,086

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

10. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

The Group’s assets have not been pledged.

Note 10 continued

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

At 31 December 2017 the Group has ownership of assets erected on the land areas which were previously used by a former lessee (AS Coal Terminal) under the right of superficies contracts. The assets consist of structures and machinery necessary for operations of a coal terminal – roads, railways, storage areas, conveyor system, cargo unloading/loading equipment, electricity and water grids etc which have been reverted to the Group following the termination of the right of superficies contracts due to lessee's bankruptcy. The aforementioned assets are recognised at nil cost (2016: nil). Additional information is provided in note 27.
Commitments related to property, plant and equipment are disclosed in note 24.

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

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

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

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

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

  Information provided to the valuators and the assumptions and the valuation models used by the valuators are reviewed by the Group CFO. This includes assessment of a single value of the vessel which is derived typically from the average of the price ranges provided by the valuators. Based on the valuations, EUR 5,900 thousand impairment loss was recognised in the consolidated statement of profit or loss of 2017. In 2016, no impairment loss was recognised, based on valuation report. As a result of write-down Botnica's depreciation per year decreases in the coming periods by EUR 398 thousand.
  In terms of fair value hierarchy this qualifies as the 3rd level measurement;
- Write-off of a warehouse and electricity substations in the amount of EUR 18 thousand;
- Write-off of electricity substation's equipment in the amount of EUR 29 thousand;
- Write-off of computer network's equipment in the amount of EUR 3 thousand.

Note 10 continued

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

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

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

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

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

11. INTANGIBLE ASSETS

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

Note 11 continued

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

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

12. OPERATING LEASES

12.1. Group as a lessor

Carrying amount of property, plant and equipment assets leased out under operating lease

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

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

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

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

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

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

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

Note 12 continued

Operating leases are agreements whereby the lessor transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period in accordance with signed contracts. Operating lease contracts are entered into for periods ranging from 2 years to 20 years or without a term. Operating lease rentals can generally be subject to price increase once a year based on changes in the consumer price index for the previous year (depending on the contract, either the index applied in Estonia, the euro area or Germany serves as the basis). Improvements to a leased asset made by a lessee are normally not compensated by the lessor at the end of the lease term.

Under right of superficies contracts, many significant risks and rewards from the possession of the asset (land) are transferred to the lessees. However, as land has an indefinite economic life, there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. Therefore the rights of superficies contracts are accounted for as operating leases.
In right of superficies contracts entered into by the Group and customers, the payments for right of superficies and the duration of the contract (usually ranging from 36 years to 50 years) have been stipulated. Payments for the right of superficies are generally subject to increase after a certain period has passed based mostly either on changes in the assessed value of land (for older contracts) or changes in the consumer price index (for more recent contracts). Contractual payments for rights of superficies are generally not covered by guarantees. At expiry of a contract the lessee generally has the right to remove the construction erected on the land under the right of superficies; apply for extension of the term of the right of superficies contract up until the end of the construction's remaining life; or the constructions are subject to compensation by the lessor for the usual value of the constructions (see also note 27).

12.2. Group as a lessee

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

In thousands of euros

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

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

13. PROVISIONS

Provision for bonuses

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

Other provisions

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

Provision for bonuses

The provision for bonuses is accrued based on estimated bonuses of the Group companies' management board members and employees for the operating results of the reporting period. The provision also includes social security charges and unemployment insurance contributions. Payment of bonuses is generally decided after the annual reports of the respective companies for the year ended 31 December 2017 have been approved.

Other provisions

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

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

14. TRADE AND OTHER PAYABLES

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

15. TAXES PAYABLE

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

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

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

16. LOANS AND BORROWINGS

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

Issue and redemption of debt securities

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

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

None of the debt security issues are listed.

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

Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 December 2017 was 0.676% (31 December 2016: 0.805%).

Loans

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

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

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

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

Note 16 continued

Contractual maturities of loans and borrowings

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

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

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

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

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

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

Reconciliation of liabilities arising from financing activities

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

Note 16 continued

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

17. DERIVATIVE INSTRUMENTS

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

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

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

The fair value of derivative instruments is based on quotes of the relevant parties of the transactions (banks). The payments related to derivative instruments are made in euros.

