OFFERING MEMORANDUM

Aktsiaselts Tallink Grupp

34,090,909 Ordinary Shares

Offer Price Range EEK 73.50 (EUR 4.70) to EEK 92.00 (EUR 5.88) per Offer Share

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This is the initial offering of our shares. We are offering 26,500,000 newly issued shares and certain selling shareholders named in this offering memorandum are offering up to 7,590,909 existing shares. We will not receive any proceeds from the sale of the shares by the selling shareholders. This offering includes a public offering to retail investors in Estonia and Finland and an international offering to institutional investors in and outside of Estonia and Finland. This offering memorandum, including a summary translated into Estonian and Finnish, relates only to the Estonian and Finnish public offerings, respectively. The international offering is being made pursuant to a separate offering memorandum in the English language. Certain selling shareholders have granted the managers of the offering an option to purchase up to an aggregate of 3,409,091 additional shares at the offer price. The option is exercisable for 30 days from the commencement of trading in our shares on the Tallinn Stock Exchange solely to cover over-allotments, if any.

The total number of shares offered and the offer price range may be changed.

There is currently no public market for our shares. We have applied to have our shares listed on the main list of the Tallinn Stock Exchange. This offering memorandum has been prepared for purposes of the offering and the listing of our shares on the Tallinn Stock Exchange.

Investing in the offer shares involves risks. See "Risk Factors" beginning on page 7.

The shares have not been registered under the U.S. Securities Act of 1933, as amended. In the United States, the offering is being made only to qualified institutional buyers in accordance with Rule 144A under the Securities Act. Outside the United States, the offering is being made in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the issuer and the sellers of the shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of the selling restrictions and of certain restrictions on transfers of the shares, see "Plan of Distribution" and "Transfer Restrictions."

It is expected that the shares issued and sold in the offering will be ready for delivery through the facilities of the Estonian Central Securities Depository, Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Clearstream Banking société anonyme, on or about December 8, 2005, against payment therefor in immediately available funds. Public trading in the shares is expected to commence on or about December 9, 2005.

Global Co-ordinator and Sole Bookrunner

Citigroup

Co-lead Managers

Nordea **Suprema Securities** **SEB Eesti Ühispank**

November 18, 2005


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TALLINN
Paldiski
STOCKHOLM

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CERTAIN INFORMATION WITH RESPECT TO THE OFFERING

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

In Tallinn on November 18, 2005

Management Board of Aktsiaselts Tallink Grupp

Enn Pant

Keijo Mehtonen

Kalev Järvelill

Andres Hunt

The Selling Shareholders

Aktsiaselts Infortar

Eve Pant

Citibank Hong Kong / Citicorp International Finance Corporation
Alfred Rodrigues
Attorney in Fact

Amber Trust S.C.A.

Kustaa Lauri Äimä

DCF Fund (II) Baltic States

Kustaa Lauri Äimä

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

You acknowledge and agree that the Managers (as defined herein) make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Managers. You may not reproduce or distribute this offering memorandum, in whole or in part, and you may not disclose any of the contents of this offering memorandum or use any information contained herein for any purpose other than considering an investment in our shares. You agree to the foregoing by accepting delivery of this offering memorandum. We will update any information presented in this offering memorandum in accordance with the applicable provisions of the Estonian Securities Market Act.

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

In connection with the Offering, Citigroup Global Markets Limited may, on behalf of the Managers, over-allot or effect transactions with a view to supporting the market price of the ordinary shares at levels above those that might otherwise prevail. Such transactions may be effected on the Tallinn Stock Exchange and shall be carried out in accordance with applicable rules and regulations. However, Citigroup is under no obligation to do so. Such stabilizing, if commenced, may be discontinued at any time and, in any event, will be discontinued 30 days after the commencement of trading in our shares on the Tallinn Stock Exchange. Any trades made on the Tallinn Stock Exchange as part of the stabilizing will be effected by AS Suprema Securities upon instructions by Citigroup. See "Plan of Distribution."

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

Each Manager 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) in connection with the issue or sale of the shares in circumstances in which Section 21(1) of such Act does not apply to us and it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any shares in, from or otherwise involving the United Kingdom.

NOTICE TO PROSPECTIVE INVESTORS IN THE NETHERLANDS

In The Netherlands, the ordinary shares described in this offering memorandum may not, are not and will not be offered, distributed, sold, transferred or delivered, directly or indirectly, to any person other than to individuals or legal entities who or which trade in securities in the conduct of their profession or trade within the meaning of Section 2 of the exemption regulation pursuant to The Netherlands Securities Market Supervision Act 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises that, as an ancillary activity, regularly invest in securities.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

August 31, 2005, with comparative information for the financial year ended August 31, 2004.

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

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

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

AVAILABLE INFORMATION

We intend to publish our annual reports commencing from the financial year ended August 31, 2005, including our consolidated financial statements, and interim reports, including our interim consolidated financial statements, commencing from the quarter ending November 30, 2005. In accordance with Estonian law, including the Estonian Securities Market Act, and the Tallinn Stock Exchange Rules, our annual reports for the financial years ended August 31, 2002, 2003 and 2004, and our articles of association are available at our head office located at Tartu mnt 13, Tallinn, Estonia, and on our website (www.tallink.com). Any interested party may obtain a copy of these items from us without charge. References to our website in this offering memorandum should not be deemed to incorporate the information on our website by reference.

We are not required to file periodic reports under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have, however, agreed to either (i) furnish certain public reports and documents to the SEC pursuant to Rule 12g3-2(b) under the Exchange Act, (ii) be subject to the periodic reporting and other requirements under the Exchange Act and, in accordance with the Exchange Act, file reports and other information with the SEC or (iii) furnish to investors upon request such information as may be required by Rule 144A(d)(4) of the Securities Act to facilitate resales of the shares pursuant to Rule 144A.

FORWARD-LOOKING STATEMENTS

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

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

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

SUMMARY

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

Overview

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

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

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

We currently own a fleet consisting of six cruise ferries carrying both passengers and ro-ro cargo, four high-speed ferries operating between Helsinki and Tallinn and two ro-ro cargo vessels. In 1997, we changed our operating model from chartering into ship ownership and acquired our first three vessels. In 2000, we started to invest in new vessels, including the cruise ferries Romantika (introduced in 2002) and Victoria I (in 2004), and the 2,800 passenger new cruise ferry expected to be introduced in the spring of 2006 (the "New Cruise Ferry"). Our new cruise ferries provide improved accommodation facilities, larger onboard shopping areas and a broader offering of other services compared to our traditional ferries. We also plan to introduce new high-speed ro-pax ferries on the Helsinki—Tallinn route. The new high-speed ro-pax ferries are designed to combine the best features of a traditional cruise ferry and a high-speed ferry such that they can be operated year-round and can travel at almost the same speed as existing high-speed ferries but with increased passenger capacity, expanded shopping and dining facilities and other services.

Group Structure

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

Key Strengths

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

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

Strategy

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

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

Risk Factors

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

Management

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

Shares and Shareholders

As of the date of this offering memorandum, our registered share capital amounted to EEK 1,100,000,000 consisting of 110,000,000 fully paid shares with a nominal value of EEK 10 each (each, a "Share" and, together, the "Shares"). Each Share entitles its holder to one vote at our general meetings of shareholders. We have one class of shares and all Shares rank *pari passu* in all respects.

We had 252 shareholders as of November 18, 2005. The ten largest shareholders held in the aggregate more than 90 percent of all of our Shares and votes, while our largest shareholder, Aktsiaselts Infortar ("Infortar"), alone held more than 55 percent of the Shares and votes. Infortar is an Estonian investment company with interests in the shipping, real estate and printing industries. The principal shareholder of Infortar is an Estonian holding company, Linandell OÜ, which is controlled by Enn Pant, Chairman of our management board and our CEO; Kalev Järvelill, a member of our management board; and Ain Hanschmidt, a member of our supervisory council.

The Offering

Offering	In the Offering, up to 34,090,909 Shares (the "Offer Shares") are being offered by us and certain selling shareholders defined herein (the "Selling Shareholders") to retail investors in Estonia and Finland and to institutional investors in and outside of Estonia and Finland. Of the Offer Shares, 26,500,000 Shares are new Shares to be issued by us (the "New Shares") and a maximum of 7,590,909 shares are existing Shares to be sold by the Selling Shareholders (the "Sale Shares"). The total number of Offer Shares may be changed. Approval of the share capital increase relating to the New Shares is scheduled to be taken by our general meeting of shareholders to be convened on November 30, 2005. The retail offering is structured as a public offering in Estonia and Finland. The institutional offering consists of (i) an offer of Offer Shares outside the United States to institutional investors in reliance on Regulation S under the Securities Act and (ii) an offer of Offer Shares in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act.
Shares	Our share capital consists of 110,000,000 Shares. The Sale Shares and, once issued and registered with the Estonian Commercial Register, the New Shares rank *pari passu* with all the remaining Shares of Tallink.
Selling Shareholders	Aktsiaselts Infortar, Citibank Hong Kong/Citicorp International Finance Corporation, Amber Trust S.C.A and DCF Fund (II) Baltic States. A portion of the Sale Shares initially offered by the Selling Shareholders may be offered on behalf of other shareholders.
Over-Allotment Option	Certain Selling Shareholders have granted to Citigroup, acting on behalf of the Managers, an option exercisable at any time within 30 days from the commencement of trading in our Shares on the Tallinn Stock Exchange to purchase up to an aggregate of 3,409,091 additional Shares at the Offer Price solely to cover over-allotments, if any (the "Over-Allotment Option"). See "Plan of Distribution."
Offer Period	The offer period commences on November 21, 2005 and ends on December 1, 2005.
Offer Price Range	The offer price range is EEK 73.50 (EUR 4.70) to EEK 92.00 (EUR 5.88) per Offer Share. The offer price range may be changed during the bookbuilding process directed at institutional investors. The final offer price ("Offer Price") will be based on the bookbuilding process. The Offer Price will be the same for all investors.
Shares Issued and Outstanding after the Offering	Immediately prior to the Offering, there were 110,000,000 Shares issued and outstanding. Upon completion of the Offering, and assuming that all New Shares are subscribed for, there will be 136,500,000 Shares issued and outstanding.
Percentage of the Total Issued Share Capital Being Offered in the Offering	The Offer Shares represent approximately 27.5 percent of our share capital following the Offering and assuming that the Over-Allotment Option is exercised in full and that the number of Offer Shares is not changed.

Listing	An application has been made for the Shares to be listed on the Tallinn Stock Exchange. Trading of the Shares on the main list of the Tallinn Stock Exchange is expected to commence on or about December 9, 2005.
Settlement	It is expected that delivery of the Offer Shares will be made on or about December 8, 2005 through the facilities of the Estonian Central Securities Depository, Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Clearstream Banking société anonyme. To facilitate the settlement, Citigroup, on behalf of the Managers, will borrow a number of Shares, corresponding to the number of New Shares, from Infortar.
Lock-up Agreements	Except for the Sale Shares to be offered by the Selling Shareholders (including any additional Shares sold pursuant to the Over-Allotment Option), Tallink, each of the Selling Shareholders, each of the members of our supervisory council and management board and each of our key executives have agreed that, without the prior written consent of Citigroup, each of us will not issue, offer, sell, contract to sell, or otherwise dispose of any Shares owned by us/it at any time or any securities convertible into or exercisable or exchangeable for Shares, or enter into any swap or other agreement or any transaction to transfer the economic consequence of ownership of the Shares, or publicly announce an intention to effect any such transaction, during the period commencing on the date of pricing and ending 180 days (in the case of Tallink), 270 days (in the case of Infortar), 180 days (in the case of the other Selling Shareholders) and 365 days (in the case of members of our supervisory council and management board and our key executives) after the commencement of trading in our Shares on the Tallinn Stock Exchange. However, the lock-up does not apply to any shares that we may issue or sell pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan. See "Plan of Distribution."
Voting Rights	Each Sale Share carries and, upon registration with the Estonian Commercial Register, each New Share will carry one vote at our general meetings of shareholders.
Dividend Rights	The Sale Shares entitle and, upon registration with the Estonian Commercial Register, the New Shares will entitle holders to any future dividends commencing with any dividend declared for the financial year commenced September 1, 2005 and ending August 31, 2006. See "Dividends and Dividend Policy" and "Description of Share Capital."
Use of Proceeds	Our net proceeds from the issuance of the New Shares in the Offering are estimated to be approximately of EEK 2,097 million, based on the mid-point of the Offer Price range. We will not receive any part of the proceeds from the sale of the Sale Shares sold by the Selling Shareholders. Our net proceeds from the Offering are expected to be used to repay indebtedness and to strengthen our financial resources as part of our growth strategy involving our investment and fleet renewal program. See "Use of Proceeds."
Stabilization	Citigroup, on behalf of the Managers, may effect transactions that stabilize or maintain the market price of our Shares, in accordance with applicable laws, during a 30-day period starting from the commencement of trading in our Shares on the Tallinn Stock Exchange. Any such stabilization activity will be decided by Citigroup at its sole discretion

	and there is no obligation on Citigroup to do this. Such stabilization transactions may result in a market price of the Shares that is higher than would otherwise prevail. Any trades made on the Tallinn Stock Exchange as part of the stabilization will be effected by Suprema Securities as instructed by Citigroup. The details of all stabilization transactions will be notified to the Estonian Financial Supervisory Authority (the "EFSA") according to the Article 9(4) of the European Commission Regulation (EC) No. 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council. Stabilization activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buy-back programs and stabilization of financial instruments. See "Plan of Distribution."
Selling and Transfer Restrictions	Sales and transfers of the Offer Shares will be subject to certain restrictions. See "Plan of Distribution" and "Transfer Restrictions."
ISIN	EE3100004466
Trading Code	TAL1T
Managers	Citigroup Global Markets Limited, Nordea Bank Finland Plc., AS Suprema Securities and SEB Eesti Ühispank AS.
Important dates	November 21, 2005 Start of the Offer Period. November 30, 2005 Extraordinary General Meeting of our Shareholders. December 1, 2005 End of the Offer Period. December 2, 2005 Publication of the Offer Price. On or about December 8, 2005 Settlement and delivery of the Offer Shares. On or about December 9, 2005 Opening of trading in the Shares on the Tallinn Stock Exchange.

Summary Financial Information

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

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

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

2	EBITDA	=	Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization
3	EBITDA margin	=	EBITDA / Revenue
4	Operating profit margin	=	Operating profit / Revenue
5	Return on investment (ROI)	=	(Profit after net financial cost + Interest expense) / (Average total assets – Average interest free liabilities)
6	Return on assets (ROA)	=	Operating profit / Average total assets
7	Return on equity (ROE)	=	Net profit / Average equity
8	Equity ratio	=	Equity / Total assets

RISK FACTORS

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

Risks Relating to Our Business

We operate in a highly competitive market.

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

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

We continuously evaluate possibilities to introduce new vessels, to expand into alternative routes and to expand our business generally. There are risks related to our current plans regarding capacity increases on the Finland—Estonia and Sweden—Estonia routes. We currently operate two cruise ferries on the Finland—Estonia route and three cruise ferries on the Sweden—Estonia route. We have ordered the New Cruise Ferry scheduled to be introduced in the spring of 2006 on the Helsinki—Tallinn route. We believe that traffic on the Sweden—Estonia routes has future growth potential and, thus, we expect to move the 2,500 passenger cruise ferry Romantika to operate alongside her sister vessel Victoria I on the Stockholm—Tallinn route. The Regina Baltica would be removed from the Stockholm—Tallinn route and could be used for new business opportunities. Furthermore, we recently placed orders for two new high-speed ro-pax ferries to be used on the Helsinki—Tallinn route. We are also studying the potential to commence traffic between Sweden and Latvia and to recommence traffic to and from St. Petersburg.

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

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

We have entered into a shipbuilding contract with Aker Finnyards Oy, under which Aker Finnyards Oy shall design, construct, equip, complete and deliver the New Cruise Ferry. The New Cruise Ferry has been financed through cash flows from operations and external financing. Furthermore, we recently placed orders with Aker Finnyards Oy and Fincantieri Cantieri Navali Italiani S.p.A. to design, construct and deliver two new high-speed ro-pax ferries. Any failure or significant delay in construction, completion or delivery of the New Cruise Ferry or the high-speed ro-pax ferries in accordance with the contracts and by the agreed deadlines could have a material adverse effect on our business, results of operations and financial condition.

A large proportion of our revenue is concentrated on two of our vessels.

While we own a fleet of 12 vessels, a large proportion of our revenue for the financial year ended August 31, 2005 was derived from ticket, onboard and cargo sales relating to our two newest cruise ferries, Romantika and Victoria I. Although our investment and fleet renewal program contemplates the introduction of an additional cruise ferry and two high-speed ro-pax ferries with a similarly high-quality service offering, it is possible that our revenue and profits will remain concentrated among a relatively small number of ships. An accident or suspension of operations for Romantika or Victoria I, or future vessels whose operations are significant to us, could adversely affect our future sales and profitability. Furthermore, increased competition in the mini-cruise segment could adversely affect the sales derived from our key vessels and therefore adversely affect our overall revenue and profitability.

We face uncertainties regarding onboard trade and price development.

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

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

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

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

We operate our vessels through individual ship-owning subsidiaries, one for each vessel. In addition, the New Cruise Ferry is expected to be delivered in the spring of 2006, and two high-speed ro-pax vessels have been ordered for delivery in 2007 and 2008. We are highly leveraged due to the fact that all recent and future purchases of vessels have been and are expected to be financed mainly through loan financing and cash flows from operations. Our obligations under the loan agreements have been secured by different security arrangements, including mortgages, guarantees, assignments of earnings or insurances, charters, charter guarantees, pledges or options to pledge the shares of our ship-owning subsidiaries, pledges of bank accounts and other arrangements.

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

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

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

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

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

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

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

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

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

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

One of our competitive advantages as compared to our Finnish and Swedish competitors is the relatively lower labor cost of Estonian crews and onshore staff. Labor laws of the country of a ship's flag govern the employment of the ship's crew and other onboard staff. All of our ferries operate under the Estonian flag. If our labor costs increase due to general economic developments, increased regulation or other reasons, it may have a material adverse effect on our business, results of operations and financial condition. See "Business—Employees and Labor Relations" for a description of the terms of a recently renewed three-year agreement with the trade union regarding salary levels of our onboard staff.

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

At the time of the commencement of this Offering, the Selling Shareholders have not finally determined whether and to what extent they may participate in the Offering. Furthermore, other shareholders may wish to participate in the Offering as Selling Shareholders. In the event that our principal shareholder, Infortar, does not sell any shares in the Offering, 44.8 percent of our Shares will be controlled by Infortar after the completion of the Offering assuming that we will issue all the New Shares in the Offering. In the event that Infortar will be the only Selling Shareholder and assuming that all the Sale Shares are sold and all the New Shares are issued in the Offering, 39.2 percent of our Shares will be controlled by Infortar after the completion of the Offering (36.7 percent in the event that the Over-Allotment Option is exercised in full and Infortar sells all the Shares covered by the Over-Allotment Option). Consequently, regardless of whether and to what extent it may participate in the Offering, Infortar will be able to influence our management and our policies with respect to, among other things, any matters submitted to a vote of all of the shareholders. We have in the past and will in the future engage in transactions with Infortar or its affiliates. In particular, Infortar is the 50 percent shareholder in the company owning the property of Hotell Tallink and the sole owner of the company owning the Tallinn city conference and spa hotel currently under construction, both of which we either currently manage or expect to manage. Therefore, it can be expected that the role of Infortar will remain significant in our future development and operations. Furthermore, the recent announcement of a transfer by Enn Pant, Chairman of our management board and our CEO, of shares in a holding company that is Infortar's controlling shareholder, to Ain Hanschmidt, a member of our supervisory council, has been subject to an internal investigation by one of our lenders with whom Mr. Hanschmidt was previously affiliated, as well as an investigation by the EFSA. While this event was not directly related to us or our operations, and while no allegations of misconduct resulted from any of the investigations, this event, and any similar events in the future, may affect our reputation and consequently the price of our Shares. See "Principal and Selling Shareholders—Infortar."

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

As a private company we have historically had a small staff responsible for administrative, legal and accounting functions (some of which have been handled by Infortar or external service providers). We may have to hire and train new employees to enhance these functions in the future as a result of increased demands on us as a public company. These increased demands include accounting requirements applicable to public companies (including enhanced knowledge of IFRS), the need for a stronger internal audit function and the need for more robust information technology systems. We do not currently have an audit committee. We may in the future decide to establish an audit committee to be responsible for, among other things, the oversight of our internal control processes. The failure to develop and maintain an effective internal control structure or to hire necessary personnel could have a material adverse effect on our business, results of operations and financial condition, and the increased administrative costs necessary to manage a public company could adversely affect our profitability.

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

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

Risks Relating to Our Industry

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

The cost of fuel used by our vessels is subject to many global and regional economic and political factors that are beyond our control. The cost of fuel can be volatile and has recently been higher than in the past. At present, fuel represents approximately 12 percent of our operating costs as a result of recent increases in fuel prices. We currently pass a small portion of our fuel costs on to our customers as a fuel surcharge. However, further increases in the cost of fuel could decrease our profit margins as we may not be able to pass on the cost to our customers without a decrease in demand. In addition, port and other regulatory fees are subject to change. We may also not be able to pass on increases in these fees to our customers without reducing demand. A material increase in the cost of fuel or port and other regulatory fees may, thus, have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Estonian companies are currently subject to income tax of approximately 32 percent, which rate is due to decrease over the next three years on the amount of dividends and other distributions paid. In addition, an Estonian dividend withholding tax of 24 percent, which rate is due to decrease to 20 percent by 2009, is currently imposed on dividends paid by Tallink to non-resident legal persons. The European Union has granted Estonia a transition period expiring on December 31, 2008 following which time Estonia may be required to at least partly adjust its current tax regime. The possibility that Estonia may change its corporate taxation policy has periodically been subject to political discussion but we are not in a position to assess whether or, if so, when any such change may occur. Any change in Estonian corporate taxation policy could have a material adverse effect on our business, results of operations and financial condition. See "Taxation—Estonian Tax Considerations."