To assess the effectiveness of derivative instruments, the qualitative Critical Terms Match Method is used both retrospectively and prospectively at each reporting date. Since at 31 December 2017 the base amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and were in line with the amortisation schedules; the hedged interest payments were calculated on the same bases (6 month Euribor); the payments were denominated in the same currency (in euros) and were made at the same dates, it was assumed that risk hedging has been and will be effective.

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

18. GOVERNMENT GRANTS

Non-current government grant liabilities

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

Recognised as income

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

Short-term government grant advances

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

Cohesion Fund

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

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

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

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

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

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

Note 18 continued

TEN-T programme "Motorways of the Sea"

"The Baltic Sea hub and spokes project" (2010-2013)
AS Tallinna Sadam was granted support for making investments and developing cooperation in safety and security related areas within the framework of "The Baltic Sea hub and spokes project".
The outstanding balance of the project related grant received still be recognised as income was EUR 16 thousand (at 31 December 2016: EUR 20 thousand).

LNG in the Baltic Sea Ports (2012 -2016)
The aim of the project was to develop a harmonised approach towards LNG bunker filling infrastructure in the Baltic Sea region. Within the framework of the project pre-investment surveys such as environmental impact assessment, feasibility studies for LNG terminals and bunkering vessels, project designs, regional market surveys, safety guidelines, etc. were focused on.
In 2016 grants related to income were considered ineligible and repaid in the amount of EUR 92 thousand.

TWIN-PORT (2012-2015)
Within the framework of TWIN-PORT project the Tallinn–Helsinki maritime link, i.e. the infrastructure in the Old City Harbour of Tallinn and the Western Port of Helsinki was developed as part of north-south transport corridor of the European Union. Investments in the Old City Harbour were related to improving the traffic scheme in the harbour area and developing the roads connecting the harbour and the city.

The outstanding balance of the project related grant received still be recognised as income was EUR 1,174 thousand (at 31 December 2016: EUR 560 thousand).
The eligibility period of the project activities ended on 31 December 2015. In 2016 and 2017 activities aimed at meeting the set objectives that had not been finished by the end of the eligibility period continued, especially activities related to Smart Port systems. The above activities were financed from internal funds without using support.
The project final report was audited by the Innovation and Networks Executive Agency (INEA) of the European Commission during the 2017. It resulted with a decision that because some of initially set objectives were not met, a part of the grant amounting to EUR 116 thousand was not approved and therefore was not paid out. No impact to the financial statements resulted from the unreceived grant.

TWIN-PORT 2 (2014-2018)
TWIN-PORT 2 is a follow-up project to TWIN-PORT. Within the framework of the project Port of Helsinki built a new Western Terminal, AS Tallink Grupp brought a new LNG vessel "Megastar" to the Tallinn–Helsinki route, and AS Tallinna Sadam invests in the development of various infrastructure assets in the Old City Harbour.
In 2017 no investments were made, expenses amounted to EUR 37 thousand (in 2016 investments amounted to EUR 1,783 thousand and expenses amounted to EUR 25 thousand).
The outstanding balance of the project related grant received still be recognised as income was EUR 516 thousand (31 December 2016: EUR 533 thousand).
The project-related short-term receivables amount outstanding is EUR 189 thousand (2016: EUR 189 thousand). The grant sum is related to 2016 investments, which were approved in 2017 report and will be paid out in 2018.
Due to unforeseen circumstances in the preparation phase of the project, in 2018 will be submitted the request to the European Commission to extend the project period by 2 years, i.e. to the end of 2020.

State budget of the Republic of Estonia

Public transport support (2016-2026)
In December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications (currently administered by Road Administration) for providing the ferry service on Kuivastu–Virtsu and Rohuküla–Heltermaa ferry routes in the period from 1 October 2016 to 30 September 2026. The final amount of the contractual support depends on the difference between the revenue base calculated annually on the basis of tariff rates fixed in the contract and ticket sales recognised as revenue in the same period.
In 2017 support was calculated in the amount of EUR 15,810 thousand (in 2016: EUR 4,419 thousand) and received in the amount of EUR 15,845 thousand (in 2016: EUR 4,632 thousand).
The public transport support is treated as Group ´s ordinary activity and is reflected within (sale of ferry services - government support) revenue (note 20).

Note 18 continued

Noise survey in Muuga Harbour and development of relieving measures (2016)

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

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

Programme "Grant for small ports" (2010)

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

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

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

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

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

Other foreign assistance - INTERREG Baltic Sea Region programme

Project "*Green Cruise Port – Sustainable Development of Cruise Port Locations*" (2016–2019)

The project is aimed at enhancing cooperation of cruise ports in the Baltic Sea region on developing port facilities and services focusing on the aspects of environmentally friendly and economically beneficial solutions. Project partners are ports of Hamburg, Klaipeda, Riga, Rostock, Helsinki, Bergen, Esbjerg and Kaliningrad, and Maritime Institute Gdansk. Within the project a master project together with technical solutions for the Old City Harbour cruise terminal is prepared; a survey to develop ecological solutions feasible in cruise terminal premises in the northern climate is carried out. In 2017, an international two-day seminar was held in Tallinn to discuss about the challenges and solutions of modern cruise terminals and the potential for solutions of energy efficiency and sustainability.

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

19. EQUITY

Share capital

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

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

Note 19 continued

Earnings per share

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

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

Capital management

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

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

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

Equity to assets

In thousands of euros

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

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

Unrestricted equity

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

Statutory capital reserve

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

Note 19 continued

Hedging reserve

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

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

Dividends

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

Income tax on dividends and services delivered abroad

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

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

20. REVENUE

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

All services were provided in the Republic of Estonia.

Note 20 continued

Disaggregation of Revenue

Transaction price allocated to the remaining performance obligations

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

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

21. OPERATING EXPENSES

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

Note 21 continued

Personnel expenses

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

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

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

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

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

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

22. OTHER INCOME

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

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

23. FINANCE COSTS

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

24. RELATED PARTY TRANSACTIONS

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

In thousands of euros	2017	2016
Transactions with joint venture		
Revenue	195	216
Operating expenses	2,108	1,900
Transactions with companies in which members of supervisory and management boards of Group companies have significant influence		
Revenue	9	2
Operating expenses	9	13
Other expenses	12	7
Transactions with government agencies and companies in which the state has control		
Revenue	21,149	9,634
Other income	38	135
Operating expenses	6,628	4,839
Other expenses	137	493
Acquisition of property, plant and equipment	72	4

In thousands of euros At 31 December	2017	2016
Trade receivables from and payables to joint venture		
Receivables (note 7)	27	17
Payables (note 13)	115	129
Trade receivables from and payables to companies in which members of supervisory and management boards of Group companies have significant influence		
Receivables	0	2
Payables	1	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	445	556
Payables	1,206	1,286

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

The amount of benefits payable to the members of the management and supervisory boards is disclosed in note 21.

Note 24 continued

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

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

25. COMMITMENTS

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

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

26. NON-CASH INVESTING ACTIVITIES

Purchase of property, plant and equipment

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

Purchase of intangible assets

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

27. CONTINGENT LIABILITIES

The tax authorities may inspect the Group's tax accounting records for up to 5 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate nor conduct any tax inspections at the Group companies or single-case inspections in the reporting period or in the comparative period. According to Group management's estimate no such circumstances occur that could result in significant additional tax imposed on the Group companies by the tax authorities.

Note 27 continued

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

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

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

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

28. INVESTIGATIONS CONCERNING THE GROUP

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

29. EVENTS AFTER REPORTING PERIOD

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

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

30. ADDITIONAL INFORMATION ON THE PARENT

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

Statement of financial position

as at 31 December 2017

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

Note 30 continued

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2017

Statement of profit or loss

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

Other comprehensive income

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

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

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

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

Note 30 continued

Statement of cash flows

for the year ended 31 December 2017

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

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

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

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

Note 30 continued

Statement of changes in equity

for the year ended 31 December 2017

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

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

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

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

31. UNBUNDLING OF ACTIVITIES BASED ON THE ELECTRICITY MARKET ACT

ACCOUNTING POLICIES

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

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

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

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

Trade receivables

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

Inventories

Inventories attributable to the network service.