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

Our books and accounts are denominated in Estonian kroons. Our revenue is primarily denominated in euro, Swedish kronor and Estonian kroons, while our expenses are primarily denominated in euro, Estonian kroons, U.S. dollars, and Swedish kronor. Therefore, we are exposed to currency risks. The Estonian kroon is pegged to the euro at an official exchange rate of EEK 15.6466 = EUR 1 and, accordingly, it fluctuates against the U.S. dollar and the Swedish krona at the same rate as the euro.

Although the Bank of Estonia has expressed its intention to maintain the current fixed exchange rate and the currency board system, there can be no guarantee that the Estonian Parliament will not amend the relevant laws and that the fixed exchange rate will be maintained in the coming years. Currently, we do not hedge our foreign exchange exposures. Fluctuations in currency exchange rates, or new currency-related policies adopted by the Estonian authorities, could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to the Offering

An active market for the Shares may not develop, which may cause the Shares to trade at a discount and make the Shares difficult to sell.

Prior to this Offering, there has been no public market for the Shares. We cannot assure you that an active trading market for the Shares will develop or be sustained after the Offering. The Offer Price for the Shares will be determined through negotiations among the Managers, the Selling Shareholders and us. This initial Offer Price may vary from the market price of the Shares after the Offering. If you purchase any Shares, you may not be able to resell those Shares at or above the Offer Price.

The price of the Shares after this Offering may be volatile and may fluctuate significantly in response to numerous factors including:

- actual or anticipated fluctuations in our quarterly and annual results and those of our publicly-held competitors;
- industry and market conditions;
- mergers and strategic alliances in the ferry industry;
- changes in laws and regulations;
- shortfalls in our and our competitors' operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors;
- global and regional economic conditions; and
- the general state of securities markets.

Many of these factors may be beyond our control.

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

Application has been made to the Tallinn Stock Exchange for our Shares to be admitted to trading on the Tallinn Stock Exchange's market for listed securities. However, we cannot provide any assurance that the Shares will be admitted to trading or that, following admission, an active trading market for the Shares will emerge, develop or be sustained after completion of the Offering. The average daily trading turnover on the Tallinn Stock Exchange from January 1, 2005 to October 31, 2005 was EEK 133.5 million. A total of 14 companies were listed on the Tallinn Stock Exchange as of October 31, 2005. As of October 31, 2005, the two largest companies in terms of market capitalization, Eesti Telekom and Merko Ehitus, represented approximately 60 percent of the Tallinn Stock Exchange's aggregate market capitalization of approximately EEK 35.5 billion. Consequently, the Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of the Shares. The delisting of any of the large companies listed on the Tallinn Stock Exchange would be likely to have a negative effect on the market capitalization and liquidity of the Tallinn Stock Exchange.

Future sales of the Shares could adversely affect the market price of the Shares.

Immediately after the Offering, assuming that the Over-Allotment Option is not exercised in full, approximately 25.0 percent of the Shares will be held by investors in the Offering. If the Over-Allotment Option is exercised in full, approximately 27.5 percent of the Shares will be held by investors in the Offering. We may issue additional Shares at any time after the Offering, subject to the terms of the lock-up that we have agreed upon with the Managers. Sales of substantial amounts of Shares, or issuance of additional Shares after the expiry of the relevant lock-up periods, or the perception that such sales or issues could occur, could adversely affect prevailing market prices for the Shares. See "Plan of Distribution."

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

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

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

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

It may not be possible for you to enforce U.S. judgments against us.

Tallink is incorporated in Estonia. Council Regulation (EC) No 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters sets forth a requirement that judgments of the courts of the member states of the European Union (except for Denmark) should be recognized and enforced in Estonia. However, Estonia is not a party to the Brussels Convention or the Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. Therefore, recognition and enforcement in Estonia of judgments of all other foreign courts is regulated by the Estonian Code of Civil Procedure. Pursuant to Article 377(1) of the Code of Civil Procedure, judgments of foreign courts are recognized by Estonian courts in accordance with international treaties concluded by Estonia. Estonia has concluded international agreements on the recognition or enforcement of judgments of the relevant courts with the Russian Federation, Latvia, Lithuania, Poland and Ukraine. Currently, judgments of courts of jurisdictions not listed above are not enforceable in Estonia without re-litigation of the subject matter of such judgments on their merits.

In addition, substantially all of our assets and the assets of our subsidiaries are located outside the United States. As a result, it may be difficult or impossible for you to serve process within the United States upon Tallink, or to enforce your judgment upon Tallink for civil liabilities in U.S. courts.

TERMS AND CONDITIONS OF THE RETAIL OFFERING

The Offering

In the offering, a maximum of 34,090,909 ordinary shares of Tallink ("Shares") are being offered to Estonian, Finnish and international institutional investors ("Institutional Offering") and to the public in Estonia and Finland, including the employees and members of the supervisory council and management board of Tallink and its subsidiaries ("Retail Offering" and, together with the Institutional Offering, "Offering"). The Offering is divided into an issue of 26,500,000 new Shares by Tallink ("New Shares"), and a sale of a maximum of 7,590,909 existing Shares by certain existing shareholders of Tallink ("Selling Shareholders") ("Sale Shares" and, together with the New Shares, "Offer Shares"). Certain Selling Shareholders have granted the managers of the Offering ("Managers") an option to purchase up to an aggregate of 3,409,091 additional Shares at the Offer Price (as defined below) solely to cover over-allotments.

The sizes of the Institutional Offering tranche and the Retail Offering tranche have not been pre-determined. The total amount of Offer Shares to be allocated as part of the Institutional Offering and the Retail Offering will be determined by Tallink in the allocation process after the Offer Period (as defined below) based on the demand for the Offer Shares by the different investor groups. Only New Shares will be offered in the Retail Offering.

The issuance of New Shares will be decided by the general meeting of shareholders of Tallink on November 30, 2005. The notice calling the general meeting has been published on November 21, 2005 through Tallinn Stock Exchange and in the newspapers Eesti Päevaleht and Postimees. The management board of Tallink will propose to the general meeting of shareholders to waive the pre-emptive right of shareholders to subscribe for the New Shares in order to extend the shareholder base of Tallink. The decisions of the general meeting will be published through Tallinn Stock Exchange not later than on December 1, 2005.

These terms and conditions ("Terms") relate only to the Retail Offering.

Tallink expects to announce the 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 not later than on December 2, 2005 through Tallinn Stock Exchange and on the website of Tallink and not later than December 5, 2005 in two daily newspapers, one circulated throughout Estonia and one circulated throughout Finland.

Right to Participate in the Retail Offering

The Retail Offering is directed to all natural and legal persons in Estonia and Finland who do not belong to the following categories of institutional or qualified investors:

(a) credit institutions, investment firms, insurance companies, collective investment schemes and their management companies, pension funds and their management companies and other authorized or regulated financial institutions;

(b) national, regional and local governments, central banks and international organisations;

(c) natural persons and small and medium-sized enterprises who have been registered as qualified investors in the respective list maintained by the Estonian Financial Supervision Authority or in the list maintained by the Finnish Financial Supervision Authority; and

(d) other persons who have confirmed to the Managers , in the course of the Institutional Offering, that they fall under the definition of a "qualified investor" ("*kutseline investor*") set forth in the Estonian Securities Market Act or the definition of a "qualified investor" ("*kokenut sijoittaja*") set forth in the Finnish Securities Market Act.

For the purpose of these Terms a person shall be deemed to be "in Estonia" if he has a securities account with Estonian Central Register of Securities ("ECRS") and his address, according to the data in ECRS regarding his securities account, is in Estonia. A person shall be deemed to be "in Finland" if his permanent address is in Finland.

Offer Period

Investors may submit undertakings to subscribe for the Offer Shares (a "Subscription Undertaking") starting at **9:00 a.m. on November 21, 2005** until **4:00 p.m. on December 1, 2005** ("Offer Period").

Tallink may at any time prior to the receipt by Tallink and Selling Shareholders of full payment for all Offer Shares cancel the Offering or any part thereof, if the underwriting agreement has not been entered into on or before December 2, 2005 or the obligations of the Underwriters under the underwriting agreement (a) have not become unconditional or (b) terminate prior to the settlement. In case of cancellation of the Offering, or any part thereof, Tallink shall make an announcement thereof through the Tallinn Stock Exchange. As of the moment of announcement all rights and obligations of the parties relating to the cancelled part of the Offering shall terminate.

Offer Price

The offer price shall be decided by the supervisory council of Tallink after the completion of the book-building process directed at institutional investors ("Offer Price"), in which the Offer Price shall be determined on the basis of tenders for the Offer Shares obtained from institutional investors, taking into consideration the total demand for the Offer Shares in the Institutional Offering, price sensitivity of the demand and quality of the demand. The Offer Price is expected to be between the price range of EEK 73.50 (EUR 4.70) and EEK 92.00 (EUR 5.88). The above price range may be amended until the end of the Offer Period on the basis of information obtained in the book-building process—see "Procedure for amending the price range."

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

Subscription

Tallink invites investors to submit Subscription Undertakings in accordance with these Terms. Subscription Undertakings may be submitted during the Offer Period. An investor may apply to subscribe for the Offer Shares only at the upper limit of the price range, i.e. at EEK 92.00 (EUR 5.88) per Share ("Subscription Price").

Possible multiple Subscription Undertakings submitted by the investor shall be merged for the purposes of allocation.

An investor must ensure that the data in the Subscription Undertaking is correct, complete and readable. An uncompleted, incorrect or unclear Subscription Undertaking may be rejected.

An investor may submit the Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking and make the relevant payments.

By submitting a Subscription Undertaking an investor:

- accepts these Terms and agrees with Tallink and Selling Shareholders on the application of them;
- acknowledges that the Retail Offering does not constitute an offer (in Estonian: *pakkumus*) of Shares by Tallink or any Selling Shareholder and that the making of a Subscription Undertaking does not itself amount to subscription for the Offer Shares in legal terms nor entitle to subscribe for the Offer Shares nor result in the agreement for sale of Offer Shares, and that by submitting of a Subscription Undertaking an investor undertakes to acquire the Offer Shares to the maximum amount indicated in the Subscription Undertaking on these Terms;

Investors in Estonia

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

Investors in Finland

- authorizes and instructs Nordea Bank Finland Plc ("Nordea Bank Finland") to effect the allocation of the Offer Shares to the investor and to transfer them to the relevant nominee registered account at ECRS as instructed by the investor's custodian.

Payment

Investors in Estonia

By submitting a Subscription Undertaking, an investor authorizes and instructs the credit institution operating the investor's cash account connected to his securities account (which may be also the Custodian itself) to block the transaction amount on such cash account until the completion of settlement on or about December 8, 2005. The transaction amount shall equal the number of Shares covered by the Subscription Undertaking times the Subscription Price. An investor may submit a Subscription Undertaking only if there are sufficient funds on the cash account connected to his respective ECRS securities account to cover the transaction amount.

Investors in Finland

By submitting a Subscription Undertaking, an investor authorizes and instructs Nordea Bank Finland to debit the investors bank account by the transaction amount or undertakes to pay the transaction amount in cash. The payment of the transaction amount shall be effected when the Subscription Undertaking is submitted. The transaction amount shall equal the number of Shares covered by the Subscription Undertaking times the Subscription Price.

Amendment or Cancellation of Subscription Undertakings

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

Procedure for Amending the Offer Price Range

If the offer price range is amended Tallink shall prepare a supplement to the offering memorandum which has to be approved by the competent authority. The supplement shall be published in the same way as the original offering memorandum was published. Tallink shall make an announcement thereof through the Tallinn Stock Exchange and on its website. Investors who have submitted Subscription Undertakings before the announcement may cancel their Subscription Undertakings within two working days after the announcement in accordance with the procedure described under previous caption. Should the offer price range be amended, also the total number of Offer Shares, the dates and other terms and conditions set forth herein may be changed. All such changes shall be announced together with the announcement of the amended price range. Investors who have not cancelled their Subscription Undertakings within the above-referred time period shall be deemed to have accepted all changes announced in accordance with above.

Distribution and Allocation

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

Offer Shares shall be allocated to investors using stepped allocation methodology. Under the stepped allocation methodology, Tallink, together with the Managers, will determine, after the Offer Period, one or more allocation levels (in number of 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 percent of such part will be accepted), part being between the first and second level (y percent of such part will be accepted), part exceeding the second level (z percent of such part will be accepted) etc. The main criteria for the determination of the levels and allocation percentages are: (i) the total demand for the Offer Shares in the Retail Offering (ii) size of Subscription Undertakings in the Retail Offering and (iii) number of investors having submitted Subscription Undertakings in the Retail Offering.

All Subscription Undertakings (made in accordance with the Terms) shall be fully accepted up to EEK 23,469.90 (EUR 1,500) (which amount may be adjusted downwards to the closest amount which, if divided with the Offer Price, results in a whole number of Offer Shares).

Each investor entitled to receive Offer Shares shall be allocated a whole number of Shares and, if necessary, the number of 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 random basis.

Tallink shall decide on the allocation after the determination of the Offer Price after the Offer Period, no later than on December 2, 2005.

Preferential Allocation to Employees

The employees and members of the supervisory council and management board of Tallink and its subsidiaries ("Employee" or "Employees") are granted a preferential allocation. The levels to be applied in allocation shall be higher than those to be applied to other investors. In all other respects the same terms and conditions shall apply to Employees as to the other investors in the Retail Offering.

For the purposes of the above, an Employee means a person who, as at 8:00 a.m. on November 21, 2005, has a valid employment contract for an unspecified term with Tallink or any of its subsidiaries or is a member of the supervisory council or management board of Tallink or its subsidiary.

Return of Funds

Investors in Estonia

If the Offer Price is lower than the Subscription Price, if the Offering is revoked, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Shares applied for, the funds blocked on the investor's cash account, or the part thereof (the amount in excess of payment for the allocated Offer Shares) shall be released by the Custodian not later than on December 9, 2005. Tallink shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

Investors in Finland

If the Offer Price is lower than the Subscription Price, if the Offering is revoked, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Shares applied for, the transaction amount paid upon submission of the Subscription Undertaking, or a part thereof (the amount in excess of payment for the allocated Offer Shares), shall be refunded to the investor who has given the Subscription Undertaking to his cash account in Finland not later than on December 7, 2005, or if the investor has his cash account with a Finnish credit institution other than Nordea Bank Finland, on or about December 9, 2005. If a Subscription Undertaking is cancelled the amount paid upon submission of such Subscription Undertaking will be refunded no later than three banking days, or if the investor has his cash account with a Finnish credit institution other than Nordea Bank Finland, no later than five banking days after the cancellation. No interest shall be payable on the amount to be refunded.

Settlement and Trading

Offer Shares allocated to investors will be transferred to the securities accounts of Estonian investors on or about December 8, 2005 as described under the captions "Instructions to investors in Estonia" and to the book-entry accounts or custody accounts of Finnish investors on or about December 8, 2005 as described under the caption "Instructions to investors in Finland."

To facilitate the settlement, the Offer Shares to be transferred to investors (in the amount corresponding to the number of New Shares) will be temporarily borrowed from aktsiaselts Infortar.

Trading in the Shares is expected to commence on the Tallink Stock Exchange on or about December 9, 2005.

Applicable Law and Dispute Resolution

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 Tallinn City Court, unless the exclusive jurisdiction of any other court is provided for by the provisions of law which can not be derogated from by an agreement of the parties.

Share Acquisitions by the Members of Management Bodies

See "Management—Management Holdings."

Over-Allotment and Over-Allotment Option

See "Plan of Distribution."

Placing and Underwriting

See "Plan of Distribution."

INSTRUCTIONS TO INVESTORS IN ESTONIA

Submission of Subscription Undertakings

In order to subscribe for the Offer Shares an investor must have a securities account with the ECRS. Such securities account may be opened through any Custodian of the ECRS. As at November 18, 2005, the following banks and investment firms operate as Custodians:

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

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

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	Tallink Grupp share
ISIN code:	EE3100004466
Amount of securities:	Transaction amount divided by the price (per share)
Price (per share):	Subscription Price
Transaction amount:	the amount (in money) for which the investor wishes to subscribe for the Offer Shares – must be divisible by the Subscription Price
Counterparty:	Aktsiaselts SEB Eesti Ühispank
Securities account of counterparty:	99100675977
Custodian of the counterparty:	Aktsiaselts SEB Eesti Ühispank
Value date of the transaction:	December 8, 2005
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

An investor may submit a Subscription Undertaking through a nominee account only if he authorizes the owner of the nominee account to disclose his identity to the registrar of ECRS in writing.

A Subscription Undertakings submitted through the nominee account shall be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor to the registrar of ECRS in writing.

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

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

An investor may obtain information about the amount of Offer Shares allocated to him as of December 8, 2005 after the completion of settlement by submitting an inquiry to the Custodian operating his securities account in accordance with the terms and conditions established by the respective Custodian.

Settlement Mechanism

Offer Shares allocated to investors in Estonia will be transferred to their securities accounts on or about December 8, 2005 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to him, the Offer Shares allocated to such investor are transferred to his securities accounts proportionally with the respective securities amounts set out in his Subscription Undertakings. The number of Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Shares is transferred to each securities account. If the transfer cannot be completed due to lack of sufficient funds on the investor's cash account, the Subscription Undertaking of the respective investor shall be rejected and the investor shall lose all rights to the Shares allocated to him.

INSTRUCTIONS TO INVESTORS IN FINLAND

Submission of Subscription Undertakings

Investors in Finland wishing to subscribe for the Offer Shares can place their Subscription Undertakings through:

- Nordea Bank Finland Plc's asset management branches during their respective opening hours;
- Nordea Private Banking;
- Nordea Customer Service, Monday to Friday 8:00 a.m. to 8:00 p.m., tel. 0200 3000 in Finnish and tel. 0200 5000 in Swedish (local network charge/ mobile call charge) with Solo codes; or
- Nordea Netbank service on the Internet at www.nordea.fi (only Nordea clients with Solo codes).

The submission of a Subscription Undertaking through Nordea Customer Service and Netbank requires a valid Solo agreement. Corporations cannot submit Subscription Undertakings through Nordea Customer Service or the Netbank. Calls with the Customer Service are recorded.

When the Subscription Undertaking is being made at the asset management branches of Nordea Bank Finland, at the Nordea Private Bank units or at Private Wealth Management units, the payment is debited directly from the investor's bank account at Nordea Bank Finland, or the investor makes the payment in cash. When making a Subscription Undertaking through Nordea Customer Service, or through Nordea Netbank the payment is made either by Solo codes or through the Nordea Netbank service.

A Subscription Undertaking cannot be cancelled or amended through Nordea Bank Finland's Netbank Service on the Internet.

Nordea Bank Finland will on or about December 7, 2005 send confirmation notices to investors in Finland to whom Offer Shares have been allocated.

An investor in Finland making a Subscription Undertaking shall have an agreement with a Finnish custodian or asset manager enabling the custody of foreign securities as nominee registered securities.

No fees will be charged by Nordea Bank Finland from the investors in connection with the submission of a Subscription Undertaking. Account operators other than Nordea Bank Finland may charge fees from the investors for the receipt of foreign securities on the investors' book-entry or custody account.

Settlement and Custody of and Trading in the Offer Shares

The Offer Shares allocated to investors in Finland will be transferred to the investor's Finnish book-entry or custody account on or about December 8, 2005, unless otherwise instructed by a Finnish account operator other than Nordea Bank Finland. If an investor has submitted several Subscription Undertakings through several securities accounts belonging to him, the Offer Shares allocated to such investor are transferred to his book-entry or custody account through which he made a Subscription Undertaking with largest amount or to his book-entry or custody account at Managers' choice if his Subscription Undertakings are of equal size.

The Shares are registered in the Estonian book-entry system. The Offer Shares held by an investor in Finland are nominee registered and in custody at a foreign credit institution appointed by the investor's Finnish custodian bank. Fees charged by Finnish custodians and asset managers for the custody of, trading in and receipt of foreign securities may differ from the fees payable for local securities. Investors in Finland are advised to consult their own custodian or asset managers as to the level of such fees.

The Finnish custodian and asset manager will forward any information regarding the nominee registered securities received from the foreign custodian to the investor. The Finnish custodian or asset manager will assume no responsibility for the accuracy of such information or cannot assure that any information will be received on time.

When trading in the Offer Shares the sale order shall be made through the Finnish custodian, asset manager or broker who effects the trades on the Tallinn Stock Exchange.

Exercise of Shareholder Rights by Investors in Finland

Dividends and Other Distributions

The Finnish custodian or asset manager will arrange for the payment of dividends to the investor and will forward any information to the investor regarding the shareholding and requiring action by the investor when such information is received by the custodian or asset manager. The investor is responsible for giving instructions to the custodian or asset manager with regard to such required action. Under certain circumstances, if so agreed, the custodian or asset manager may, however, take action on behalf of the investor.

All distributions and payments received by the Finnish custodian or asset manager on behalf of the investor will be credited to the investor's cash account connected to his book-entry account, unless otherwise agreed. The payments will be recorded on the cash account no later than ten (10) banking days after the custodian or asset manager has received the notice of such payment and the funds are available at the bank account of the custodian or asset manager. All payments will be made in euros.