Non-current assets

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

Trade payables

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

Taxes payable, short-term provisions, other payables

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

Government grants

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

Contract liabilities

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

Note 31 continued

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

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

Note 31 continued

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

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

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[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of aktsiaselts TALLINNA SADAM:

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

13 April 2018

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Certified Auditor, No. 328

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Certified Auditor, No. 574

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

* Information about adjustment is presented in Note 9.

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

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

Consolidated statement of comprehensive income

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

* Information about adjustment is presented in Note 9.

CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

The address of the parent’s registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

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

2. ACCOUNTING POLICIES

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

Bases of measurement

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

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

Note 2 continued

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

New and amended International Financial Reporting Standards (IFRS)

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

New amendments and interpretations applied in the reporting period

Annual Improvements to IFRSs 2011-2013 cycle

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

IFRIC 21 "Levies"

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

Amendments published by the IASB and adopted by the EU, not yet effective

Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interests in Joint Operations

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

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

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

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

Note 2 continued

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

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants
Adopted by the EU on 23 November 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have an impact on the group's financial statements.

Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions
Issued by the IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The group does not expect the amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements
Adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the amendments will have a material impact on the group's financial statements.

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

Annual Improvements to IFRSs 2010-2012 cycle
Annual Improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The group does not expect the improvements will have a material impact on the group's financial statements.

Annual Improvements to IFRSs 2012-2014 cycle
Annual Improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 15 December 2015, effective for annual periods beginning on or after 1 January 2016. The group does not expect the improvements will have a material impact on the group's financial statements.

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

Note 2 continued

IFRS 9 "Financial Instruments"

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

IFRS 16 "Leases"

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

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

Note 2 continued

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

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

Basis of consolidation

a) Subsidiaries

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

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

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

b) Joint ventures

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

Currency translations

a) Functional and presentation currency

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

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

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

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

Note 2 continued

Financial assets

Classification

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

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified under this category if acquired primarily for the purpose of reselling it in the short term.
Derivatives with positive value are classified as financial assets at fair value through profit or loss, except for those designated as hedging instruments. The group does not have any financial assets at fair value through profit or loss.

b) Held-to-maturity investments

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

c) Loans and receivables

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

d) Available-for-sale financial assets

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

Recognition and measurement

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

Gains or losses arising from changes in the fair value of the assets classified as financial assets at fair value through profit or loss are presented in the income statement within "*Finance income*" and "*Finance costs*" in the period in which they arise.
Changes in the fair value of available-for-sale financial assets are recognised through other comprehensive income. When available-for-sale securities are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are recognised in the income statement under finance income and finance costs.

Note 2 continued

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

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

Offsetting financial instruments

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

Derivative instruments and hedging

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

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

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

Cash flow hedge

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

Note 2 continued

Cash and cash equivalents

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

Trade receivables

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

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

Inventories

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

Property, plant and equipment

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

a) Cost

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

b) Depreciation

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

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

Note 2 continued

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

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

Quays and berths	10–50 years
Dredging areas of aquatories	20 years
Buildings and other structures	5–50 years
Plant and equipment	3.3–10 years
Ships	20 years
Other items of property, plant and equipment	2–10 years

Land is not depreciated.

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

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

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

Intangible assets

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

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

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

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

Expenditures incurred on purchasing computer software are also included in intangible assets. Software development costs are included in intangible assets if they are directly attributable to the development of such software items that are identifiable, controlled by the group and from which the group expects to gain future economic benefits for a longer period than one year.

Capitalised software development costs include labour costs and other costs directly attributable to development. Software costs are amortised over the software's estimated useful life which does not exceed 5 years. Costs of the day-to-day maintenance of software are recognised as expenses in the income statement.

Note 2 continued

Impairment

Financial assets

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

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

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

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

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

Non-financial assets

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

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

Financial liabilities

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

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

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

Note 2 continued

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

Dividend distribution and corporate income tax

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

Employee benefits

a) Short-term employee benefits

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

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

b) Termination benefits

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

Provisions and contingent liabilities

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

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

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

Note 2 continued

Share capital

Ordinary shares are recognised within equity.

Statutory capital reserve

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

Earnings per share

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

Revenue recognition

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

Calculation of port charges and fees

Port charges and fees are levied as follows:

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

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

Calculation of cargo charges

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

Note 2 continued

Charter fees

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

Accounting for sale of electricity and network services

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

Accounting for connection fees

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

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

Interest income and dividend income

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

Leases

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

a) The group as the lessee

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

b) The group as the lessor

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

Government grants

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

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

Note 2 continued

Liabilities arising from the government grants related to non-depreciable assets are not depreciated since the economic value of land is non-depreciable. Liabilities arising from the government grants related to non-depreciable assets are derecognised when the asset is ultimately retired or reclassified into non-current assets held for sale.
Government grants related to income are recognised in proportion to the related costs. In the income statement, the costs to be compensated and income from the grant are recognised separately.

Statement of cash flows

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

Related party transactions

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

3. FINANCIAL RISK MANAGEMENT

The group's operations are exposed to several financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk positions.
Risk management is performed by the group's risk management professionals in accordance with the policies approved by the management board. The management board stipulates in written the policies of risk management and regulations covering specific areas.

Market risk

a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the group's financial instruments or in cash flows arising from movements in foreign exchange rates. The main instrument for mitigating the group's currency risk is the euro-based nature of its contracts. The group has no material liabilities or receivables denominated in any other currency. All outstanding long-term loans and borrowings are denominated in euros; therefore, they are considered as liabilities not exposed to currency risk.
In 2015 nearly all receipts were denominated in euros with the proportion of receipts denominated in some other currency remaining below 3.7%. In the comparative year 2014, 7.2% of all receipts were denominated in any other currency than the euro. 97.0% of expenditures (operating expenses, investments, finance costs, etc.) were denominated in the euro; 2.5% in the US dollar; 0.4% in the Norwegian krone; and 0.1% in other currencies. In the comparative year 2014, about 97.7% of expenditures were denominated in the euro; 0.8% in the US dollar; 1.3% in the Norwegian krone, and about 0.2% in other currencies.
Due to the above, the group is not exposed to currency risk.

b) Price risk

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

Note 3 continued

c) Interest rate risk

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

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

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

Credit risk

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

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

*Impairment losses are deducted from receivables from customers

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

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

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

Note 3 continued

Liquidity risk

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

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

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

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

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

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

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

Liquidity analysis

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

Note 3 continued

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

Equity risk management

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

Gearing ratio

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Classification of leased out assets

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

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

Useful life and residual value of property, plant and equipment

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

Note 4 continued

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

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

Impairment tests of property, plant and equipment

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

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

Assessment of doubtful receivables

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

5. FINANCIAL INSTRUMENTS

5.1. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros

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

Note 5 continued

Financial liabilities

In thousands of euros

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

Fair value

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

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

5.2. CREDIT QUALITY OF FINANCIAL ASSETS

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

Cash in current accounts and deposits by rating*

In thousands of euros

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

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

Note 5 continued

Trade receivables by customer group*

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

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

6. CASH AND CASH EQUIVALENTS AND DEPOSITS

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

Cash and cash equivalents by currency

In thousands of euros At 31 December	2015	2014
Euro	25,902	11,827
US dollar	0	44
Total cash and cash equivalents	**25,902**	**11,871**

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

7. TRADE AND OTHER RECEIVABLES

In thousands of euros

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

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

Receivables from customers by maturity

In thousands of euros

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

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

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

Note 7 continued

Changes in impairment allowances for doubtful receivables

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

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

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

Receivables from customers by currency

In thousands of euros

At 31 December	**2015**	**2014**
Euro	9,054	12,044
US dollar	0	3,909
Total receivables from customers by currency	**9,054**	**15,953**

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

Other receivables and prepayments have not been impaired.

8. INVESTMENTS IN JOINT VENTURE

AS Green Marine

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

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

Note 8 continued

Changes in investments in joint venture

In thousands of euros At 31 December	2015	2014
Carrying value at beginning of year	548	418
Share in profit under the equity method	162	206
Dividends paid	0	-76
Carrying value at end of year	**710**	**548**

Joint venture

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

9. PROPERTY, PLANT AND EQUIPMENT

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

The group’s assets have not been pledged.