Participation in Shareholders' Meetings

Finnish shareholders may not be able to exercise their right to participate in the general meetings of shareholders of Tallink either individually or through a Finnish custodian, unless such service is provided by the relevant custodian or asset manager. The custodian or asset manager may charge a fee for such services. When participating in the general meeting individually, Finnish shareholders must request their custodian to provide them with a written authorisation to represent the custodian in the general meeting. Although the shareholder acts in the general meetings as a representative of the custodian, the use of shareholder rights in the meeting is at the sole discretion of the shareholder. When participating in the general meetings through the Finnish custodian, the shareholder may give the custodian orders on the use of shareholder rights in the respective meeting.

Taxation of Dividends

See "Taxation—Finnish Tax Considerations."

USE OF PROCEEDS

The aggregate net proceeds to us from the issuance of the New Shares in the Offering, after deduction of the fees and expenses payable by us, are estimated to amount to approximately EEK 2,097 million, based on the mid-point of the Offer Price range set forth on the cover of this offering memorandum. The fees and expenses, including underwriting commissions, incurred in connection with the Offering and payable by us are estimated to amount to approximately EEK 96 million (including applicable taxes). See "Plan of Distribution."

The aggregate net proceeds to be received by the Selling Shareholders, and any other shareholders whose Shares may be sold on their behalf by the Selling Shareholders, from the sale of the Sale Shares in the Offering, after deduction of the fees and expenses payable by the Selling Shareholders, are estimated to be approximately EEK 885 million, based on the mid-point of the Offer Price range and assuming that the Over-Allotment Option is exercised in full. The fees and expenses, including underwriting commissions, incurred in connection with the Offering and payable by the Selling Shareholders are estimated to amount to approximately EEK 25 million (including applicable taxes). We will not receive any portion of the proceeds from the sale of the Sale Shares by the Selling Shareholders.

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

CAPITALIZATION

The table below sets forth our capitalization as of August 31, 2005 pursuant to IFRS, (i) on an actual basis, and (ii) as adjusted to give effect to the application of net proceeds to us of approximately EEK 2,097 million from the issuance of 26,500,000 New Shares as part of the Offering, based on the mid-point of the Offer Price range.

This table should be read in conjunction with our consolidated financial statements contained in this offering memorandum.

	As of August 31, 2005	As of August 31, 2005
	Actual, audited	Adjusted, unaudited
	(EEK in millions)	
Cash and cash equivalents	327	2,424
Interest-bearing loans and borrowings payable in less than one year	690	690
Interest-bearing loans and borrowings payable in one year or more	3,146	3,146
Issued capital	1,100	1,365
Share premium	—	1,832
Translation adjustment	—	—
Mandatory legal reserves	28	28
Retained earnings	1,528	1,528
Total equity	2,656	4,753
Total capitalization[1]	5,802	7,899

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

BACKGROUND AND REASONS FOR THE OFFERING

The purpose of the Offering is to obtain additional equity financing to implement our strategy, including our investment and fleet renewal program, to expand our shareholder base with both Estonian and Finnish retail investors and international institutional investors and to create an opportunity for the listing of our Shares on the Tallinn Stock Exchange. The public listing of the Shares will create a new source of capital to support our growth strategy and will enable their use as a means of payment in potential future acquisitions. By means of the offering, we further aim to increase our brand recognition among current and potential future customers.

In the Offering, 26,500,000 New Shares will be offered by us. Approval of the Offering and the related share capital increase is scheduled to be taken by our general meeting of shareholders to be convened on November 30, 2005. Our management board will propose to the general meeting of shareholders to waive the pre-emptive rights of shareholders to subscribe for the new Shares. The decisions of the general meeting of shareholders will be published through the Tallinn Stock Exchange no later than on December 1, 2005.

DIVIDENDS AND DIVIDEND POLICY

The Offer Shares will be eligible for dividends and other distributions, if any, declared in respect of the financial year commenced September 1, 2005 and ending August 31, 2006, and for subsequent periods.

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

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

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

EXCHANGE RATES

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

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

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

	Reference rates of U.S. dollars per euro			
	Average	High	Low	Period-End
2000	0.924	1.036	0.830	0.930
2001	0.896	0.954	0.839	0.884
2002	0.945	1.048	0.860	1.048
2003	1.131	1.261	1.036	1.261
2004	1.244	1.364	1.180	1.364
2005 (until October 31)	1.258	1.354	1.191	1.207

	Reference rates of U.S. dollars per Estonian kroon			
	Average	High	Low	Period-End
2000	0.059	0.066	0.053	0.059
2001	0.057	0.061	0.054	0.057
2002	0.060	0.067	0.055	0.070
2003	0.072	0.081	0.066	0.081
2004	0.080	0.087	0.075	0.087
2005 (until October 31)	0.080	0.087	0.076	0.077

SELECTED FINANCIAL INFORMATION

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

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

	As of and for the financial year ended August 31,		
	2003	2004	2005
	(EEK in millions, unless otherwise indicated)		
Income Statement			
Revenue	2,996	3,406	4,063
Cost of sales	(2,133)	(2,479)	(2,980)
Gross profit	863	928	1,083
Marketing expenses	(261)	(351)	(336)
Administrative expenses	(118)	(128)	(120)
Other operating income	3	1	2
Other operating expenses	(6)	(2)	(1)
Operating profit	481	446	629
Net financial items	(100)	(134)	(159)
Share of profit of associates	1	1	4
Profit before income tax and minority interests	382	313	474
Income tax	0.2	0.3	0.4
Profit before minority interests	382	313	473
Minority interests	—	—	0.1
Net profit for the financial year	382	313	473
Balance Sheet			
Current assets	443	676	614
Cash and cash equivalents	232	367	327
Receivables and prepayments	152	219	198
Non-current assets	4,107	6,232	6,313
Total assets	4,549	6,908	6,927
Current liabilities	953	1,242	1,125
Non-current liabilities	2,123	3,484	3,146
Total liabilities	3,076	4,726	4,271
Equity	1,473	2,182	2,656
Cash Flow Statement			
Cash flow from operating activities	842	804	891
Cash flow used in investing activities	(620)	(2,386)	(352)
Cash flow from (used in) financing activities	(144)	1,717	(579)
Per Share Information			
Adjusted weighted average number of shares (thousands)	89,600	109,050	110,000
Earnings per share (EPS), EEK	4.3	2.9	4.3
Ratios and Indicators			
EBITDA[1]	803	720	901
EBITDA margin, %[2]	27	21	22
Operating profit margin, %[3]	16	13	15
Return on investment (ROI), %[4]	12	9	10
Return on assets (ROA), %[5]	11	8	9
Return on equity (ROE), %[6]	30	17	20
Equity ratio, %[7]	32	32	38
Number of passengers, persons	2,597,917	2,828,364	3,274,177
Number of ro-ro cargo units	94,945	103,425	131,349
Number of personnel, average	1,921	2,371	2,710

Footnotes on the following page.

1 EBITDA	=	Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization. EBITDA is here included as a supplemental item, because we believe that EBITDA, when considered in connection with cash flows from operating, investing and financing activities, may provide useful information. EBITDA is not a measure of operating performance calculated in accordance with IFRS and should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit or loss or cash flow data determined in accordance with IFRS.
2 EBITDA margin	=	EBITDA / Revenue. EBITDA margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of the company's financing and tax position as well as depreciation related estimates.
3 Operating profit margin	=	Operating profit / Revenue. Operating profit margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of both the company's financing and tax position.
4 Return on investment (ROI)	=	(Profit after net financial cost + Interest expense) / (Average total assets—Average interest free liabilities). Return on investment measures the relationship between profits and the investment required to generate them.
5 Return on assets (ROA)	=	Operating profit / Average total assets. Return on assets compares income with total assets (i) measuring management's ability and efficiency in using the firm's assets to generate (operating) profits and (ii) reporting the total return accruing to all providers of capital (debt and equity), independent of the source of capital.
6 Return on equity (ROE)	=	Net profit / Average equity. Return on equity excludes debt in the denominator and compares net income with total shareholders' equity. It measures the rate of return on shareholders' investment and is, therefore, useful in comparing the profitability of a company with its competitors.
7 Equity ratio	=	Equity / Total assets. Equity ratio is a measure of financial leverage which highlights the ratio of shareholders' equity to total assets. The analysis of a company's financial leverage (or capital structure) is essential to evaluate its long-term risk and return prospects.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

We are a leading provider of high-quality mini-cruise and passenger transport services in the Northern Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. We own and operate passenger ferries, including cruise ferries and high-speed ferries, and ro-ro cargo vessels on routes between Finland and Estonia and between Sweden and Estonia. Our current routes are between Helsinki and Tallinn, between Stockholm and Tallinn, and between Kapellskär and Paldiski. We are the current market leader on the Helsinki—Tallinn route and the only provider of daily passenger and ro-ro cargo traffic services on the routes between Sweden and Estonia. Altogether, we transported more than 3.2 million passengers and approximately 130,000 ro-ro cargo units in the financial year ended August 31, 2005, an increase of 16 percent and 27 percent, respectively, compared to the previous financial year. In May 2004, we broadened our product offering through the introduction of the 350-room Hotell Tallink that we operate in the principal tourist area of Tallinn. In addition, we have entered into a letter of intent for the operation of a new conference and spa hotel close to the center of Tallinn. See "Business—Related Party Transactions." This hotel is intended to commence operations in late 2006.

Our current fleet consists of:

- *Six cruise ferries.* Our cruise ferries currently serve on routes between Finland and Estonia and between Sweden and Estonia. In addition to providing passenger, car and ro-ro cargo transport, our newer cruise ferries provide a higher standard of accommodation and more extensive dining, shopping and entertainment offerings than other cruise or high-speed ferries on our routes, providing passengers with an enhanced mini-cruise experience.
- *Four high-speed ferries.* Our current high-speed ferries provide a high-speed link between Helsinki and Tallinn, covering the journey of approximately 80 kilometers in just over one and a half hours, which is approximately half the time required by conventional ferries. The high-speed ferries transport both passengers and cars.
- *Two ro-ro cargo vessels.* These vessels are used for ro-ro cargo transportation with only limited passenger capacity and currently serve on routes between Finland and Estonia and between Sweden and Estonia.

Our primary business segments are geographical segments based on routes operated and our mainland business. During the financial year ended August 31, 2005, the composition of our revenue by geographic segment was as follows: Finland—Estonia traffic: 60 percent; Sweden—Estonia traffic: 34 percent; and other routes and mainland business: six percent. Our secondary segments are operational segments. During the financial year ended August 31, 2005, the composition of our revenue by operational segment was as follows: onboard and onshore restaurant and shop sales: 47 percent; ticket sales: 25 percent; sales of cargo transport: 18 percent; accommodation sales: two percent; and other sales, such as charter fees and sales of travel packages: eight percent.

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

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

Our results of operations for the periods discussed herein were also driven by our ongoing investment and fleet renewal program and changes in the routes operated. Our investment and fleet renewal program initiated in 2000 has continued in recent financial years with the acquisitions of new high-speed ferries, the ro-ro cargo vessel Regal Star and, more importantly, with the deliveries of our modern cruise ferries Romantika in 2002 and Victoria I in 2004, representing the most significant investments in our history. We believe that Romantika and Victoria I have attracted a broader customer base as they offer new higher quality facilities. Both vessels have contributed to our increased profitability through a combination of increased sales and lower costs per passenger.

We believe that continued investment in new vessels and upgrades to existing vessels are critical to our ability to maintain market leadership and further expand our business. Therefore, our investment and fleet renewal program is set to continue with the delivery of the New Cruise Ferry during the spring of 2006. In comparison with its predecessors Romantika and Victoria I, the New Cruise Ferry is larger and has more high-class cabin space, larger shopping and conference areas with the latest equipment as well as a wider selection of restaurants and bars. The New Cruise Ferry will replace Romantika on the Helsinki—Tallinn route. The subsequent redeployment of Romantika alongside Victoria I on the Stockholm—Tallinn route will improve our high-quality offering on that route, allowing us to provide a uniformly high-quality mini-cruise product, with daily departures, from Stockholm and Tallinn. As a result of the delivery of the New Cruise Ferry and the end of the nine-month chartering agreement with Algerie Ferries, the cruise ferries Regina Baltica and Fantaasia will become available for traffic elsewhere. We are currently considering whether to introduce new routes or pursue other business opportunities in the near- to medium-term. See “Business—Routes Operated.”

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

Recent Developments and Outlook

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

Since August 31, 2005, there have been no significant changes to our financial position. In September and October 2005, passenger numbers on the Helsinki—Tallinn and the Sweden—Estonia routes decreased slightly compared to the same period in 2004. We believe that this development is temporary and primarily explained by the relatively high passenger numbers in September and October 2004 resulting from our successful 15th anniversary marketing campaign. We nevertheless currently expect overall passenger numbers in the current financial year to increase from the previous financial year. We further believe that the expected launch of the New Cruise Ferry in the spring of 2006, and the consequent redeployment of Romantika alongside her sister vessel Victoria I on the Stockholm—Tallinn route, will assist us in reaching the targeted continued growth and improved efficiency particularly in the medium- to long-term. Accordingly, we expect both our passenger numbers and revenue to grow in the current financial year, irrespective of the moderate decrease in passenger numbers in September and October. However, there can be no assurance that our revenue will, in fact, increase. For a discussion of risks, including changes in passenger and cargo volumes, relating to our future performance, see “Risk Factors” and “Forward-Looking Statements.”

The continued increase in oil prices during the past year has further increased our fuel costs. We expect that oil prices will continue to remain at their current high level during the first half of the current financial year. In addition, recent salary increases and certain start-up costs relating to the New Cruise Ferry are expected to increase our overall operating costs during the current financial year. We also expect to incur additional interest payments on the loan obtained to finance the New Cruise Ferry, which will decrease our net profits. As a result, while we do not currently expect any significant changes to our cost structure in the near term, we expect that our total costs for the current financial year will grow compared to the financial year ended August 31, 2005.

Given that our current high-speed ferries use gasoil, a relatively expensive type of fuel, and only provide limited onboard shopping and dining facilities, they were not profitable at the segment result level in the financial year ended August 31, 2005. All of our profits from vessel operations on the Helsinki—Tallinn route for the financial year ended August 31, 2005 were derived from our cruise ferry and cargo operations. Revenue generated by our four high-speed ferries only accounted for approximately 19 percent of our total vessel revenue on that route. At the same time, our cruise ferries have demonstrated increased profitability and cost efficiency at operating profit level through lower costs and increased spend per passenger. Romantika, Meloodia I and Kapella accounted for 81 percent of our total vessel revenue and all of our operating profits from vessel operations on the Helsinki—Tallinn route in the financial year ended August 31, 2005. We expect that the planned introduction of our new high-speed ro-pax ferries ordered in August 2005 will improve the operating margin of our high-speed ferry operations.

Factors Affecting Results of Operations

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

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

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

Cargo traffic in the Northern Baltic Sea region is strongly affected by macroeconomic developments and especially by the growth of the surrounding economies. In addition, the development of close business and governmental relations among the Baltic and Nordic countries as well as Russia has a significant effect on cargo traffic in the area. Estonia's accession to the European Union, the consequent removal of customs and the increased use of the *Via Baltica* highway connecting Central and Northern Europe have been the latest developments to have a positive impact on cargo volumes.

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

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

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

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

As regards financial expenses, we incur significant interest costs associated with the financing of our vessels. Approximately 92 percent of our outstanding indebtedness is issued at floating rates and, accordingly, our results are affected by changes in interest rates payable under the loan agreements.

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

The table below illustrates the seasonality of our passenger and cargo traffic during the financial years ended August 31, 2003, 2004 and 2005.

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

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

Results of Operations

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

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

1 The following adjustments have been made to the audited 2003 financial year figures: all sales relating to travel packages have been included in "Travel packages" instead of "Ticket sales" and "Other," and onboard cabin sales have been included in "Ticket sales" instead of "Other."

2 The full price for travel packages is recorded as revenue rather than just the commissions received from customers.

3 Includes hotel accommodation sales and charter fees.

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

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

1 Revenue from external customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

Cash Flows

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

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

Pursuant to the letter of intent concerning our new Tallinn conference and spa hotel, we will, subject to a final agreement, be required to make fixed rental payments over a ten-year period in an annual amount equal to ten percent of the construction cost of the hotel. We expect to finance such rental payments from our existing cash balances and cash generated from our business operations. In addition to the fixed rent, we are also required to pay an annual amount equal to 25 percent of any profit from the operation of the hotel. See "Business—Related Party Transactions."

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

Liquidity and Capital Resources

We believe that, taking into account our existing assets and financial condition, our working capital is sufficient for our business activities for at least the 12-month period following the date of this offering memorandum. We believe that we can fund our cash needs for such period from the proceeds of this Offering, cash generated from business operations and our current loan facilities, including the loan facility obtained for the financing of the New Cruise Ferry. Our capitalization and indebtedness is discussed in more detail under "Capitalization."

Capital Expenditures

Our budgeted capital expenditures for the financial year commenced September 1, 2005 and ending August 31, 2006, taking into account our current plans and ongoing projects, are estimated at approximately EEK 2.7 billion, consisting primarily of the remaining payments of EEK 2.4 billion for the New Cruise Ferry as well as down-payments for the two new high-speed ro-pax ferries on order. In 2007 and 2008, we are scheduled to pay the remaining 80 percent of the contract prices of these high-speed ro-pax ferries.

Loan Agreements

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

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

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

Borrower(s)	Financing Purpose	Lender(s)
Tallink Fast Ltd.	Part of the purchase price of Tallink AutoExpress	HSH Nordbank AG
Tallink Ltd.	Part of the purchase price of Romantika	HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG and Norddeutsche Landesbank Girozentrale
Tallink Ltd.	Refurbishment of Fantaasia and repayment of certain previous loans	HSH Nordbank AG
Hansalink Ltd.	Part of the purchase price of Tallink AutoExpress 2	Skandinaviska Enskilda Banken AB (Publ)
Tallink Victory Line Ltd.	Part of the purchase price of Victoria I	HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG and Norddeutsche Landesbank Girozentrale
Tallinn-Helsinki Line Ltd.	Part of the purchase price of Regal Star	Skandinaviska Enskilda Banken AB (Publ)
Tallink High Speed Line Ltd. and Tallink Autoexpress Ltd.	Part of the purchase price of Tallink AutoExpress 3 and Tallink AutoExpress 4	Skandinaviska Enskilda Banken AB (Publ) and AS SEB Eesti Ühispank
Tallink Sea Line Ltd.	Part of the purchase price of the New Cruise Ferry	Skandinaviska Enskilda Banken AB (Publ), Danske Bank A/S, Nordea Bank Finland Plc and Dresdner Bank AG

Currently outstanding bank loans (which are secured against our vessels), including the respective maturity and outstanding amounts of such loans, are presented in the table below:

Lender(s)	Outstanding amount as of August 31, 2005[1] (EEK in millions)	Final Maturity	Collateral Vessel
HSH Nordbank AG	34	March 2006	Tallink AutoExpress, Fantaasia
HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG, Norddeutsche Landesbank Girozentrale	1,415	May 2014	Romantika, Fantaasia
HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG, Norddeutsche Landesbank Girozentrale	1,416	September 2010	Victoria I
Skandinaviska Enskilda Banken AB (Publ)	63	June 2007	Tallink AutoExpress 2
Skandinaviska Enskilda Banken AB (Publ)	163	February 2011	Regal Star
Skandinaviska Enskilda Banken AB (Publ), AS SEB Eesti Ühispank	125	June 2011	Tallink AutoExpress 3, Tallink AutoExpress 4
Nordea Bank Finland Plc	227	November 2009	Meloodia I, Regina Baltica, Vana Tallinn
AS SEB Eesti Ühispank	81	August 2006	Tallink AutoExpress 2

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

The project price of the New Cruise Ferry, EUR 165 million, will be financed as follows: EUR 132 million through an internationally syndicated loan facility and the remainder through cash from our business operations.

The financing of the new high-speed ro-pax ferries ordered from Aker Finnyards Oy and Fincantieri-Cantieri Navali Italiani S.p.A. in August 2005 is expected to be arranged as a combination of equity and debt financing in a manner corresponding to the financing of previous new vessels.

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

Loan agreements with banks include several different negative undertakings, including restrictions on payment of dividends by the borrower or entry into any other financial commitments and obligations. The loan agreements by Tallink Victory Line Ltd. with HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG and Norddeutsche Landesbank Girozentrale, and by Tallink Ltd. with HSH Nordbank AG, Commerzbank AG, Dresdner Bank AG and Norddeutsche Landesbank Girozentrale also require the consent of the lenders for the payment of dividends by Tallink. These requirements may restrict our ability to pay dividends to our shareholders.

Several of our loan agreements with banks contain covenants to the effect that the value of the relevant security assets must not be less than between 100 percent and 140 percent of all sums outstanding under the relevant loan, and, if less, the borrower must make up the deficiency by either granting additional security or pre-paying the deficiency.

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

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

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

All our loan agreements contain customary events of default, including cross-default provisions. Frequently, the cross-default provisions extend to the guarantors and in some cases to Tallink's parent company, Infortar. In addition, in several agreements, it is an event of default if (without the prior consent of the relevant lender) a third party acquires in whole or in part the issued share capital of (or an equivalent to the controlling interest in) the borrower or the guarantor/shareholder or if there is a change in the ultimate beneficial ownership of the shares in the relevant borrower or guarantor or in the ultimate voting rights attaching to the shares. Should Infortar's ownership in the Shares fall below a certain threshold, a matter over which we have no control, consent from certain of our lenders is required.

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

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

Off-Balance Sheet Guarantees

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

- As of October 31, 2005, a guarantee in the maximum amount of SEK 16,900,000 to SEB Eesti Ühispank related to our Swedish subsidiary. The amount of this guarantee is subject to review and revision several times annually. The current guarantee expires on October 14, 2006;
- Guarantees to HSH Nordbank AG (formerly Hamburgische Landesbank) and Skandinaviska Enskilda Banken AB for the loans granted to our ship-owning subsidiaries amounting to EEK 3,216,093,000. The primary securities for these loans are pledges of shares of our ship-owning subsidiaries and mortgages on the ships owned by such subsidiaries. The guarantees expire upon fulfillment of all obligations under the related loan agreements;
- Guarantee in the amount of 119,920 Slovenian tolars to SEB Eesti Ühispank related to Vaba Maa AS, a related party. The guarantee expires on June 30, 2006;
- A guarantee in the amount of EEK 2,200,000 to SEB Eesti Ühispank related to our subsidiary TDF Kommerts OÜ. The guarantee expires on September 24, 2006; and
- A guarantee in the amount of EEK 260,000 to SEB Eesti Ühispank related to our subsidiary Tallink Travel Club OÜ. The guarantee expires on May 26, 2006.

Critical Accounting Policies

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

Dry-docking Costs

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

Goodwill

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

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

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

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

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

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

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

Contractual Obligations

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

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

Market Risk Disclosure

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

Interest Rate Risk

In our operations, we use a mixture of financial instruments, such as shareholders' funds, bank borrowings, finance leases and cash. We borrow in desired currencies at both fixed and floating rates of interest having regard to current market rates and future trends. As of August 31, 2005, loans with fixed interest rate represented close to eight percent of our total interest-bearing liabilities. We use interest rate swaps to modify our exposure to interest rate movements and to manage our interest expenses. As of August 31, 2005, we had an agreement in effect which exchanged floating interest rates for fixed interest rates at a nominal amount of EEK 93 million maturing in 2007 (EEK 146 million as of August 31, 2004). As of August 31, 2005, the fair value of this derivative financial instrument amounted to EEK 913,000 (EEK 793,000 as of August 31, 2004), recorded as other payable in the balance sheet. In late October 2005, we entered into an interest rate swap agreement, through which approximately 25 percent of our interest rate exposure is fixed.

The table below presents our borrowings as of August 31, 2005 divided into fixed and floating interest rate loans. The division of interest-bearing liabilities into categories of up to one year and one to five years is based on maturity date in the case of liabilities with fixed interest rates and re-pricing date in the case of floating interest rate.

	< 1 year	1-5 years	Total
	(EEK in thousands)		
Finance lease liability	981	935	1,916
Other loans	73,648	24,882	98,530
Bonds	58,747	134,559	193,306
Total fixed rate	133,376	160,376	293,752
Floating rate	3,542,585	0	3,542,585

Currency Risk

Approximately 15 percent of our total revenue is denominated in Swedish kronor. We seek to minimize currency transaction risk through matching foreign currency inflows with outflows. Another transactional currency exposure is against the U.S. dollar arising from the purchase of ship fuel and insurance. Our net open position in the currency exposure was not hedged by any derivative financial instruments as of August 31, 2005.

Credit Risk

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

Liquidity Risk

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

Bunker Price Risk

The total bunker cost for our fleet represents approximately 12 percent of our total operating expenses. Changes in bunker prices follow the changes in the oil price and the U.S. dollar price. To stabilize the bunker cost between June 1 and August 31, 2005, we had an agreement with our fuel supplier, NT Marine. There was no active hedging against bunker price development at the end of the 2005 financial year although we are considering possibilities to commence hedging bunker price risk together with the related U.S. dollar risk.

Fair Values

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

INDUSTRY OVERVIEW

European Mini-Cruise and Transport Ferry Markets

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

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

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

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

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

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

Our Geographic Market Area

The area around the Baltic Sea constitutes a large economic area within the pan-European economy. Surrounded by Sweden and Finland to the north and west; Denmark, Northern Germany and Poland to the south; and the Baltic countries of Estonia, Latvia and Lithuania as well as the Russian city of St. Petersburg to the east, the Baltic Sea region is home to more than 80 million people. Travel by sea has always been a key means of transportation in the area, mainly due to considerably short distances by sea between the major cities and ports. Passengers often choose to travel by ferry instead of by airplane or other means of transport. For example, in 2004, approximately 97 percent of Finnish passengers and more than 70 percent of Swedish passengers visiting Estonia arrived by ferry (15-20 percent of Swedish passengers arrived by airplane). Passenger ferry traffic on the Northern Baltic Sea dates back more than one hundred years. The countries surrounding the Northern Baltic Sea have historically been and continue to be active trading partners. The European Union membership of the Baltic countries has been the most recent catalyst for trade.

Recent Developments and Trends

Ferry operators in the Northern Baltic Sea region transported approximately 16.4 million passengers and 574,000 ro-ro units of cargo between Finland, Sweden and the Baltic countries in 2004, an increase of five percent and 17 percent, respectively, compared to 2003 (and 0.1 percent and two percent, respectively, compared to 2002). In line with global trends, tourism in this region and particularly in the Baltic countries has been growing in recent years, particularly in 2004. According to statistics of the Estonian Tourist Board, the number of overnight tourists visiting Estonia increased by 21 percent in 2004 compared to 2003 and by an annual average of 15 percent from 2001 to 2004. We believe that this development demonstrates an increased growth potential for the tourism industry in this area, including the local ferry and hotel operators. As a result of the close distance and the high capacity of ferry transportation available between Helsinki and Tallinn, approximately one-half of all tourists visiting Estonia are Finnish. However, the proportion of Finnish tourists relative to the total number of tourists visiting Estonia has decreased moderately over the past few years as tourist flows from other European countries and especially from Sweden, have begun to grow. In 2004, the number of Swedish tourists visiting Estonia increased by 40 percent compared to 2003. In 2005, this positive trend has continued. In the first half of 2005, 6.4 percent of all tourists visiting Estonia were Swedish, an increase of 1.4 percentage points compared to the same period in 2004.

The drivers of increased tourism in the Baltic countries include the accession of Estonia, Latvia and Lithuania to the European Union, an improved supply of tourism services and accommodation and steady economic growth in the region as well as the improving standard of living in the Baltic countries. Improved living standards have further supported the increase in outbound leisure trips and tourism from the Baltic countries, especially by Estonians. For example, the average GDP of the Baltic countries increased by 6.8 percent in 2004 (EU-25 average 2.5 percent) and by 7.4 percent in 2003 (EU-25 average 1.0 percent), resulting in increased disposable income.

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

Sea Containers has recently announced its intention to conduct a controlled auction sale of its subsidiary Silja Line (and also separately pursue the sale of certain vessels operated by Silja Line). Silja Line is one of the major ferry operators in the Northern Baltic Sea region. The potential ownership change in Silja Line is expected to have an effect on the Northern Baltic Sea ferry market and we are currently analyzing the new situation. We are currently not negotiating with either Sea Contrainers or Silja Line regarding a potential acquisition of the shares, business or vessels of Silja Line. This does not, however, preclude us from entering into any such negotiations in the future.

Main Routes in the Region

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

Maritime traffic between Finland and Estonia also has a relatively long tradition dating back to the beginning of the 20th century and is today well-established with several operators. Passenger traffic has accelerated following Estonia's regained independence in 1991, from less than two million passengers annually during the early 1990s to approximately six million passengers annually today. Almost all of the passenger and cruise ferry traffic between Finland and Estonia is on the Helsinki—Tallinn route with a distance of only approximately 80 kilometers and travel times ranging from approximately one and a half hours with a high-speed ferry to three and a half hours with a conventional cruise ferry. Finnish passengers have traditionally constituted the vast majority of passengers. The proximity of Estonia offers a number of options for Finnish tourists, who can, for example, spend a day or two onshore, spend a day in Tallinn and a night onboard, go for a mini-cruise or simply dine at one of Tallinn's restaurants and return with a high-speed ferry the same night. The variety of options makes Tallinn an attractive, easy and quick getaway destination. Traffic from Tallinn to Helsinki has also grown steadily, initially driven mainly by cargo and business traffic and subsequently supported by growing numbers of tourists. In 2004, close to 400,000 Estonians visited Finland, making Estonians the third largest tourist group visiting Finland.

The table below shows the development of passenger ferry traffic through the ports of Helsinki to and from Estonia, Sweden and other destinations between 2002 and 2004:

	Passengers (million)[1]		
	Year ended December 31,		
Destination	**2002**	**2003**	**2004**
Estonia	6.1	5.7	6.0
Sweden	2.5	2.6	2.5
Other destinations	0.5	0.6	0.6
Total[2]	9.1	8.9	9.1

Source: Finnish Maritime Association

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

2 Includes also international cruise ferries visiting Helsinki.

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

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

	Passengers (million)[1]		
	Year ended December 31,		
Destination	**2002**	**2003**	**2004**
Estonia	0.4	0.5	0.7
Finland	7.0	7.2	7.6
Other destinations[2]	2.3	2.5	2.6
Total	9.7	10.2	10.9

Source: Port of Stockholm

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

2 Includes also international cruise ferries visiting Stockholm.

The passenger and ro-ro cargo volumes on the key routes between Finland and Estonia, Finland and Sweden and Sweden and Estonia between 2002 and 2004 are shown in the below table:

	Passengers (million)[1]			Ro-ro cargo units (thousands)		
	Year ended December 31,					
	2002	2003	2004	2002	2003	2004
Finland—Estonia	6.0	5.8	6.2	116	127	164
Finland—Sweden	8.7	9.1	9.4	233	243	264
Sweden—Estonia	0.4	0.5	0.7	42	52	51

Source: ShipPax statistics

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

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

Current and Future Tax Status of Onboard Sales

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

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

Competition

In addition to us, the largest companies by revenue that provide mini-cruise and passenger transport services in the Northern Baltic Sea region are Viking Line, Silja Line, Eckerö Linjen and Birka Line. There are also a number of smaller ferry companies, such as Nordic Jet Line and Linda Line operating only with high-speed ferries between Helsinki and Tallinn. For both Viking Line and Silja Line, the majority of revenue originates from routes between Finland and Sweden on which we do not operate. Eckerö Linjen only operates regular passenger and cargo traffic between Finland and Estonia and Sweden and Finland, whereas Birka Line primarily concentrates on traffic to or via Åland. For further discussion concerning the competitive environment, see "Business—Competition."

BUSINESS

Overview

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

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

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

We currently own a fleet consisting of six cruise ferries carrying both passengers and ro-ro cargo, four high-speed ferries operating between Helsinki and Tallinn and two ro-ro cargo vessels. In 1997, we changed our operating model from chartering into ship ownership and acquired our first three vessels. In 2000, we started to invest in new vessels, including the cruise ferries Romantika (introduced in 2002) and Victoria I (in 2004), and the New Cruise Ferry expected to be introduced in the spring of 2006. Our new cruise ferries provide improved accommodation facilities, larger onboard shopping areas and a broader offering of other services compared to our traditional ferries. We also plan to introduce new high-speed ro-pax ferries on the Helsinki—Tallinn route. The new high-speed ro-pax ferries are designed to combine the best features of a traditional cruise ferry and a high-speed ferry such that they can be operated year-round and can travel at almost the same speed as existing high-speed ferries but with increased passenger capacity, expanded shopping and dining facilities and other services.

Key Strengths

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

- *Strong market position.* We are currently the leading operator on the Helsinki—Tallinn route, with a market share of approximately 43 percent of passengers during the financial year ended August 31, 2005. On the routes between Sweden and Estonia, we had a market share of more than 90 percent of all passenger ferry traffic. We are currently the only company to provide regular daily service between Stockholm and Tallinn and between Kapellskär and Paldiski. Furthermore, during the financial year ended August 31, 2005, we had a market share of approximately 45 percent of the ro-ro cargo traffic between Finland and Estonia and approximately 95 percent between Sweden and Estonia.
- *High-quality, flexible fleet.* As a result of our ongoing investment and fleet renewal program, we currently deploy some of the most advanced cruise ferries in the Northern Baltic Sea region. In particular, we believe that our cruise vessels Romantika and Victoria I, with their state-of-the-art

facilities and quality onboard services, have set a new benchmark for travel standards in the Northern Baltic Sea region. The program is set to continue with the delivery of the New Cruise Ferry, scheduled for the spring of 2006, and the introduction of the two recently ordered high-speed ro-pax ferries, scheduled for delivery in 2007 and 2008. All of our passenger ferries are equipped with a car/cargo deck, where cars, buses, trucks and trailers can be loaded while passengers are boarding. Combining passenger traffic with cargo tonnage also allows for more frequent cargo departures and mitigates the effect of the seasonality of passenger traffic.

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

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

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

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

Strategy

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

- *Continue to invest in our fleet.* We believe that continued investment in new vessels and upgrades to existing vessels are critical to our ability to maintain market leadership and further expand our business. In addition to introducing the New Cruise Ferry in the spring of 2006, we plan to introduce next generation high-speed ro-pax ferries on the Helsinki—Tallinn route in 2007 and 2008. Our newer vessels are designed to increase our efficiency and profitability by increasing passenger traffic while reducing operating costs per passenger. We believe that the introduction of additional modern vessels equipped with improved onboard amenities will lead to increased per-passenger spend and will attract a broader customer base. In addition, the higher comfort, safety and environmental standards of our newer vessels will further strengthen the Tallink brand association with high-quality products and services.

- *Build upon strong positions on existing routes.* We are the market leader on all of the routes that we currently operate. We will seek to maintain and strengthen our overall market share and volumes in both passenger and cargo traffic on our designated routes by continuously improving comfort and quality standards and providing convenient and reliable timetables for our service. On the well-developed Helsinki—Tallinn route, we aim to maintain and strengthen our market share by further increasing our strong brand recognition and by broadening our customer base. On the routes between Sweden and Estonia, we will focus on continuing to increase traffic volumes for both passengers and cargo, in particular by promoting the attractiveness of our mini-cruise experience and Tallinn as a new alternative destination for tourists. In both markets, we will seek to increase sales to business conference passengers, families and young professionals. We actively market our existing product offering throughout the Nordic and Baltic countries through our own sales agencies and through affiliations with travel agencies.
- *Pursue new growth opportunities in the Northern Baltic Sea region.* We continuously evaluate potential growth opportunities presented by introducing new routes, products and services. We believe that the growth in tourism and commerce with and among the Baltic countries provides us with opportunities to introduce new routes, such as those between Sweden and Latvia or between Estonia or Finland and Russia. Following the delivery of the New Cruise Ferry, Regina Baltica will become available for traffic elsewhere. In addition, our cruise ferry Fantaasia, which is currently in maintenance, will soon be available for operation. This will potentially allow us to operate these vessels on a new route as of spring 2006. We also seek growth opportunities in travel-related products and services that will support our cruise and passenger transport business. For example, the operation of Hotell Tallink and the proposed conference and spa hotel close to the center of Tallinn support our cruise business by offering high-quality overnight accommodation in Tallinn that can easily be combined with our ferry products. We believe that travel services, such as innovative and varied travel packages, including cruises, hotel stays and cultural experiences, provide further opportunities to attract new groups of customers and improve our profitability.
- *Maintain profitability through efficient and flexible management, while seeking revenue growth.* We aim to focus on growth opportunities that will allow us to maintain and improve our profitability. We have a tradition of efficient and flexible management of our assets, including the ability to introduce profitable new routes and to transfer and relocate our vessels to new routes or, for example, charter operations, in order to seek the highest available return from our assets. Our onshore and management organizations are lean, which enables us to operate efficiently and to make quick decisions in response to market developments and opportunities.

History

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

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

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

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

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

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

Operational Segments

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

Routes Operated

Finland—Estonia Route

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

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

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

Sweden—Estonia Routes

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

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

Stockholm—Tallinn Route. Following a positive start and development on the Kapellskär—Paldiski route since 1998, we started operating the Stockholm—Tallinn route in January 2001. On the Stockholm—Tallinn route (directed through Mariehamn, Åland, to obtain the tax-free status for onboard shop sales), we currently operate two cruise ferries, Victoria I and Regina Baltica, with one daily departure by each cruise ferry at 5:30 p.m. from each port. The duration of the voyage, including a short stop at Mariehamn, Åland, is approximately 16 hours and the ferry arrives at its destination the following morning. The main product is a mini-cruise with two nights onboard the vessel and a day at the destination, although one-way trips combined with a hotel package or a private car trip around the Baltic region are becoming increasingly popular. Ro-ro cargo is transported on the car and cargo decks of both Victoria I and Regina Baltica. In response to the growing demand for capacity on the Helsinki—Tallinn route and particularly on the Stockholm—Tallinn route, we expect to introduce the New Cruise Ferry in the spring of 2006. This will allow us to operate the well-equipped high-quality 2,500 passenger sister vessels Victoria I and Romantika on the Stockholm—Tallinn route, and the 2,800 passenger New Cruise Ferry on the Helsinki—Tallinn route. We see potential for growth in passenger numbers on the Stockholm—Tallinn route and expect that the transfer of Romantika to this route will attract additional passengers and, by means of a larger offering of high-quality cabins and services, generate growth in both passenger volumes and revenue.

Kapellskär—Paldiski Route. We entered the Sweden—Estonia market in 1998 by commencing regular traffic on the Kapellskär—Paldiski route, where we currently operate one cruise ferry, Vana Tallinn. Vana Tallinn also has a car/cargo deck similar to our other cruise ferries. In addition, we operate the ro-ro cargo vessel Regal Star on this route. Vana Tallinn departs once daily from Paldiski at 10:00 a.m. and once daily at 9:00 p.m. from Kapellskär, effectively completing a one-way voyage in only 11 hours and a round trip every 24 hours. Traffic on the Kapellskär—Paldiski route is not directed through Åland, which means that tax-free onboard shop sales are not available on this route. Compared to the Stockholm—Tallinn route, the demand for tax-free sales in shops on the Kapellskär—Paldiski route is comparatively low and, in our view, the value that customers place on faster transport between Sweden and Estonia is comparatively higher.

Future Potential Routes

Following the delivery of the New Cruise Ferry, Regina Baltica (currently operating on the Stockholm—Tallinn route) will become available for traffic elsewhere. In addition, the chartering agreement for our cruise ferry Fantaasia has ended and the vessel is currently in maintenance. We are at present considering whether to introduce any of the following new routes in the near- to medium-term.

Sweden—Latvia Route. A new route between Sweden and Latvia would provide Swedish passengers with a new Baltic cruise destination, Riga, which is the largest city in the Baltic region. The route would also offer another easy access by sea from the Nordic countries to the Baltic countries and serve the increasing tourist flow to the region. At the same time, passengers and cargo could be transported to the north in an estimated travel time of approximately 15 hours. Both passenger and ro-ro cargo traffic volumes between Sweden and Latvia have increased significantly over the past few years. We therefore view this route as offering good potential for expansion and growth, and we could start operations in early 2006, subject to completion of necessary negotiations and regulatory issues. Following the recent cessation of operations on this route by Riga Sealine, no ferry operator is currently offering passenger transport on the Stockholm—Riga route.

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

Products

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

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

1 Our operational segments were partly changed beginning with the 2004 financial year, which changes are not reflected in the figures for the 2003 financial year in this table. See "Operating and Financial Review and Prospects" for adjusted figures in respect of the 2003 financial year.

2 Includes cabins, private cars and conference facilities.

3 Includes our operational segments "Revenue from packages," "Accommodation sales," "Other" and "Income from leases of vessels."

Ticket Sales

We sell passenger tickets and package holidays through our own network of sales agencies as well as through a wide network of travel agencies. Products sold include passenger tickets, car tickets, cruises, travel and hotel packages (including accommodation, sightseeing, tours and golf), and conference packages. There is a wide selection of passenger tickets with a variety of different options and pricing for different ships, departure dates and times as well as cabin classes. Passenger tickets may also include pre-paid onboard meals as well as transport of a private car. While some sales are made well in advance, last-minute departures advertised through newspapers are also quite common. In Finland and Sweden, reservations for individuals, groups and conferences can also be made via the Internet and we have plans to introduce this service in Estonia.

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

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

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

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

Conference Facilities. Our cruise ferries also provide a variety of other offerings and facilities, such as conference facilities. We offer both standard packages that cover basic requirements and also tailor-made packages to accommodate the specific needs of clients. The use of conference facilities onboard our vessels has increased in the past few years and has been supported by the larger and better-equipped facilities on our newer vessels. Our aggregate conference-related sales amounted to EEK 113 million in the 2005 financial year, an increase of 13 percent from the previous financial year. Onboard conferences enable customers to hold a quick getaway conference and also offer onboard recreation facilities for participants. The 340 square meter conference area of Romantika located on its ninth deck offers a selection of ten well-equipped conference rooms, while the equally well-equipped conference facilities onboard Victoria I offer 11 conference rooms for a maximum of 400 participants. The New Cruise Ferry will further increase our offering of conference facilities on the Helsinki—Tallinn route.

Restaurant and Shop Sales

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

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

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

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

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

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

Sales of Cargo Transport

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

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

Finland—Estonia Route. We have been transporting goods between Finland and Estonia under the Tallink brand for over ten years. During the financial year ended August 31, 2005, we carried 81,000 units of ro-ro cargo on the route between Helsinki and Tallinn, an increase of 60 percent from the financial year ended August 31, 2004. We are currently the market leader on this route, with unparalleled cargo capacity and year-round service. We believe that our skilled and experienced crew and onshore staff, combined with long-standing customer relationships, have earned Tallink a reputation as a highly reliable provider of freight transport between Finland and Estonia.