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

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

Note 9 continued

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

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

- In 2015 there were indications of impairment due to early cancellation of the long-term charter agreement of Botnica owing to economic sanctions imposed on Russia by the western world and impossibility to find appropriate work at the special purpose vessels market due to the lows of the market as a result of drastically plunged oil prices. Since Botnica's fair value less cost of disposal is higher than its value in use, the vessel's recoverable amount equals its fair value less cost of disposal. To measure the fair value, management ordered a valuation report from recognised independent valuating company Clarksons Valuation Ltd as a result of which write-down of Botnica in the amount of EUR 5,000 thousand was recognised in the income statement for the year. In 2014 assets were not tested for impairment since no indications of impairment occurred. As a result of write-down of Botnica depreciation per year decreases by EUR 297 thousand. As a result of measuring Botnica's residual value, depreciation per year decreases by EUR 90 thousand.
  In terms of fair value hierarchy this qualifies as the 3rd level measurement;
- Write-down of warehouses in the amount of EUR 210 thousand due to planned demolishing of the buildings in 2016;
- Write-down of main water pipes in the amount of EUR 52 thousand due to constituting a right of superficies on the plot.

In the comparative year 2014 write-downs in the amount of EUR 806 thousand and write-offs in the amount of EUR 654 thousand were recognised under "Impairment loss".

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

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

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

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

Note 9 continued

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

Restatement of the statement of financial position

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

Restatement of the income statement

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

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

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

Note 3 Financial risk management

Note 11 Operating leases

Note 18 Equity

10. INTANGIBLE ASSETS

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

11. OPERATING LEASES

Carrying amount of non-current assets leased out under operating lease

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

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

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

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

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

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

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

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

Note 11 continued

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

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

The Group as the lessee

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

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

12. SHORT-TERM PROVISIONS

Provision for bonuses

In thousands of euros	**2015**	**2014**
At beginning of year	**1,144**	**943**
Recognised and revalued	865	1,170
Used	-1,144	-969
At end of year	**865**	**1,144**

Other provision

In thousands of euros	**2015**	**2014**
At beginning of year	**3,235**	**0**
Recognised and revalued	100	3,235
Used	-3,235	0
At end of year	**100**	**3,235**
Total provisions	**965**	**4,379**

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

Note 12 continued

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

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

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

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

13. TRADE AND OTHER PAYABLES

In thousands of euros

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

14. TAXES PAYABLE

In thousands of euros

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

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

15. LOANS AND DEBT SECURITIES

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

Interest paid

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

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

Issue and redemption of debt securities

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

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

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

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

Loans

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

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

Note 15 continued

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

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

Contractual maturities of loans and borrowings

In thousands of euros

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

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

In thousands of euros

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

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

16. DERIVATIVE INSTRUMENTS

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

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

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

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

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

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

17. GOVERNMENT GRANTS

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

Note 17 continued

Pursuant to section 22 subsection 12 of the 2007-2013 Structural Assistance Act a final recipient is required to guarantee the preservation of the assets necessary for achieving the goal of the project and use thereof for the intended purposes under the prescribed conditions and in compliance with the provisions on Article 57 of Council Regulation No 1083/2006/EC within at least the period of five years after the end of the eligibility period of the project.
The outstanding balance of the project related government grant of EUR 23,695 thousand (31 December 2014: EUR 23,781 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2014: also EUR 13,902 thousand).

Cohesion Fund

Project “Extension of the eastern part of Muuga Harbour” (2006-2011)

Within the framework of the project, the first stage of the extension of Muuga Harbour was supported, including filling the coastal area and seabed.
The outstanding balance of the project related government grant of EUR 17,533 thousand (31 December 2014: EUR 17,762 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2014: EUR 13,902 thousand).

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

Within the framework of the project, a viaduct was constructed in Muuga Harbour to connect the Industrial Park with the Harbour; the free zone of Muuga Harbour was extended; and the railway network of Muuga Industrial Park was finished.
The outstanding balance of the project related grant was EUR 5,387 thousand (31 December 2014: EUR 5,623 thousand). There are no non-depreciable assets attributable to the project.