The development of ro-ro cargo and private car transport onboard our vessels and the vessels of our competitors Silja Line, Viking Line and Eckerö Linjen on the route between Helsinki and Tallinn during the years ended December 31, 2002, 2003 and 2004, respectively, is shown in the table below:

	Finland—Estonia					
	Year ended December 31,					
	2002		2003		2004	
	Ro-ro cargo	Private cars	Ro-ro cargo	Private cars	Ro-ro cargo	Private cars
	(cargo units in thousands)	(thousands)	(cargo units in thousands)	(thousands)	(cargo units in thousands)	(thousands)
Tallink	56	119	51	108	67	150
Silja Line	16	56	34	97	32	132
Viking Line	26	[1]	25	5	29	48
Eckerö Line	18	39	17	43	27	60
Other operators	0	46	0	35	10	58
Total	116	260	127	288	165	448

Source: ShipPax statistics

1 Data not available

Sweden—Estonia Routes. In the financial year ended August 31, 2005, we carried 50,000 units of ro-ro cargo on the route between Sweden and Estonia, a decrease of five percent from the previous year. We have strengthened our market position with the commencement of operations on the Stockholm—Tallinn route. Four vessels are currently operating on the routes between Sweden and Estonia, where we are the only operator of daily passenger and ro-ro cargo transport services. We have been serving the Kapellskär—Paldiski route as a cargo operator since 1998. We believe that our service from Kapellskär to Paldiski in just 11 hours is one of the fastest ways to transport cargo between Sweden and Estonia. On the Stockholm—Tallinn route, we are currently the only provider of ro-ro cargo transport services. We expect that the transfer of Romantika to this route in early 2006 will increase our cargo capacity on this route by approximately 35 percent compared to 2003.

Other

Hotel Operations. In response to increased tourist activity, we have engaged in hotel operations to support and supplement our passenger traffic business. In May 2004, Tallink's wholly-owned subsidiary, Osaühing TLG Hotell, began operating the 350-room Hotell Tallink in the principal tourist center of Tallinn. Previously, we used the services of other hotels to accommodate passengers staying overnight in Tallinn. Hotell Tallink, which is a member of the Best Western hotel chain, now predominantly serves our passengers who stay in Tallinn overnight or for a longer period of time, but is also available to other visitors. Approximately 60 percent of our hotel customers are our passengers staying overnight in Tallinn. The number of overnight stays has been continuously increasing with respect to both our Finnish and Swedish customers as hotel packages have become more popular. We believe that our combined ship and hotel check-in and reservation system is an important advantage in attracting our ferry passengers to our hotel.

The table below shows the average room occupancy rates for Hotell Tallink compared to other Tallinn hotels and Estonian hotels in general between May and December 2004 and from January 1 through June 30, 2005.

	2004	2005
	%	
Hotell Tallink[1]	54	61
Tallinn hotels	63	55
Estonian hotels in general	49	44

Source: Estonian Tourist Board

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

We believe that our annual average occupancy rate of 54 percent from the opening of the hotel in May 2004 through the end of the year 2004 and approximately 62 percent in the period from January to October 2005 demonstrates the rapidly growing interest in Hotell Tallink. Currently, three-quarters of all reservations are made through our own sales network and mostly comprise our ferry passengers. An average stay in Hotell Tallink is approximately 1.26 nights compared to a Tallinn average of 1.77, which reflects our current customer base. We believe that growing interest in hotel packages, together with increased tourism to Tallinn in general, provides considerable potential for increased sales and will enable us to further increase Hotell Tallink's occupancy rate, length of average stay and sales levels.

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

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

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

Gambling. We offer traditional gambling facilities on all of our cruise ferries. These include entertainment machines, slot machines and (on larger cruise ferries) gambling tables, such as roulette and black jack. The provision of gambling facilities and arranging of gambling activities are outsourced to AS Pafer and we only receive a percentage of the profits generated by such activities.

Chartering. Effective fleet deployment is an important part of our strategy and business. We view chartering as a means of optimizing asset utilization from time to time. We recently chartered our cruise ferry Fantaasia to Algerie Ferries for a period of nine months from January to October 2005.

Sales and Marketing

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

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

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

Marketing Activities

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

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

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

Booking System

We have recently modernized our ticket booking and sales systems. Our new central online booking and check-in system, CarRes, was implemented in 2002 and provides improved statistics and information on line and cruise passengers as well as car and cargo traffic. The system connects our ticket offices in each country and also incorporates travel agencies and Internet customers. The system has improved customer service by facilitating booking, boarding and registration. It is accessible from all of our offices and check-in locations at every port (Tallinn, Helsinki, Stockholm, Paldiski, Kapellskär). The online internet booking system that can currently be used in Finland and Sweden is an important addition to and improvement of our customer service. Currently, online sales represent up to ten percent of our total ticket sales. However, we aim to reach a level of 15 to 20 percent in the future.

Call Centre

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

Customer Loyalty Program—TallinkClub

TallinkClub is a customer loyalty program connecting us with more than 50,000 customers. It is designed to offer versatile, high-quality travel services to meet the needs of our frequent passengers. TallinkClub members receive discounts on ticket prices, take advantage of our special service telephone line for convenient booking of their trips and receive the latest information on club activities. TallinkClub members also receive a newsletter containing information on the latest special trips and travel opportunities, events and member-only offers. Cooperation agreements with a multitude of shops and service providers make it possible to provide TallinkClub members with special offers and services. Onboard the vessels, TallinkClub benefits are available in restaurants, tax-free shops and certain other facilities.

Fleet

Current Fleet

We currently own and operate a fleet of 12 vessels as shown in the table below.

Vessel	Route operated	Built / Acquired	Maximum passengers[1] / Cargo lane meters or private cars[2]
Cruise ferries			
Victoria I	Stockholm—Tallinn	2004	2,500 / 1,000
Romantika	Helsinki—Tallinn	2002	2,500 / 1,000
Meloodia I	Helsinki—Tallinn	1979 / 2002	1,600 / 730
Regina Baltica	Stockholm—Tallinn	1980 / 2002	1,500 / 780
Vana Tallinn	Kapellskär—Paldiski	1974 / 1997	800 / 650
Fantaasia	In maintenance	1979 / 1997	1,550 / 810
High-speed ferries			
Tallink AutoExpress 4	Helsinki—Tallinn	1996 / 2004	574 / 171
Tallink AutoExpress 3	Helsinki—Tallinn	1997 / 2004	580 / 171
Tallink AutoExpress 2	Helsinki—Tallinn	1997 / 2001	673 / 175
Tallink AutoExpress	Helsinki—Tallinn	1995 / 1999	575 / 150
Ro-ro cargo vessels			
Regal Star	Kapellskär—Paldiski	1999 / 2004	80 / 2,087
Kapella	Helsinki—Tallinn	1974 / 1999	50 / 633

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

The vessels that we operate are registered with the register of ships in Cyprus or in the Bahamas and with the Register of Bareboat Chartered Ships in Estonia. We operate all of our vessels under the Estonian flag pursuant to bareboat-charter agreements entered into between the relevant ship-owning subsidiary and either Tallink (in the case of vessels on the Finland—Estonia route and Vana Tallinn) or Hansatee Cargo (in the case of vessels on the Sweden—Estonia routes, except Vana Tallinn) and as authorized by the Estonian Law of Ship Flag and Registers of Ships Act. Vana Tallinn is operated by Hansatee Cargo on the Kapellskär—Paldiski route based on a time-charter agreement with Tallink.

New Vessels

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

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

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

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

We have ordered a third vessel, the New Cruise Ferry, which will be acquired by Tallink Sea Line Limited, a wholly-owned subsidiary of Tallink. Delivery of the New Cruise Ferry is expected to take place during the spring of 2006. The New Cruise Ferry will have a maximum capacity of 2,800 passengers, with accommodation provided by 927 cabins. In comparison to its predecessors Romantika and Victoria I, the New Cruise Ferry is larger, has more high-class cabin space, expanded shopping and conference areas with latest equipment as well as a wider selection of restaurants and bars. The project price for the New Cruise Ferry is EUR 165 million, mostly financed through a loan facility. Moreover, until December 22, 2005, we have an option to order another vessel similar to the New Cruise Ferry, which would be its sister vessel. We expect that the increased high-quality offering of the New Cruise Ferry will broaden our customer base.

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

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

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

Competition

Competitors

Tallink's largest competitors by revenue providing passenger transport, mini-cruise and ro-ro cargo services in the Northern Baltic Sea region are Silja Line, Viking Line, Eckerö Linjen and Birka Line.

Silja Line, domiciled in Finland, is owned by the international Sea Containers Limited Group listed on the New York Stock Exchange. Sea Containers has recently announced its intention to conduct an auction sale of Silja Line and, separately, pursue the sale of certain vessels operated by Silja Line. See "Industry Overview—Our Geographic Market Area—Recent Developments and Trends." Silja Line focuses on passenger and cargo traffic in the Baltic Sea region. Silja Line operates nine vessels built between 1977 and 1993, including two high-speed ferries, on different routes around the Baltic Sea, with its main focus on mini-cruise and ro-ro cargo traffic between Finland and Sweden, routed though Åland. Silja Line also has regular traffic to ports, such as Riga, Tallinn, Visby and St. Petersburg. Sea Wind Line is a subsidiary of Silja Line and operates ro-pax ferries on the Turku—Stockholm route.

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

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

Superfast Ferries is a high-speed ro-pax ferry operator belonging to the international Attica Group based in Greece. In the Northern Baltic Sea region, Superfast Ferries operates two high-speed ro-pax ferries and offers regular daily passenger and ro-ro cargo services between Hanko, Finland, and Rostock, Germany.

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

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

Operator	Route operated	Vessel / Type / Built	Maximum passengers / Cargo lane meters[1] or private cars[2]
Tallink	Stockholm—Tallinn	Victoria I / Cruise ferry / 2004	2,500 / 1,000
	Stockholm—Tallinn	Regina Baltica / Cruise ferry / 1980	1,500 / 780
	Stockholm—Tallinn	Regal Star / Ro-ro cargo vessel / 1999	80 / 2,087
	Kapellskär—Paldiski	Vana Tallinn / Cruise ferry / 1974	800 / 650
	Helsinki—Tallinn	Romantika / Cruise ferry / 2002	2,500 / 1,000
	Helsinki—Tallinn	Meloodia I / Cruise ferry / 1979	1,600 / 730
	Helsinki—Tallinn	AutoExpress / High-speed ferry / 1995	575 / 150
	Helsinki—Tallinn	AutoExpress 2 / High-speed ferry / 1997	673 / 175
	Helsinki—Tallinn	AutoExpress 3 / High-speed ferry / 1997	580 / 171
	Helsinki—Tallinn	AutoExpress 4 / High-speed ferry / 1996	574 / 171
	Helsinki—Tallinn	Kapella / Ro-ro cargo vessel / 1974	50 / 633
Silja Line /	Helsinki—Stockholm	Symphony / Cruise ferry / 1991	2,670 / 950
Sea Wind Line	Helsinki—Stockholm	Serenade / Cruise ferry / 1990	2,670 / 950
	Turku—Stockholm	Europa / Cruise ferry / 1993	3,123 / 932
	Turku—Stockholm	Festival / Cruise ferry / 1986	2,000 / 1,080
	Helsinki—St. Petersburg	Opera / Cruise ferry / 1992	1,409 / —
	Helsinki—Tallinn	SuperSeaCat 3 / High-speed ferry / 1999	800 / 175
	Helsinki—Tallinn	SuperSeaCat 4 / High-speed ferry / 1999	800 / 175
	Turku—Stockholm	Sea Wind / Ro-pax ferry / 1971	260 / 1,200
	Turku—Stockholm	Sky Wind / Ro-pax ferry / 1986	364 / 1,800
Viking Line	Helsinki—Stockholm	Mariella / Cruise ferry / 1985	2,700 / 1,115
	Helsinki—Stockholm	Gabriella / Cruise ferry / 1992	2,400 / 970
	Turku—Stockholm	Amorella / Cruise ferry / 1988	2,420 / 970
	Turku—Stockholm	Isabella / Cruise ferry / 1989	2,200 / 970
	Helsinki—Tallinn	Rosella / Cruise ferry / 1980	1,700 / 720
	Stockholm—Mariehamn	Cinderella / Cruise ferry / 1989	2,700 / 1,130
	Mariehamn—Kapellskär	Ålandsfärjan / Cruise ferry / 1972	963 / 360
Eckerö Linjen	Helsinki—Tallinn	Nordlandia / Cruise ferry / 1981	2,000 / 780
	Helsinki—Tallinn	Translandia / Ro-ro cargo vessel / 1976	104 / 1549
	Grisslehamn—Eckerö	Roslagen / Cruise ferry / 1972	1,320 / 390
	Grisslehamn—Eckerö	Alandia / Cruise ferry / 1972	1,320 / 440
Birka Line	Stockholm—Helsinki		
	Stockholm—Tallinn	Princess / Cruise ferry / 1986	1,537 / —
	Stockholm—Mariehamn	Paradise / Cruise ferry / 2004	1,800 / —
Superfast	Hanko—Rostock	Superfast VIII	717 / 1,891
Ferries	Hanko—Rostock	Superfast VII	717 / 1,891
Nordic Jet Line	Helsinki—Tallinn	HSC Nordic Jet / High-speed ferry	486 / 52
	Helsinki—Tallinn	HSC Baltic Jet / High-speed ferry	428 / 52
Linda Line	Helsinki—Tallinn	Jaanika / High-speed ferry	200 / —
	Helsinki—Tallinn	Laura / High-speed ferry	200 / —

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

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

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

Traffic Volumes and Market Shares

The overall passenger and ro-ro cargo volumes in the Northern Baltic Sea region between Finland, Sweden and the Baltic countries, of which we believe our business accounted for approximately 19 percent in the financial year ended August 31, 2005, have been increasing at a moderate pace in the past few years. This increase has been due to a variety of reasons, primarily increased tourism to the Baltic countries as well as the increased use of the *Via Baltica* by freight operators. The table below shows the growth of passenger and cargo traffic volumes at the ports of Tallinn, Helsinki and Stockholm in the years ended December 31, 2002, 2003 and 2004:

	Passengers[1]			Ro-ro cargo units		
	Year ended December 31,					
	2002	2003	2004	2002	2003	2004
Tallinn	5,817,550	5,658,334	6,532,348	192,055	201,139	227,671
Helsinki	8,841,427	8,515,078	8,700,000	201,924	203,208	240,000
Stockholm	6,863,089	7,190,083	7,823,821	127,598	138,253	98,360

Source: Port of Tallinn, port of Helsinki and port of Stockholm.

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

In the Northern Baltic Sea region, passenger traffic and cargo volumes have traditionally been highest on the Helsinki—Stockholm route that we do not currently operate. The volumes on the Stockholm—Tallinn and Kapellskär—Paldiski routes have been considerably lower than those on the Helsinki—Stockholm, Turku—Stockholm and Helsinki—Tallinn routes. There are six companies operating on the Helsinki—Tallinn route. We believe that we are the market leader in both passenger and ro-ro cargo traffic on this route with market shares of approximately 43 percent in passenger traffic and 45 in cargo traffic in the financial year ended August 31, 2005. We believe that the passenger market shares of the different operators on the Helsinki—Tallinn route in the financial year ended August 31, 2005 were as follows:

Company	Passengers (%)
Tallink	43
Silja Line	18
Viking Line	15
Eckerö Linjen	14
Nordic Jet Line	7
Linda Line	3
Other operators	0
Total	100

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

On the routes between Sweden and Estonia, we are currently the only company with daily passenger and ro-ro cargo services between Stockholm and Tallinn and between Kapellskär and Paldiski. We expect the routes between Sweden and Estonia to be growth areas in terms of volume and revenue in the medium-term. This expectation is supported by our recent market studies and feedback from our onboard and onshore questionnaires as well as our positive experience with Victoria I. The planned transfer of her sister vessel Romantika to the Sweden—Estonia route in the spring of 2006 will increase high-quality capacity on that route, which we expect to increase overall passenger volumes.

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

Regulation

Safety

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

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

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

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

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

Environment

Environmental issues are one of the highest priorities of the Tallink Safety Management System. Vessels are maintained and operated in accordance with the MARPOL convention (International Convention for the Prevention of Pollution from Ships) in order to ensure that air and sea pollution is kept at the lowest practicable level. Our newest vessel Victoria I has, and the New Cruise Ferry will have, an operational exhaust gas catalyzer system installed and Romantika has been designed to allow for the installation of such system. The applicable air pollution level requirements are expected to be tightened and due to this the environmental systems in some of our older vessels will be modified during the vessels’ annual servicing. Our vessels may now begin to use fuel oil with lower sulphur content.

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

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

Trademarks

We have registered the trademark “Tallink” in Estonia, Finland, Sweden and Germany. The registration process in Russia is pending. In Finland, the owner of the trademark is our Finnish subsidiary Tallink Finland Oy. We have also registered “Tallink” as a Community trademark (CTM). In addition, have several other registered trademarks, such as “Hansatee,” “Hansaway,” “Hansalink” and “Hansatee Baltic Service.”

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

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

Material Contracts

Shipbuilding Agreements

On October 27, 2004, we entered into a shipbuilding agreement with Aker Finnyards Oy. According to the agreement, Aker Finnyards Oy will design, construct, equip, complete and deliver the New Cruise Ferry, which will have capacity for 2,800 passengers and will be a lengthened sister ship to the cruise ferry Victoria I delivered in 2004. The purchase price of EUR 165 million for the vessel is payable in several installments, four of which have already been made. The New Cruise Ferry is scheduled to be delivered in the spring of 2006.

Pursuant to an option agreement with Aker Finnyards Rauma Oy dated April 21, 2005, as amended on August 1, 2005, we have an option to order another cruise ferry, a sister vessel to the New Cruise Ferry, for EUR 161 million, to be delivered in May 2008, provided that we indicate our use of the option no later than December 22, 2005, or within 14 days of any notice by the builder of a potential order by a third party.

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

Pursuant to an option agreement with Aker Finnyards Oy dated August 1, 2005, we have an option to order the construction of another high-speed ro-pax ferry, a sister vessel to the first high-speed ro-pax, for EUR 112.5 million, to be delivered in January 2008, provided that we indicate our use of the option no later than January 31, 2006, or within 14 days of any notice by the builder of a potential order by a third party.

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

Pursuant to a related option agreement with Fincantieri Cantieri Navali Italiani S.p.A., we have an option, exercisable on or prior to January 31, 2006, to order another high-speed ro-pax ferry, a sister vessel to the first high-speed ro-pax, for EUR 113 million, to be delivered within seven months of delivery of the first vessel.

Charter Agreements

All 12 vessels in our fleet are operated by either our parent company Tallink or by our wholly-owned subsidiary Aktsiaselts Hansatee Cargo. The vessels are owned by our ship-owning subsidiaries. Nine vessels have been bareboat-chartered by Tallink and three vessels by Hansatee Cargo. However, one of the vessels bareboat-chartered by Tallink, Vana Tallinn, has been time-chartered (i.e. with crew) to Hansatee Cargo. Therefore, vessels currently operating between Finland and Estonia are operated by Tallink, while vessels operating between Sweden and Estonia are operated by Hansatee Cargo. One of our cruise ferries, Fantaasia, was chartered to Algerie Ferries (*Entreprise Nationale de Transport Maritimes de Voyageurs*) for operation in the Mediterranean Sea (Algeria, France, Spain) between January and October 2005.

Loan Agreements

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

Insurance

All 12 vessels in our fleet have been insured under insurance policies from Alandia Bolagen, Pohjola and Assuranceforeningen Gard-Gjensidig. The insurance policies cover the following risks (with certain exceptions and limitations with respect to each vessel): marine hull, increased value, loss of hire, freight interest, protection and indemnity. Several of our loan agreements contain covenants regarding the level of insurance (e.g. some of the loan agreements require the vessels to be insured at their fair market value or at 120 percent of the outstanding principal loan amount, whichever is higher).

The aggregate fleet insurance coverage is EUR 505.8 million, including, for example, hull and machinery in the amount of EUR 357.8 million and increased value for the amount of EUR 90.0 million. The loss of hire maximum coverage for the total fleet is EUR 11.2 million. The fleet insurance policies are typically renewed for a period of one year, and the next renewal for marine hull insurance, increased value insurance, loss of hire insurance and freight interest insurance is scheduled for December 16, 2005.

Protection and indemnity insurance is typically renewed annually, the next renewal date being February 20, 2006. The limit of liability per incident under the protection and indemnity insurance is USD 4.25 billion, which is based on Insurance Club Statutes and Rules and determined by the International Group of P&I Clubs Reinsurance Arrangements.

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

As a general rule, all rights and claims of ship-owning subsidiaries that arise from insurance agreements entered into by them in respect of the vessels that have been mortgaged as a security for loans taken by Tallink and/or such ship-owning subsidiaries have been assigned to the respective lenders. Since all of our vessels have been bareboat-chartered to Tallink or Hansatee Cargo, their respective rights and claims under respective insurance agreements have also been assigned to the lenders. In some cases, loan agreements that are secured by such mortgage require that rights and claims of all assured parties under insurance contracts be assigned to the respective lender.

All motor vehicles used by Tallink are covered by the mandatory third party liability insurance.

Employees and Labor Relations

The average number of our employees by type of activity for each of the financial years ended August 31, 2003, 2004 and 2005 is set forth in the table below:

	Financial year ended August 31,		
	2003	2004	2005
Onshore staff	340	561	753
Onboard staff	1,581	1,810	1,957
Total	1,921	2,371	2,710

The average number of our employees by country of employment for each of the financial years ended August 31, 2003, 2004 and 2005 is set forth in the table below:

	Financial year ended August 31,		
	2003	2004	2005
Estonia	1,711	2,150	2,461
Finland	136	140	155
Sweden	74	79	88
Russia	0	3	6
Total	1,921	2,372	2,710

On August 30, 2005, we renewed our agreement with the Estonian Seamen's Independent Union (*Eesti Meremeeste Sõltumatu Ametiühing*) regarding salary levels of our onboard staff. The agreement has a term of three years, which commenced on September 1, 2005. The annual increase in employees' salaries under the agreement is five percent. Distribution of salary funds amongst work positions has been agreed in a supplemental agreement between Tallink, the Estonian Seamen's Independent Union and our subsidiaries Hansaliin and HT Laevateenindus.

Legal Proceedings

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

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

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

Real Estate and Premises

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

Location	Nature of lease	Area (sq. m.)
Tallinn, Tartu mnt 13	Headquarters leased from SEB Eesti Ühispank	2,941
Tallinn, Tallinn Old Port area	Several operational premises leased from the Port of Tallinn	1,630
Paldiski, Rae põik 10	Leased by AS Hansatee Cargo from the Port of Tallinn	70
Helsinki, Several locations	Leased from various lessors	1,190
Helsinki, Länsisatama	Leased from the Port of Helsinki	350
Stockholm, Terminal 2	Leased	960

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

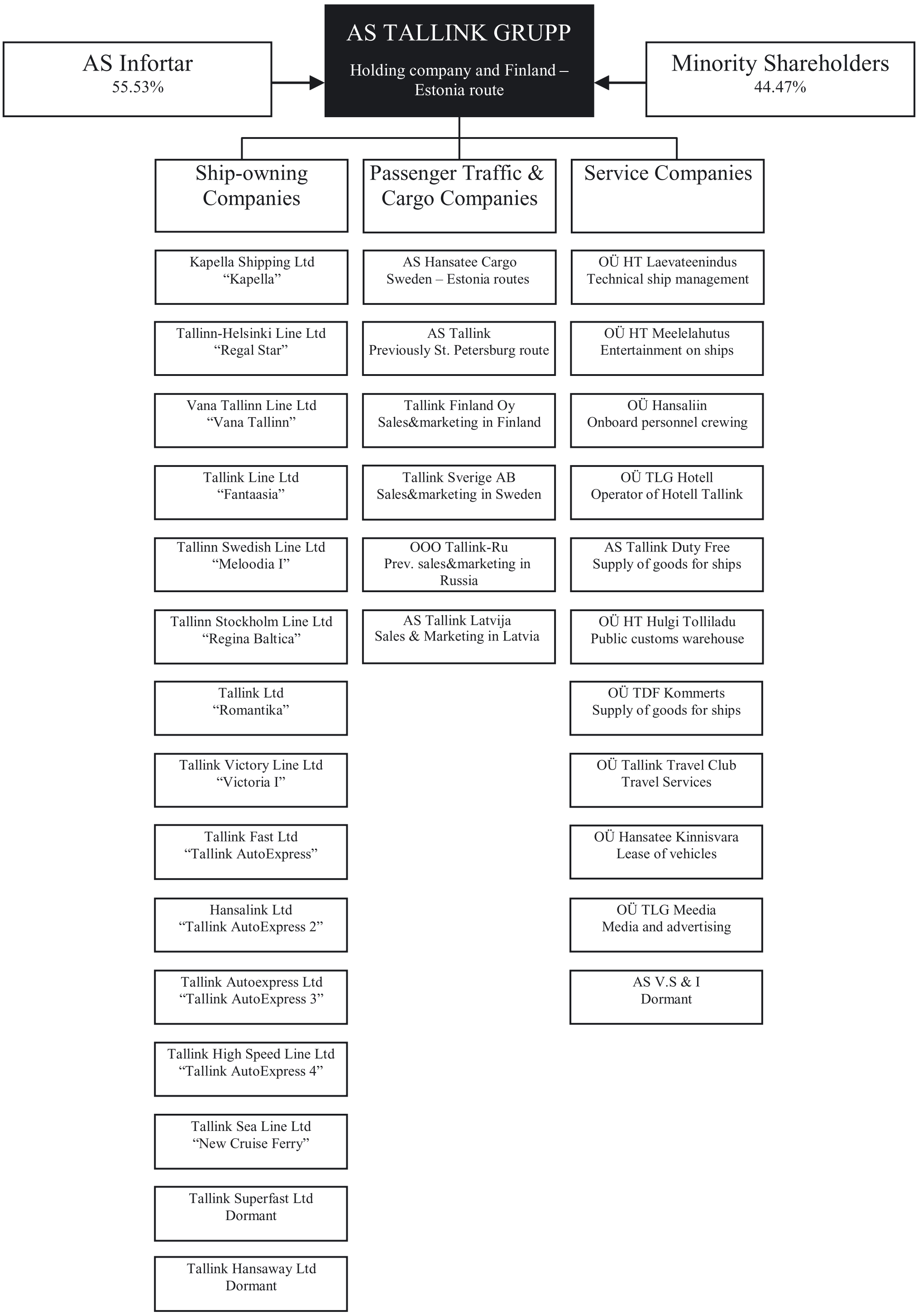
Organization

Operational Organization

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

Legal Structure

Aktsiaselts Tallink Grupp is the operating parent company of our group of companies. Set forth below is a structural chart showing the legal entities belonging to our group of companies.



Note: All the companies are wholly-owned by Tallink, except for the following: (i) HT Hulgi Tolliladu and TDF Kommerts are both wholly-owned by Tallink Duty Free, (ii) TLG Meedia is jointly-owned by Tallink (2/3) and Mr. Peter Roose (1/3), and (iii) Tallink Sverige AB is wholly-owned by Hansatee Cargo. All ship-owning subsidiaries are located and registered in Cyprus (with the exception of Kapella Shipping Ltd, which is located and registered in the Bahamas).

Related Party Transactions

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

- TLG Hotell rents the Hotell Tallink building in Tallinn from a real estate company, Osaühing Vara HTG, jointly owned by our largest shareholder Infortar and by E.L.L. Kinnisvara Aktsiaselts. The rent period is ten years from April 30, 2004, subject to an automatic extension period of five years, unless either of the parties gives a notice of termination at least three months in advance of the expiry of the original term. The rent payment consists of an annual fixed payment of EUR 1,917,345, plus 11 percent of the turnover of TLG Hotell's last financial year (subject to certain minimum and maximum amounts) from September 1, 2005;
- TLG Hotell has entered into a letter of intent with OÜ Sunbeam (a wholly-owned subsidiary of Infortar), which is the owner of the relevant real estate upon which the new conference and spa hotel is being built. The letter of intent relates to the renting and operation of the new hotel by TLG Hotell and sets forth that the rental period will be ten years and that the rent shall consist of an annual fixed payment in the amount of ten percent of the investments in the construction of the hotel made by OÜ Sunbeam, plus 25 percent of the profit of TLG Hotell from the operation of this hotel;
- Tallink and Infortar have entered into a service agreement for the provision by Infortar of management services, arrangement of meetings, provision of legal services and preparation of all necessary documents for our supervisory council. The annual fee for the services provided by Infortar is EEK 720,000. The agreement has been entered into for an unspecified term;
- Tallink and Infortar have entered into an authorization agreement for the execution of legal and other operations by Tallink in the interests of and in the name and account of Infortar;
- Tallink and Hansatee Cargo have each concluded an agreement with H.T. Valuuta for the provision of currency exchange services on the vessels operated by the group companies;
- Tallink leases premises of 93 square meters from OÜ Mersok, which is a company owned by Enn Pant, the Chairman of our management board and our CEO;
- In 2003, Tallink obtained two loans from SEB Eesti Ühispank amounting to an aggregate of EEK 237,503,000. Tallink assumed such debt obligations in order to partially set-off Tallink's obligation to pay to Infortar the purchase price for the shares of Hansalink Limited (the company which owns the vessel Tallink AutoExpress 2) that Tallink purchased from Infortar in 2003. The loans are secured, among other things, by a guarantee issued by Infortar for which we pay a certain fee;
- In 2002, Infortar granted a loan to Tallink Stockholm Line Limited (the balance of which was approximately EUR 6.3 million as of August 31, 2005) to partly finance the purchase of the cruise ferry Regina Baltica. The interest payable from the loan is seven percent annually. The maturity of the loan is five years and repayments are to be made in five equal annual installments.

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

MANAGEMENT

Structure of Our Management

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

Supervisory Council

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

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

Pursuant to the shareholders' agreement dated September 18, 2003, one member of the supervisory council is nominated and can be removed by Citicorp International Finance Corporation (CIFC) and another by other shareholders holding not less than 51 percent of the shares that were issued in connection with the 2003 private placement transaction. The shareholders' agreement will be terminated upon completion of this Offering.

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

Name	Year of birth	Member since	Position	Current term expires
Toivo Ninnas	1940	1997	Chairman	February 5, 2008
Andres Lipstok	1957	2000	Member	February 9, 2006
Eve Pant	1968	1997	Member	February 5, 2008
Ain Hanschmidt	1961	2005	Member	February 5, 2008
Sunil Kumar Nair	1966	2003	Member	December 4, 2006
Kustaa Lauri Äimä	1971	2002	Member	February 5, 2008

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

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

Mr. Andres Lipstok (born 1957) was elected as a member of the supervisory council in 2000. He graduated from the Faculty of Economics, University of Tartu, Estonia, in 1980. He has also been the Governor of the Bank of Estonia since 2005. Previously, he was a member of the Estonian Parliament from 1995 to 2005, worked as the Minister of Economic Affairs of Estonia from 1995 to 1996 and was the Minister of Finance of Estonia from 1994 to 1995. He acts as a member of the supervisory council of OÜ Haapsalu HMR and as a member of the management boards of AS Hami Invest and the non-profit association Eesti Olümpiakomitee (Estonian Olympic Committee).

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

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

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

Mr. Kustaa Lauri Äimä (born 1971) was elected as a member of the supervisory council in 2002. He graduated from the University of Helsinki, Finland, with a Masters degree in Economics. He is a Fund Manager for Danske Capital Finland and a member of the board of directors of DCF Fund I SICAV and DCF Fund II SICAV (Luxembourg). He is also a General Manager of Amber Trust Management SA (Luxembourg) as well as a General Manager and a member of the board of directors of Amber Trust II Management SA (Luxembourg), both joint venture private equity funds with Firebird. He was appointed to the supervisory council as the representative of the investors involved in the private placement in April 2002. Before joining Danske Capital in 2000, he worked at the Bank of Bruxelles Lambert Group and the ING Group's investment management operations. Before BBL and ING, he worked for the Bank of Finland, where he concluded research on the transition economies of Central and Eastern Europe. He also acts as a member of the supervisory councils of Salva Kindlustuse AS and OÜ Vettel as well as the Lithuanian company UAB Litagra.

Management Board

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

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

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

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

Name	Year of birth	Member since	Position	Current term expires
Enn Pant	1965	1996	Chairman, CEO	June 27, 2006
Kalev Järvelill	1965	1998	Member	November 10, 2007
Keijo Erkki Mehtonen	1949	1998	Member, Sales and Marketing	November 10, 2007
Andres Hunt	1966	2002	Member, CFO	February 22, 2008

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

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

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

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

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

Other Key Executives

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

Name	Year of birth	Member since	Position
Meelis Asi	1964	1997	Chief Accountant
Ülo Kollo	1937	1996	Technical Director
Aarne Pikk	1964	2005	Marketing Director
Ingrid Preeks	1949	1997	Personnel Director
Mare Puusaag	1956	1997	Chief Legal Counsel
Janek Stalmeister	1974	2005	Finance Director
Veiko Suigussaar	1971	2005	Administrative Director
Taavi Tiivel	1977	2005	Service Director

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

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

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

Mr. Aarne Pikk (born 1964) has worked as our Marketing Director since 2005. He graduated from the Faculty of Physical Education, University of Tartu, Estonia, in 1989. Before joining the group in 2004, he worked at Ühisliisingu AS and SEB Eesti Ühispank from 1995 to 2004 as a Client Service Manager and Loan Manager. He is also a member of the supervisory council of Mihkel Restoranid AS.

Ms. Ingrid Preeks (born 1949) has worked as our Personnel Director since 1997. She graduated from the University of Tartu, Estonia, with a B.A. in Social Psychology in 1974. From 1994 to 1996, she was the Head of the Administrative Development Department in the Ministry of Finance of Estonia. From 1990 to 1992, she was a Counsellor of the Government of Estonia.

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

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

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

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

Management Holdings

Prior to the Offering, the members of our supervisory council own, directly or indirectly, a total of 20,275,133 Shares, corresponding to approximately 18.43 percent of the Shares and the votes attached to the Shares.

Prior to the Offering, the members of our management board own, directly or indirectly, a total of 40,954,709 Shares, corresponding to approximately 37.23 percent of the Shares and the votes attached to the Shares.

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

Name	Position	Direct shareholding (number of Shares)	Direct shareholding (%)	Indirect shareholding (%)	Total shareholding (%)
Toivo Ninnas	Chairman of the supervisory council	4,000	0.00	3.88	3.88
Andres Lipstok	Member of the supervisory council	52,000	0.05	0.02	0.07
Eve Pant	Member of the supervisory council	123,800	0.11	0.10	0.21
Ain Hanschmidt	Member of the supervisory council	278,920	0.25	13.97	14.22
Kustaa Lauri Äimä	Member of the supervisory council	—	—	0.04	0.04
Enn Pant	Chairman of the management board	477,000	0.43	16.70	17.13
Kalev Järvelill	Member of the management board	319,200	0.29	14.27	14.56
Keijo E. Mehtonen	Member of the management board	957,600	0.87	4.35	5.22
Andres Hunt	Member of the management board	84,000	0.08	0.24	0.32
Meelis Asi	Chief Accountant	—	—	1.04	1.04
Ülo Kollo	Technical Director	284,000	0.26	—	0.26
Ingrid Preeks	Personnel Director	80,000	0.07	0.19	0.26
Mare Puusaag	Chief Legal Counsel	15,000	0.01	—	0.01
Veiko Suigussaar	Administrative Director	7,000	0.01	—	0.01

As of the date of this offering memorandum, the members of our supervisory council and management board and our key executives do not have shareholdings, either direct or indirect, in any of our group companies other than Tallink.

Some members of our supervisory council, management board or key executives have, during the past year, acquired Shares in OTC transactions on the secondary market at the then prevailing market prices, which may have been lower than the Offer Price.

Management Remuneration and Benefits

Supervisory Council

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

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

Management Board

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

Upon termination of the service agreement of a member of the management board, we shall pay compensation to such member in an amount corresponding to the member's 12-month salary. In the event that the agreement is terminated prematurely by us without a significant reason, we shall pay additional compensation to such member in an amount corresponding to the member's six-month salary. No compensation shall be paid in the event that such member resigns, except due to health reasons (in which case compensation in an amount corresponding to the member's 12-month salary shall be paid). A member who has breached his duties by showing gross negligence and has thereby caused damage to us is entitled to compensation in an amount corresponding to the member's three-month salary. The above terms and benefits are applied to all members, except for Mr. Mehtonen who will receive compensation according to his agreement as a member of the management board of Tallink Finland Oy. In the event that the agreement is terminated prematurely by Tallink Finland Oy, Mr. Mehtonen will receive compensation in an amount equal to his 24-month salary. No compensation shall be paid in case he resigns or in the event that the agreement is terminated due to breach of his duties.

Other Key Executives

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

Incentive Schemes, Loans, Transactions with Tallink, Legal Issues

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

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

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

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

PRINCIPAL AND SELLING SHAREHOLDERS

Ownership Structure

According to our shareholder register kept by the operator of the Estonian Central Registry of Securities ("ECRS"), we had 252 shareholders as of November 18, 2005. The table below sets forth details of our ten largest shareholders and their respective holdings prior to the Offering. Our current shareholders are permitted to acquire Offer Shares in the Offering.

	Prior to the Offering	
Shareholder	Number of Shares	%
Infortar AS[1]	61,084,808	55.53
ING Luxembourg S.A.[2]	13,902,104	12.64
Citibank Hong Kong/Citicorp International Finance Corporation	6,997,648	6.36
Skandinaviska Enskilda Banken AB Clients	5,543,992	5.04
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	3,599,996	3.27
Firebird Republics Fund Ltd	2,984,304	2.71
Danske Capital Finland Oy Clients Account	2,372,501	2.16
Nordea Bank Finland Plc Corporate Clients	1,519,996	1.38
Hansabank's Clients	1,019,997	0.93
Keijo Erkki Mehtonen	957,600	0.87
Total ten largest	99,982,946	90.89
Remaining shareholders	10,017,054	9.11
Total	110,000,000	100.00

1 Enn Pant (Chairman of our management board and our CEO), Kalev Järvelill (a member of our management board) and Ain Hanschmidt (a member of our supervisory council) beneficially own, directly or indirectly, 29.42 percent, 25.62 percent and 25.15 percent, respectively, of the shares in Infortar. For information regarding all direct and indirect holdings of Shares by our management, see also "Management—Management Holdings" and "—Infortar" below.

2 According to information available to us, ING Luxembourg S.A. holds our Shares as nominee on behalf of a number of institutional investors including two of the Selling Shareholders, Amber Trust S.C.A and DCF Fund (II) Baltic States.

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

Infortar

As of the date of this offering memorandum, Infortar owned 55.53 percent of our outstanding Shares. Infortar is an Estonian investment company with interests in the shipping, real estate and printing industries. Infortar was originally formed as an investment company to acquire a significant portion of our shares in 1997 in connection with the restructuring of our company involving a management buy-out. The members of the new management team that were retained in connection with the restructuring, certain companies related to SEB Eesti Ühispank and a number of other entities and individuals became shareholders of Infortar.

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

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

As Mr. Hanschmidt was from 1992 to 2005 the Chairman of the management board (CEO) and, from January to August 2005, the Chairman of the supervisory council, of one of our lenders, SEB Eesti Ühispank, at least two investigations were initiated in Estonia: one by SEB Eesti Ühispank and one by the EFSA. In

September 2005, SEB Eesti Ühispank published a summary of the findings of its internal investigation. There were no findings of any wrongdoing by either Mr. Hanschmidt or SEB Eesti Ühispank in respect of the loans granted to us. The EFSA's investigation focused on clarifying circumstances pertaining to the internal investigation by SEB Eesti Ühispank as well as other circumstances not forming part of such investigation. The EFSA stated following its investigation that it had not found any evidence of wrongdoing as of the date of the EFSA's statement of September 23, 2005.

Selling Shareholders

The Sale Shares offered for sale in the Offering are being offered by Infortar, Citibank Hong Kong/Citicorp International Finance Corporation, Amber Trust S.C.A and DCF Fund (II) Baltic States.

Pursuant to a shareholders' agreement dated September 18, 2003 (as described below, the "shareholders' agreement"), certain of our shareholders may have rights to participate in the portion of the Offering relating to offers and sales by selling shareholders, and, accordingly, a portion of the Shares to be sold by the Selling Shareholders may be sold by any of them on behalf of such shareholders. The participation in the Offering of the parties to the shareholders' agreement will be decided solely by agreement among the parties to the shareholders' agreement.

The registered office of Infortar is at Tartu mnt 13, 10145, Tallinn. Prior to the Offering, Infortar held 61,084,808 Shares constituting 55.53 percent of the votes attached to the Shares. For a more detailed description of Infortar, see "Principal and Selling Shareholders—Infortar."

The registered office of Citibank Hong Kong/Citicorp International Finance Corporation is New Castle Corporate Commons, One Penn's Way, New Castle, Delaware 19720, the United States. Prior to the Offering, Citicorp International Finance Corporation held 6,997,648 Shares constituting 6.36 percent of the votes attached to the Shares. Citicorp International Finance Corporation is a wholly-owned subsidiary of Citigroup Inc., the parent company of an international financial services group.

The registered office of Amber Trust S.C.A. is 52, route d'Esch, L-1470 Luxembourg. Prior to the Offering, Amber Trust S.C.A. held 6,962,256 Shares constituting 6.33 percent of the votes attached to the Shares. Amber Trust S.C.A. is a nominee registered private equity fund registered in our shareholder register under ING Luxembourg S.A.

The registered office of DCF (II) Baltic States is 52, route d'Esch, L-1470 Luxembourg. Prior to the Offering, DCF (II) Baltic States held 6,614,648 Shares constituting 6.01 percent of the votes attached to the Shares. DCF (II) Baltic States is a nominee registered private equity fund registered in our shareholder register under ING Luxembourg S.A.

Dilution

The Offer Shares represent approximately 34.1 percent of our share capital immediately prior to the Offering and approximately 27.5 percent of our share capital following the completion of the Offering assuming that the Over-Allotment Option is exercised in full and that the number of Offer Shares does not change from that indicted on the cover of this offering memorandum.

Shareholders' Agreements

We are not aware of any agreements relating to our shareholdings and use of voting rights that will be in effect following the completion of the Offering. The shareholders' agreement dated September 18, 2003 by and between Infortar, Enn Pant, Keijo Mehtonen, Kalev Järvelill, Amber Trust S.C.A., DCF Fund (II) Baltic States, Firebird Republics Fund, Ltd., Ilmarinen Mutual Pension Insurance Co., Citicorp International Finance Corp., FirstnordicBaltic Equity, Firebird New Russia Fund Ltd., Snavesta UAB, Vinvesta UAB, East Capital Baltikum Fonden, FIM Forte, FIM Rento and FIM Visio will be terminated upon completion of the Offering. We are not a party to this agreement.