European Regional Development Fund

Programme "Development of clusters” (2010-2015)

Estonian Logistics Cluster is a joint project that focuses on international marketing of its participants; acquainting target markets with logistical advantages of Estonia; product development deploying free resources; logistics-related educational issues; and cooperation of companies in IT issues.
AS Tallinna Sadam participated in the Estonian Logistics Cluster development project together with 22 companies, universities and professional associations.
In 2015 expenses incurred within the framework of the project amounted to EUR 3 thousand (2014: EUR 10 thousand) and the grant received amounted to EUR 1 thousand (2014: EUR 5 thousand).

TEN-T programme “Motorways of the seas”

“The Baltic Sea hub and spokes project” (2010-2013)

AS Tallinna Sadam was granted assistance for making investments and developing cooperation in safety and security related areas within the framework of “The Baltic Sea hub and spokes project”.
The outstanding balance of the project related grant was EUR 33 thousand (31 December 2014: EUR 54 thousand). There are no non-depreciable assets attributable to the project.
In 2015 grants related to income were partially repaid in the amount of EUR 108 thousand.

TWIN-PORT (2012-2015)

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

Note 17 continued

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

TWIN-PORT 2 (2014-2018)

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

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

State budget of the Republic of Estonia

Programme "Grant for small ports" (2010)

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

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

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

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

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

Preparation Programme for EU Strategy for the Baltic Sea Region (EUSBSR Seed Money Facility)

Pilot project "*Green Cruise Port – Sustainable Development of Cruise Port Locations*" (2014)

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

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

18. EQUITY

Share capital

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

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

Note 18 continued

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

Earnings per share

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

Unrestricted equity

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

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

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

Statutory capital reserve

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

Hedging reserve

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

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

Dividends

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

Income tax on dividends and services delivered abroad

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

19. REVENUE

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

Revenue by geographical area

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

20. OPERATING EXPENSES

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

Personnel expenses

In thousands of euros	**2015**	**2014**
Wages and salaries	9,329	9,971
Social security charges	3,087	3,321
Total personnel expenses	**12,416**	**13,292**
Incl. short term benefits of members of management and supervisory boards of group companies	*404*	*406*
social security charges on members of management and supervisory boards of group companies	*133*	*134*
Total expenses on members of management and supervisory boards of group companies	**537**	**540**

Note 20 continued

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

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

21. OTHER INCOME AND EXPENSES

Other income

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

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

Other expenses

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

22. FINANCE COSTS

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

23. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

24. COMMITMENTS

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

25. EXPLANATIONS TO THE CASH FLOW STATEMENT

Acquisition of property, plant and equipment

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

Acquisition of intangible assets

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

26. CONTINGENT LIABILITIES

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

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

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

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

27. INVESTIGATIONS RELATED TO THE GROUP

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

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

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

28. ADDITIONAL INFORMATION ON THE PARENT

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

Statement of financial position

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

Note 28 continued

Income statement and statement of comprehensive income

Income statement

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

Statement of comprehensive income

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

Note 28 continued

Statement of cash flows

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

Note 28 continued

Statement of changes in equity

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

In thousands of euros	**Share capital at par value**	**Statutory capital reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
Equity at 31 December 2014	**185,203**	**18,520**	**-747**	**139,228**	**342,204**
Profit for the year	0	0	0	37,533	**37,533**
Other comprehensive income	0	0	-84	0	**-84**
Total comprehensive income for the year	*0*	*0*	*-84*	*37,533*	***37,449***
Dividends declared	0	0	0	-31,192	**-31,192**
Total transactions with the owner of the company	*0*	*0*	*0*	*-31,192*	***-31,192***
Equity at 31 December 2015	**185,203**	**18,520**	**-831**	**145,569**	**348,461**
Carrying amount of interests under control and significant influence	0	0	0	-13,395	**-13,395**
Value of interests under control and significant influence under the equity method	0	0	0	7,601	**7,601**
Adjusted unconsolidated equity at 31 December 2015	**185,203**	**18,520**	**-831**	**139,775**	**342,667**

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

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[Translation from Estonian original]

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholder of AS Tallinna Sadam:

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

Management Board's Responsibility for the Consolidated Financial Statements

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

Certified Auditor's Responsibility

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

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

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

Opinion

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

/continues on page 2/

Other Matters

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

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

15 March 2016

Veiko Hintsov
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M. Akkermann
Mariel Akkermann
Certified Auditor, No. 574