DESCRIPTION OF SHARE CAPITAL

General Information

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

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

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

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

Share Capital Information

General

Pursuant to our articles of association, our issued share capital cannot be less than EEK 400,000,000 or more than EEK 1,600,000,000. At the date of this offering memorandum, our registered share capital amounted to EEK 1,100,000,000 consisting of 110,000,000 fully paid Shares with a nominal value of EEK 10 per Share. Each Share entitles its holder to one vote at our general meetings of shareholders. We have one class of shares and all Shares rank *pari passu* in all respects.

Our shares have been registered in the ECRS since 1997. The Shares may be freely transferred according to our articles of association.

According to the articles of association, our supervisory council has, within two years from March 5, 2005, the right to increase our share capital by EEK 20,000,000. At the date of this offering memorandum, there are no other valid authorizations granted to the management board or the supervisory council to increase our share capital or to issue any instruments convertible into Shares.

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

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

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

Changes in the Share Capital

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

Date[1]	Description of the measure	Change in the number of Shares	Total number of Shares	Share capital (EEK)
September 5, 1997	Share capital increase	2,600,000	4,600,000	46,000,000
January 21, 1998	Share capital increase	1,000,000	5,600,000	56,000,000
June 10, 1998	Share capital increase	16,800,000	22,400,000	224,000,000
October 8, 2003	Share capital increase—directed issue	5,100,000	27,500,000	275,000,000
February 18, 2005	Share capital increase—bonus issue	82,500,000	110,000,000	1,100,000,000

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

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

Shareholder Rights

General Meetings of Shareholders

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

In accordance with the Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year. An extraordinary general meeting of shareholders may be held whenever the management board deems it appropriate (including circumstances when an extraordinary general meeting of shareholders is required by the Commercial Code, e.g., in the event that the equity capital decreases below the legally required minimum equity), or if the supervisory council, shareholders representing at least one-tenth of the share capital of the company or the auditor of the company make such request to the management board. If the management board does not convene an extraordinary general meeting within one month following receipt of such a request, the shareholders, the supervisory council or the auditor are entitled to convene an extraordinary general meeting themselves.

Notices to annual general meetings of shareholders must be given at least three weeks prior to the meeting, and notices to extraordinary general meetings of shareholders must be given at least one week in advance. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the share register of the company as maintained by the ECRS). However, if the company has more than 100 shareholders, notices need not be sent by registered mail, but may be published in at least one national daily newspaper in Estonia.

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

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

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

Voting Rights

We have one class of shares of EEK 10 nominal value each. Each share entitles the holder to one vote. A shareholder may attend and vote at a meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the general meeting of shareholders. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger 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 75 percent of the votes represented at the general meeting of shareholders. Issuing a different class of shares requires amendment of the articles of association (by a two-thirds majority of votes represented at the general meeting of shareholders). According to Estonian law, rights attached to a class of shares may be amended by the general meeting through a decision supported by a qualified majority of four-fifths of all votes and nine-tenths of the votes of the shareholders whose rights are proposed to be amended.

Dividends and Other Distributions

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

Dividends, if any, should be paid in cash or, with the consent of the shareholders, in other property. The dividend amount and procedure of payment is decided by the shareholders once annually on the basis of the annual report, as set out in the articles of association (the decision may, however, stipulate that the dividends are paid out in several installments). Under Estonian law, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting of shareholders. Dividends may only be paid out from net profit or undistributed profit for previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid if the net assets of the company, as recorded in the annual report approved at the end of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law or articles of association, shall not be paid out to shareholders.

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

All our Shares, including the Offer Shares, rank *pari passu* with regard to dividends and other distributions of Tallink (including distribution of our assets in the event of dissolution).

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

Pre-emptive Subscription Rights

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

Right to Acquire Own Shares

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

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

Disclosure of Shareholdings

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

ESTONIAN SECURITIES MARKET

Estonian Company Law Issues

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

Introduction

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

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

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

Corporate Governance

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

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

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

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

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

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

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

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90 percent of the share capital of a public limited company, is entitled to acquire the remaining outstanding shares of the company for fair monetary compensation. A resolution on the acquisition of these shares shall be adopted, and shall bind all shareholders, if at least 95 percent of the votes represented by shares are in favor.

Various additional restrictions and limitations on the activities of a company listed on the Tallinn Stock Exchange and its managing bodies are imposed by the TSE Rules, which to a large extent have been applicable to Tallink with effect from the submission by Tallink of its application for listing of the Shares on the Tallinn Stock Exchange.

Furthermore, the EFSA has approved the Corporate Governance Recommendations, which will enter into force as of January 1, 2006. As of such date, all companies whose shares are admitted to trading on the Tallinn Stock Exchange are required to either comply with the Recommendations or explain reasons for their non-compliance (comply or explain). The recommendations regulate, among others matters, the calling and procedure of general meetings of shareholders, requirements for the composition, duties and activities of the management board and supervisory board, requirements for the disclosure of information and financial reporting. As regards the composition of the supervisory council, the recommendations provide stricter requirements than TSE Rules requiring that at least one-half of the members of the supervisory council must be independent. Tallink is in compliance with said requirements.

The Tallinn Stock Exchange and the Estonian Securities Market

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

The Tallinn Stock Exchange

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

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

The Estonian Central Registry of Securities and Registration of Shares

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

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

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

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

Listing on the Tallinn Stock Exchange

There are two different lists available for trading of shares on the Tallinn Stock Exchange: (i) the main list and (ii) the investor list. In addition to securities listed on the Tallinn Stock Exchange, securities admitted to the Free Market of the Tallinn Stock Exchange can be traded through the exchange's trading system. The principal differences between admission to the main list and the investor list are the minimum required length of operating history of an issuer (three and two years, respectively) and the minimum required market value of the issuer's shares (EUR 4 million and EUR 1 million, respectively). Currently, the shares of 14 companies are listed for trading on the Tallinn Stock Exchange, of which eight companies are listed on the main list. Application has been made to list the Shares on the main list. In order to list shares on the main list of the Tallinn Stock Exchange, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25 percent of the share capital to be listed is held by the public, or such level of distribution is expected to be achieved shortly after listing. The TSE Rules set out certain specific requirements when the shares are not deemed to be held by the public.

Trading on the Tallinn Stock Exchange

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

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

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

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

Disclosure of Transactions and Ownership

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

Market Abuse

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

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

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

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

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

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

Mandatory Takeover Bid

A person who has gained, either directly or together with other persons acting in concert, a dominant influence over a company whose shares (of all or some classes) are listed on the Tallinn Stock Exchange, is required to make within 20 days a takeover bid for all the outstanding shares of such issuer. Exemptions from the obligation to make the mandatory takeover bid may be granted by the EFSA in case of certain specific circumstances provided by law. For these purposes, a "dominant influence" is a situation where a person: (i) owns the majority of votes represented by the issuer's shares; or (ii) being a shareholder of the company, has the right to appoint or remove a majority of the members of the supervisory council or management board of the company; or (iii) being a shareholder of the company, controls a simple majority of the votes represented by the company's shares on the basis of an agreement entered into with other shareholders.

Enforcement of Civil Liabilities in Estonia

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

Recognition and enforcement of judgments of all other foreign courts in Estonia is regulated by the Code of Civil Procedure. Pursuant to Article 377(1) of the Code of Civil Procedure, judgments of foreign courts are recognized by Estonian courts in accordance with international treaties concluded by Estonia. Therefore, Estonian courts are legally bound to enforce decisions of such foreign courts only if the relevant obligation is contained in an international treaty or agreement that is binding on Estonia. In the absence of specific treaty provisions, Estonian courts are not obliged to recognize or enforce decisions of foreign courts without re-litigating the subject matter. Estonia has concluded international agreements on the recognition or enforcement of judgments of the relevant courts with the Russian Federation, Latvia, Lithuania, Poland and Ukraine. Currently, judgments of courts of other states not listed above are not enforceable in Estonia without re-litigation of the subject matter on its merits.

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

TAXATION

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

Estonian Tax Considerations

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

Corporate Income Tax

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

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

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

The rate of income tax is 24 percent of the gross amount distributed, although the income tax is calculated on the amount of the distributed dividends or other profit distributions by applying the tax rate of 24/76 meaning that the effective rate is approximately 31.6 percent of the net amount of the distribution. The relevant amount of income tax due is required to be paid by the tenth day of the month following the month in which the payment was made. Estonian taxation regulations provide that this currently applicable rate of income tax will be reduced to 23 percent (23/77) on January 1, 2006, to 22 percent (22/78) on January 1, 2007, to 21 percent (21/79) on January 1, 2008 and to 20 percent (20/80) on January 1, 2009.

The Income Tax Act provides exemptions from the corporate income tax. An Estonian resident company receiving dividends does not have to pay corporate income tax upon redistributing the part of dividends from which the tax has been paid either in Estonia or abroad, if it owned at least 20 percent of the shares of the distributing company at the time of distribution. Further exemptions apply to the taxation of Estonian resident companies upon the distribution of profits earned from interest payments, license fees and royalties received from resident companies of certain European Union member states, if the payer and the recipient are associated companies, i.e., at the time of payment and during the period of at least two years immediately preceding the payment one company has a holding of at least 25 percent in the capital of the other company or a company resident in a member state of the European Union owns at least 25 percent of the share capital of both the payer company and the recipient company.

Dividends

No Estonian dividend withholding tax is imposed on dividends paid to Estonian residents (whether legal persons or individuals) or to non-resident individuals.

However, an Estonian dividend withholding tax of 24 percent is currently imposed on dividends paid by Tallink to non-resident legal persons. A limited exemption from this dividend withholding tax applies where the non-resident legal person owns at least 20 percent of the share capital or votes of Tallink. However, the exemption does not apply where the relevant non-resident legal person is located in a "low tax rate territory" for the purposes of Estonian taxation regulations. Additional exemptions or more favorable tax rates available to non-resident legal persons may be enjoyed under international treaties in effect between Estonia and certain other states, including European Union member states. For applying the more favorable tax rates under the treaties, the non-resident legal person subject to Estonian withholding tax has to provide Tallink with a document claiming the benefits of the applicable tax treaty from the non-resident's competent taxing authority confirming that the non-resident is a resident of the applicable jurisdiction for treaty purposes. Such document should correspond to the form provided by the Estonian Ministry of Finance.

Estonian taxation regulations provide that the currently applicable rate of dividend withholding tax of 24 percent referred to above will be reduced to 23 percent on January 1, 2006, to 22 percent on January 1, 2007, to 21 percent on January 1, 2008 and to 20 percent on January 1, 2009.

Capital Gains

Income tax is not charged on gains realized by non-residents (whether legal persons or individuals) from the sale or exchange of shares of Estonian companies, except in the case of a sale or exchange of more than ten percent of the shares of an Estonian "real estate company." A real estate company is a company with more than 75 percent of its property comprising immovables or structures as movables located in Estonia (calculated by reference to the company's balance sheet on the last day of the financial year preceding the relevant sale or exchange). Tallink is currently not a real estate company for this purpose.

In addition, as the current income tax system applicable in Estonia provides that the profits of Estonian legal persons are not taxed upon their generation but are only taxed upon their distribution to shareholders, income tax is not charged on capital gains realized by Estonian legal persons from the sale or exchange of Shares.

Income tax is, however, charged on gains realized by Estonian individuals from the sale or exchange of Shares.

If income tax is due to be paid as described in the previous paragraphs, it is charged on the gains realized from the sale or exchange of a shareholding, with the gains being deemed to be equal to the difference between the acquisition costs and the sale/exchange price of the relevant shareholding. Capital gains realized are currently subject to income tax of 24 percent, and are required to be declared annually by the relevant person by March 31 in each year.

Payments made by Tallink as a result of any redemption of its Shares or any repurchase of its Shares or the proceeds of any liquidations of Tallink which are paid to Estonian individuals or non-residents (whether legal persons or individuals) are also treated as capital gains which are chargeable as described above (even if such non-residents' capital gains are not chargeable upon a sale or exchange of the Shares).

Estonian taxation regulations provide that the currently applicable income tax rate of 24 percent chargeable on capital gains and referred to above will be reduced to 23 percent on January 1, 2006, to 22 percent on January 1, 2007, to 21 percent on January 1, 2008 and to 20 percent on January 1, 2009.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS on transactions in the Shares which are cleared and settled through the ECSD.

Finnish Tax Considerations

The following summary is not intended to be exhaustive. You are advised to consult your own professional tax advisors as to Finnish tax consequences of the Offering and the purchase, ownership and disposition of Offer Shares.

Taxation of Dividends

According to the double tax treaty entered into between Estonia and Finland, no tax is payable on dividends paid by Tallink to shareholders that are private persons resident in Finland for tax purposes (providing a residency certificate). A tax at the rate of 15 percent is withheld in Estonia only on the dividends distributed to companies resident in Finland for tax purposes (providing a residency certificate) and holding less than 20 percent of the share capital and votes in Tallink.

Irrespective of the above, an additional tax may be withheld by custodians in Estonia from dividends distributed to Finnish shareholders whose holdings are nominee registered. Any such Finnish shareholder may claim for a tax refund with the Estonian tax authority of such tax withheld in Estonia.

In Finland, 30 percent of the dividends received by private persons are tax exempt with the remaining 70 percent being taxed as capital income at the rate of 28 percent. Further, if the shareholder is a non-listed company, the dividend will be tax exempt in Finland only if the recipient owns at least ten percent of the share capital or votes in Tallink. Where a non-listed company owns less than ten percent of the share capital and votes in Tallink, 25 percent of the dividends received are tax exempt with the remaining 75 percent being taxable income at the rate of 26 percent in Finland. Dividends received by a Finnish listed company are generally tax exempt in Finland.

If dividends received are not taxable income in Finland, no withholding taxes paid in Estonia can be credited in Finland. The tax treatment and rates discussed above are applicable for the tax year 2006 based on the laws in effect as of the date of this offering memorandum.

Capital Gains Taxation

Finnish resident investors for tax purposes may under the Finnish rules be liable to pay capital gains tax or alternatively capital loss may occur in Finland when the investors transfer their Shares.

Wealth Tax

The Shares are included in the taxable net wealth of Finnish resident individuals, Finnish estates and Finnish legal entities that are subject to net wealth tax. Most Finnish legal entities are, however, exempted from net wealth taxation. The net wealth tax is proposed to be abolished as of 2006.

Transfer Tax

No Finnish transfer tax is payable on the transfers of the Shares as the Shares are not Finnish securities.

PLAN OF DISTRIBUTION

Citigroup Global Markets Limited, Nordea Bank Finland Plc., AS Suprema Securities and SEB Eesti Ühispank AS are acting as managers and, further, as the underwriters of the Offering (the "Managers"). Subject to the terms and conditions stated in the underwriting agreement expected to be dated December 1, 2005, we and the Selling Shareholders have agreed to issue and sell the Offer Shares to the Managers or purchasers procured by the Managers.

The underwriting agreement provides that the obligations of the Managers to purchase or procure purchasers for the Offer Shares are subject to review of legal matters by counsel and to other conditions.

We estimate that our portion of the total expenses of this Offering will be approximately EEK 29 million. In addition, we have agreed to pay to the Managers a commission equal to 2.75 percent of the Offer Price per Offer Share. Therefore, in connection with this Offering, the Managers will receive total commissions of approximately EEK 60 million based on the mid-point of the Offer Price range and assuming that the number of Offer Shares is not changed. In addition, we and the Selling Shareholders may pay the Managers a discretionary commission based upon the overall execution of the Offering. We have also agreed to reimburse the Managers for certain expenses up to the maximum amount of approximately EEK 9 million and indemnify them against certain losses and liabilities arising out of or in connection with the Offering.

The Managers propose to market the Offer Shares at the Offer Price outside the United States in reliance on Regulation S and to resell the Offer Shares at the Offer Price within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A. In addition to institutional investors internationally, Offer Shares will be marketed in a public offering in Estonia and in Finland. The members of our supervisory board and management board and our employees may receive preferential allocation of Offer Shares in connection with the public offering.

The Offer Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of this Offering, an offer or sale of Shares within the United States by a dealer that is not participating in this Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Selling Shareholders have granted to Citigroup, acting on behalf of the Managers, an option, exercisable at any time within 30 days from the commencement of trading in our Shares on the Tallinn Stock Exchange, to purchase up to 3,409,091 additional Shares at the Offer Price solely to cover over-allotments, if any. To the extent the option is exercised, each Manager must purchase an additional principal amount of Shares proportionate to that Manager's initial underwriting commitment.

Citigroup, acting on behalf of the Managers, may effect transactions that stabilize or maintain the market price of our Shares, in accordance with applicable laws, during a 30-day period starting from the commencement of trading in our Shares on the Tallinn Stock Exchange. Any such stabilization activity will be decided by Citigroup at its sole discretion and there is no obligation on Citigroup to do this. Such stabilization transactions may result in a market price of the Shares that is higher than would otherwise prevail. Any trades made on the Tallinn Stock Exchange as part of the stabilization will be effected by Suprema Securities as instructed by Citigroup. The details of all stabilization transactions will be notified to the EFSA according to the Article 9(4) of the European Commission Regulation (EC) No. 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council.

In connection with this Offering, the Managers may purchase and sell Shares in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Shares in excess of the principal amount of Shares to be purchased by the Managers in this Offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the Shares in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Shares made for the purpose of preventing or retarding a decline in the market price of the Shares while the Offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Shares. They may also cause the price of the Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Managers may conduct these transactions in the over-the-counter market or otherwise. If the Managers commence any of these transactions, they may discontinue them at any time.

Other than as stated above or as required by law, Citigroup does not intend to disclose publicly the extent of any over-allotment made or stabilization transactions entered into in connection with the Offering, although individual investors may be required to disclose interests in Shares acquired in the Offering or arrangements connected with it in accordance with the disclosure requirements of applicable Estonian law.

Any stabilization activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buy-back programs and stabilization of financial instruments.

In connection with settlement and stabilization, Citicorp, on behalf of the Managers, has entered into a share lending arrangement with Infortar as part of the underwriting agreement. In accordance with the share lending provisions of the underwriting agreement, Citicorp may borrow a number of Shares equal to the number of additional Shares subject to the Over-Allotment Option that will allow it to settle over-allotments made, if any, in connection with the Offering. In addition, Citicorp will borrow from Infortar a number of Shares corresponding to the number of New Shares in order to facilitate the settlement. To the extent Citicorp borrows Shares under these provisions, it will be required to return an equivalent number of Shares or rights representing such number of Shares to Infortar in accordance with the provisions of the underwriting agreement.

Except for the Sale Shares to be offered by the Selling Shareholders (including any additional Shares sold pursuant to the Over-Allotment Option), Tallink, each of the Selling Shareholders, each of the members of our supervisory council and management board and each of our key executives have agreed that, without the prior written consent of Citigroup, each of us will not issue, offer, sell, contract to sell, or otherwise dispose of any Shares owned by us/it at any time or any securities convertible into or exercisable or exchangeable for Shares, or enter into any swap or other agreement or any transaction to transfer the economic consequence of ownership of the Shares, or publicly announce an intention to effect any such transaction, during the period commencing on the date of this offering memorandum and ending 180 days (in the case of Tallink), 270 days (in the case of Infortar), 180 days (in the case of the other Selling Shareholders) and 365 days (in the case of members of our supervisory council and management board and our key executives) after the commencement of trading in our Shares on the Tallinn Stock Exchange. However, the lock-up does not apply to any Shares that we may issue and sell pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan.

Prior to this Offering, there has been no public market for our Shares. Consequently, the Offer Price for the Offer Shares will be determined by negotiations between us, the Selling Shareholders and the Managers. Factors relevant to the determination of the Offer Price include the results of operations, our current financial conditions, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly-traded companies considered comparable to our company.

The Managers have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. Nordea and SEB Eesti Ühispank are lenders to Tallink, while certain affiliates of Citigroup are shareholders of Tallink and plan to sell Shares in the Offering. The Managers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of the Offer Shares described in this offering memorandum may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the Offer Shares that 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, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts or

- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of the Offer Shares located within a relevant member state (other than Estonia or Finland) will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. For purposes of this provision, the expression an "offer to the public" 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 securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression 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 and includes any relevant implementing measure in each relevant member state.

The sellers of the Offer Shares have not authorized and do not authorize the making of any offer of the Offer Shares through any financial intermediary on their behalf, other than offers made by the Managers with a view to the final placement of the Offer Shares as contemplated in this offering memorandum. Accordingly, no purchaser of the Offer Shares, other than the Managers, is authorized to make any further offer of the Offer Shares on behalf of the sellers or the Managers.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this offering memorandum nor any other offering material relating to the Offer Shares described in this offering memorandum has been submitted to the clearance procedures of the Autorité des Marchés Financiers or by the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this offering memorandum nor any other offering material relating to the Offer Shares has been or will be

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Offer Shares to the public in France.

Such offers, sales and distributions will be made in France only

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* or
- to investment services providers authorized to engage in portfolio management on behalf of third parties or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the Autorité des Marchés Financiers, does not constitute a public offer (*appel public à l'épargne*).

The Offer Shares may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

TRANSFER RESTRICTIONS

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

Each purchaser of the Offer Shares outside the United States pursuant to Regulation S will be deemed to have acknowledged, represented and agreed with Tallink and the Managers that it has received a copy of this offering memorandum and such other information as it deems necessary to make an informed investment decision and that (terms defined in Rule 144A or Regulation S shall have the same meanings when used in this section):

(1) The purchaser acknowledges that the Offer Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States;

(2) The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares, acquiring the Offer Shares in an "offshore transaction" meeting the requirements of Regulation S, and 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 Sates or entered into any arrangement for the transfer of the Offer Shares to any person in the United States;

(3) The purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this offering memorandum and agrees to give any subsequent purchaser of such Offer Shares notice of any restrictions on the transfer thereof;

(4) The purchaser is not an affiliate of Tallink or a person acting on behalf of such affiliate; and it 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 Tallink or an affiliate thereof in the initial distribution of the Offer Shares;

(5) Tallink shall not recognize any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions; and

(6) The Offer Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S under the Securities Act.

Each purchaser of the Offer Shares within the United States will be deemed to have acknowledged, represented and agreed that it has received a copy of this offering memorandum and such other information as it deems necessary to make an informed investment decision and that (terms defined in Rule 144A or Regulation S shall have the same meanings when used in this section):

(1) The purchaser acknowledges that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(2) The purchaser (i) is a qualified institutional buyer (as defined in Rule 144A under the Securities Act), (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 qualified institutional buyer, in each case for investment and not with a view to any resale or distribution of the Offer Shares;

(3) The purchaser is aware 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 Securities Act;

(4) If in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, such Offer 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 qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in accordance with Regulation S under the Securities Act, (iii) in accordance with Rule 144 under the Securities Act (if available) or (iv) in accordance with an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and agrees to give any subsequent purchaser of such Offer Shares notice of any restrictions on the transfer thereof;

(5) The Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Shares;

(6) The purchaser will not deposit or cause to be deposited such Offer Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3); and

(7) Tallink shall not recognize any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Raidla & Partners, Attorneys at Law with respect to Estonian law, by Roschier Holmberg, Attorneys Ltd. with respect to Finnish law and by Davis Polk & Wardwell with respect to U.S. law.

Certain legal matters in connection with the Offering will be passed upon for the Managers by Advokaadibüroo Tark & Co with respect to Estonian law and by White & Case LLP with respect to Finnish and U.S. law.

INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, our general meeting of shareholders shall approve the number of auditors and elect our auditors. Pursuant to a resolution dated February 5, 2005, the general meeting of shareholders elected Marju Põldniit and Hanno Lindpere, certified auditors from Ernst & Young Baltic Aktsiaselts, as our auditors for the financial year ended August 31, 2005. Ernst & Young Baltic Aktsiaselts have acted as our auditors since 2002.

The statutory audited consolidated financial statements of Tallink Group for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004, as well as the statutory audited unconsolidated financial statements of Tallink for the financial year ended August 31, 2004, with comparative information for the financial year ended August 31, 2003, and for the financial year ended August 31, 2005, with comparative information for the financial year ended August 31, 2004, have been audited by Ernst & Young Baltic Aktsiaselts. Certain financial information presented by us in this offering memorandum has been obtained directly from our audited financial statements, while certain other financial information presented herein has been recomputed by us from amounts contained in the audited financial statements. This financial information is presented in the following sections: Summary, Capitalization, Selected Financial Information, Operating and Financial Review and Prospects, Business and Management. All remaining financial information presented herein, including certain information in the aforementioned sections, has been derived by us from our unaudited records.

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INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

INCOME STATEMENT
for the financial year ended August 31, in thousands of EEK

	The Group		The Parent		
	2005	2004	2005	2004	Notes
Revenue	4,062,961	3,406,255	2,543,015	2,210,754	3
Cost of sales	(2,979,506)	(2,478,745)	(2,426,289)	(1,971,368)	4
Gross profit	**1,083,455**	**927,510**	**116,726**	**239,386**	
Marketing expenses	(336,203)	(351,427)	(191,337)	(170,996)	4
Administrative expenses	(119,944)	(128,283)	(83,596)	(71,265)	4
Other operating income	2,039	799	1,303	242	
Other operating expenses	(573)	(2,331)	(278)	(1,398)	
Operating profit	**628,774**	**446,268**	**(157,182)**	**(4,031)**	3
Net financial items	(158,706)	(134,300)	(152,425)	(133,257)	4
Share of profit of subsidiaries	0	0	779,135	448,951	10
Share of profit of associates	3,643	1,360	3,643	1,360	11
Profit before income tax and minority interests	**473,711**	**313,328**	**473,171**	**313,023**	3
Income tax	(356)	(305)	0	0	5
Profit before minority interests	**473,355**	**313,023**	**473,171**	**313,023**	
Minority interests	(184)	0	0	0	
Net profit for the financial year	**473,171**	**313,023**	**473,171**	**313,023**	3
Basic and diluted earnings per share (in EEK per share)	4.30	2.87			6

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

BALANCE SHEET
as of August 31, in thousands of EEK

	The Group		The Parent		
	2005	2004	2005	2004	Notes
ASSETS					
Current assets					
Cash and cash equivalents	326,786	366,668	148,340	171,220	7
Receivables and prepayments	198,028	219,141	438,919	312,841	8
Tax assets	4,512	5,512	51	4,099	5
Inventories	84,900	84,553	40,103	39,287	9
	614,226	**675,874**	**627,413**	**527,447**	
Non-current assets					
Investments in subsidiaries	0	0	3,104,308	2,072,910	10
Investments in associates	0	2,557	0	2,557	11
Other financial assets and prepayments	72	2,113	734,354	619,668	12
Property, plant and equipment	6,136,720	6,050,938	2,316,118	2,656,290	13
Intangible assets	176,153	176,443	1,692	2,517	14
	6,312,945	**6,232,051**	**6,156,472**	**5,353,942**	
TOTAL ASSETS	**6,927,171**	**6,907,925**	**6,783,885**	**5,881,389**	3
LIABILITIES AND EQUITY					
Current liabilities					
Interest-bearing loans and borrowings	690,473	750,717	668,373	617,725	15
Payables and deferred income	363,878	420,402	1,105,420	754,805	16
Tax liabilities	70,805	70,779	22,794	21,048	5
	1,125,156	**1,241,898**	**1,796,587**	**1,393,578**	
Non-current liabilities					
Interest-bearing loans and borrowings	3,145,864	3,483,375	2,281,309	2,254,993	15
Other non-current liabilities	0	0	50,441	50,441	16
Deferred income tax liability	329	275	0	0	5
	3,146,193	**3,483,650**	**2,331,750**	**2,305,434**	
Total liabilities	**4,271,349**	**4,725,548**	**4,128,337**	**3,699,012**	3
Minority interests	**274**	**0**	**0**	**0**	
Equity					
Share capital	1,100,000	275,000	1,100,000	275,000	17
Share premium	0	414,870	0	414,870	17
Reserves	27,500	27,500	27,500	27,500	2
Retained earnings	1,528,048	1,465,007	1,528,048	1,465,007	
	2,655,548	**2,182,377**	**2,655,548**	**2,182,377**	
TOTAL LIABILITIES AND EQUITY	**6,927,171**	**6,907,925**	**6,783,885**	**5,881,389**	

CASH FLOW STATEMENT

for the year ended August 31, in thousands of EEK

	The Group		The Parent		
	2005	2004	2005	2004	Notes
Cash flow from operating activities					
Profit before minority interests	473,355	313,023	473,171	313,023	
Adjustments	427,213	404,604	66,434	123,536	18
Changes in assets related to operating activities	38,154	(99,933)	(51,803)	(100,173)	
Changes in liabilities related to operating activities	(47,803)	187,071	352,368	174,992	
Income tax paid	(117)	(338)	0	0	
	890,802	**804,427**	**840,170**	**511,378**	
Cash flow (used for) investing activities					
Purchase of property, plant, equipment and intangible assets	(357,238)	(2,396,561)	(4,589)	(20,316)	13, 14,18
Proceeds from disposals of property, plant, equipment	1,372	382	0	0	
Repayments of granted loans	0	0	138,766	395,779	
Loans granted	0	0	(266,357)	(457,596)	12
Acquisition of subsidiaries	90	(46)	(300,666)	(105)	10
Dividends received	1,200	800	1,200	800	11
Interest received	2,974	9,269	4,202	30,021	
	(351,602)	**(2,386,156)**	**(427,444)**	**(51,417)**	
Cash flow from (used for) financing activities					
Proceeds from loans and bonds	458,028	2,251,129	458,028	97,046	
Redemption of loans and bonds	(884,685)	(820,022)	(209,792)	(310,411)	
Change in overdraft	18,249	0	18,249	0	15
Repayment of finance lease liabilities	(967)	(597)	(544,696)	(459,610)	
Interest paid	(169,707)	(110,584)	(157,395)	(154,853)	
Proceeds from issue of shares	0	396,647	0	396,647	17
	(579,082)	**1,716,573**	**(435,606)**	**(431,181)**	
TOTAL NET CASH FLOW	**(39,882)**	**134,844**	**(22,880)**	**28,780**	
Cash and cash equivalents:					
—at the beginning of period	366,668	231,824	171,220	142,440	
—increase (decrease)	(39,882)	134,844	(22,880)	28,780	
—at the end of period	**326,786**	**366,668**	**148,340**	**171,220**	7

STATEMENT OF CHANGES IN EQUITY
for the year ended August 31, in thousands of EEK

	Share capital	Share premium	Reserves	Retained earnings	Total Equity
As of August 31, 2003	**224,000**	**69,223**	**22,400**	**1,157,084**	**1,472,707**
Issue of shares	51,000	345,647	0	0	396,647
Transfer from retained earnings to reserves	0	0	5,100	(5,100)	0
Net profit for the financial year 2003/2004	0	0	0	313,023	313,023
As of August 31, 2004	**275,000**	**414,870**	**27,500**	**1,465,007**	**2,182,377**
Issue of shares	825,000	(414,870)	0	(410,130)	0
Net profit for the financial year 2004/2005	0	0	0	473,171	473,171
As of August 31, 2005	**1,100,000**	**0**	**27,500**	**1,528,048**	**2,655,548**

There are no differences in the Group's and the Parent's statements of changes in equity. For additional information on the equity see Note 17.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The financial statements of Tallink Grupp AS (both as the Group and the Parent) for the year ended August 31, 2005 were authorized for issue in accordance with a resolution of the Management Board on October 10, 2005. According to the Estonian Business Code, the annual report, including the financial statements, is authorized by the shareholders' general meeting. The shareholders hold the power not to approve the annual report prepared and presented by the management and the right to request a new annual report to be prepared.

Tallink Grupp AS is a limited company incorporated and domiciled in Estonia that employed 2,694 people at August 31, 2005 (2,820 at August 31, 2004). The principal activities of the Group are described in Note 3 Segment Information. Tallink Grupp AS is controlled by Infortar AS, which owns 55.53% of the shares of Tallink Grupp AS as of October 10, 2005. The ultimate parent of the Group is Linandell OÜ.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of Tallink Grupp AS have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect as of August 31, 2005, except for IAS 16 (revised 2004), which was adopted before its effective date, i.e., financial years beginning on or after January 1, 2005. IAS 16 (revised 2004) was adopted already in the financial year ended August 31, 2004.

The financial statements have been prepared in thousands of Estonian kroons (EEK) and based on a historical cost basis, unless indicated otherwise in the accounting principles below (e.g., derivative financial instruments have been measured at fair value).

Basis of consolidation

The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries drawn up to August 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent, using consistent accounting policies. Subsidiaries are consolidated from the date on which control has been transferred to the Group and cease to be consolidated from the date on which control has been transferred out of the Group.

All intra-group transactions, balances and unrealized profits on transactions between Group companies have been eliminated in the consolidated financial statements. Unrealized losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and balance sheet.

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

In the Parent's financial statements, investments in its subsidiaries are accounted for under the equity method of accounting. Investment in subsidiaries is carried in the balance sheet at cost plus post-acquisition changes in the Parent's share of net assets of the subsidiaries, less any impairment in value.

Changes in accounting polices

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those standards designed to form the "stable platform" to be mandatory for the financial years beginning on or after March 31, 2004.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 3 "Business combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible assets"

Standards IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004), were applied to business combinations for which the agreement date was on or after March 31, 2004 and goodwill and other intangible assets, which arose from such business combinations, already in the previous financial year.

In the current financial year, these standards were also applied to goodwill arising from business combinations, the agreement date of which was before March 31, 2004, and to other intangible assets.

The adoption of IFRS 3 and IAS 36 (revised 2004) has resulted in the Group ceasing annual goodwill amortization and to test for impairments annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) from September 1, 2004. The transitional provisions of IFRS 3 have required the Group to eliminate the amount of the accumulated amortization by EEK 30,558,000 with a corresponding entry to gross carrying amount of goodwill.

Moreover, the useful life of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortized over its useful life, which together with the amortization method are reviewed at the earlier of annually or where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure that their carrying value does not exceed the recoverable amount irrespective of whether an indicator of impairment is present.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence, but which is not a subsidiary of the Group. The investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The income statement reflects the shares of the results of operations of the associate. Where there has been a change recognized directly in the associate's equity, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

Foreign exchange transactions

The financial statements of the Group companies have been prepared using the currency (measurement currency), which reflects the company's economic environment the best. The consolidated financial statements of the Group and the separate financial statements of the Parent have been prepared in Estonian kroon, which is the measurement currency of the Parent.

Transactions in foreign currencies are recorded at the exchange rate of the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate of the balance sheet date. All differences are recognized in the income statement as financial items.

The foreign subsidiaries are considered as "foreign operations that are integral to the operations of the Parent", which means that the individual items in the financial statements of the foreign subsidiaries are translated as if all its transactions had been entered into by the Parent itself. The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the date of the balance sheet. All differences are taken to the income statement.

Goodwill and fair value adjustments arising out of the acquisition of a foreign entity are treated as assets of the acquiring company and are recorded at the exchange rate as of the acquisition date.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any impairment in value.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized (e.g. replacements of part of some items) are added to the carrying amount of the assets, if the recognition criteria are met, i.e., (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognized. All other expenditures are recognized as an expense in the period in which it is incurred.

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

Buildings	20 years;
Plant and equipment	5 years;
Ships	5 to 55 years;
Other equipment	3 to 5 years.

Land is not depreciated.

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

—Hull	11 to 55 years;
—Machinery	11 to 43 years;
—On-board equipment (short-term usage)	5 to 10 years;
—On-board equipment (long-term usage)	10 to 25 years.

Depreciation is stopped when the carrying value of an asset equals its residual value. The residual value of hull is based on the current prices of relevant metals and the probable quantity of scrap metals realizable at the end of ships' useful life. The Group estimates that the residual value of other items of property, plant and equipment is nil.

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

The carrying value of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds the estimated recoverable amount, which is specified as the higher of an asset's fair value less cost to sell and value in use, the individual assets or group of assets comprising cash-generating units are written down to their recoverable amount. At least two independent brokers are used annually to determine market value of the ships and identify impairment indicators, if any.

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

Dry-docking costs

The ships are dry-docked in intervals of two or five years. The major expenditures related to the dry-docking are capitalized and recorded in the same line of the balance sheet as the ships. The depreciation period applied to capitalized dry-docking costs coincides with the frequency of dry-docking (2-5 years).

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, which equals the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses of goodwill are recorded as "administrative expenses" in the income statement.

Intangible assets

Intangible assets acquired separately from a business are initially recognized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized at fair value as at the date of acquisition. Following initial recognition, other intangible assets are stated at cost less accumulated amortization and any accumulated impairment in losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred.

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

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

Research and development costs

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

Following the initial recognition of the development expenditure, the cost model is applied which require the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Financial assets

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

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

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Non-current receivables are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account a discount or a premium on acquisition over the period to maturity. If there is objective evidence that an impairment loss on non-current receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account.

Increases/decreases in the carrying amount of investments and any gains and losses on the disposal of investments are charged or credited to the income statement within "net financial items".

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

Derivative financial instruments

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

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

The fair value of interest rate swap contracts is determined using the discounted net cash flow method based on estimation on the 3-month EURIBOR (from Bloomberg system).

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of both raw materials, consisting mostly of fuel, and merchandise purchased for resale is assigned by using the weighted average cost method.

Trade and other current receivables

Trade receivables, which generally have payment terms of 7-30 days, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off from the balance sheet when identified.

Cash and cash equivalents

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

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

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

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

Leases

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

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

Group as a lessor. Leases, where the Group retains substantially all the risks and benefits of ownership of the assets, are classified as operating leases. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. The Group presents the lease income and lease expense arising from the same ship on a net basis if the leases are different type charters (i.e., bare-boat charter and time charter).

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the Group's management the probability of an outflow to settle these liabilities is lower than 50%, are disclosed in the notes to the financial statements as contingent liabilities.

Reserves in equity

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

Segment reporting

The primary segments of the Group are geographical segments (by the routes and mainland) and the secondary segments are operational segments (tickets sales, sales of cargo transport, restaurant and shops sales onboard and on mainland, hotel (accommodation) sales and other). Expenses not related to a specific segment are recorded as unallocated expenses of the Group.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All assets directly related to the segments are recorded as assets of the segments and all liabilities directly related to the segments are recorded as liabilities of the segments. Unallocated assets and liabilities are recorded as assets and liabilities of the Group.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Ticket sale and sale of cargo transport

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

Sales of hotel rooms

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

Revenue from package deals

The Group also sells packages, which consist of the ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognizes the sales of package in its revenue in full instead of recognizing only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of package; (2) has discretion in selecting the suppliers for the service offer; and (3) bears any credit risks.

Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Dividends

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

Income tax

Income tax contains current income tax and deferred income tax.

The Parent and its Estonian subsidiaries:

According to the Estonian Income Tax Law, the company's net profit is not subject to income tax but all dividends paid by the company are subject to income tax (26/74 of net dividend paid out before December 31, 2004; 24/76 of net dividend paid out during the calendar year 2005 and after that the rate will decrease every year by one point until 20/80 of net dividends paid out after January 1, 2009). Therefore, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Swedish, Finnish and Russian subsidiaries:

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in Finland, Sweden and Russia (in Finland the tax rate was 29% until December 31, 2004 and currently is 26%, in Sweden 28% and in Russia 22%).

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only when it is probable that profit will be available against which the deferred tax assets can be utilized.

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

Other subsidiaries:

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

Note 3 SEGMENT INFORMATION

The Group's operating businesses are organized and managed separately according to the nature of the different markets. The Group operates (1) seven ships between Estonia and Finland, (2) four ships between Estonia and Sweden, (3) one ship first between Estonia and Russia until the end of year 2004, after which the vessel was leased under a time charter agreement and (4) one hotel and one shop in Estonia, which represent different business segments.

The Group's market share on the Estonia—Finland route is approximately 43% in passenger transportation and approximately 45% in cargo transportation, while the market share on the Estonia—Sweden route is approximately 100% in passenger transportation and approximately 100% in cargo transportation (according to the Port of Tallinn).

In previous years financial statements there was separate segment of the Estonia—Russia route. As this route was closed (the total operating period was nine months: five in the previous financial year and four months this financial year) and its revenue was below 1.5% of the Group's total revenue in each of these financial years, then in the current year financial statements the revenue and result of Estonia—Russia route have been presented under "Other". Comparative information has also been restated in the current financial year.

In financial statements of previous years, the ship leases were reported as inter-segment sales. This year the management re-considered the classification of the lease of ships and decided that it is more appropriate to report the revenue from lease of ships as a revenue within one segment, which is eliminated already at a segment level. Comparative information has been also restated in the current financial year. As the result of lease of ships amounted to zero, there is no effect of the restatement on the result of reported segments.

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

Note 3 SEGMENT INFORMATION (Continued)

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding business segments for the years ended August 31, 2005 and 2004.

Geographical segments—assets' location

for the year ended August 31, and as of August 31, respectively

2005	Estonia-Finland routes	Estonia-Sweden route	Estonia mainland business	Other	Elimination of inter-segment sales	Total
Revenue						
Sales to external customers	2,442,325	1,391,979	87,808	140,849		4,062,961
Inter-segment sales	0	21,905	59,206	0	(81,111)	0
	2,442,325	**1,413,884**	**147,014**	**140,849**	**(81,111)**	**4,062,961**
Result						
Segment result	371,780	327,386	50,401	(2,315)	0	747,252
Unallocated expenses						(118,478)
Operating profit						**628,774**
Net financial items						(158,706)
Share of profit of associates						3,643
Profit before income tax and minority interests						**473,711**
Income tax						(356)
Minority interests						(184)
Net profit						**473,171**
Assets and liabilities						
Segment assets	3,047,100	2,982,700	17,662	281,129	(4,129)	6,324,462
Unallocated assets						602,709
						6,927,171
Segment liabilities	224,475	139,491	15,440	4,827	(4,129)	380,104
Unallocated liabilities						3,891,245
						4,271,349
Other segment information						
Capital expenditures:						
—segment's property, plant and equipment ("PP&E")	69,802	14,246	1,708	1,259	0	87,015
—unallocated PP&E						270,254
—segment's intangible assets ("IA")	1,076	0	0	0	0	1,076
Depreciation	131,777	106,473	1,935	24,197	0	264,382
Unallocated depreciation						6,130
Amortization	1,015	351	0	0	0	1,366

Note 3 SEGMENT INFORMATION (Continued)

2004	Estonia-Finland routes	Estonia-Sweden route	Estonia mainland business	Other	Elimination of inter-segment sales	Total
Revenue						
Sales to external customers	2,083,346	1,231,690	40,277	50,942	0	3,406,255
Inter-segment sales	0	6,999	22,007	0	(29,006)	0
	2,083,346	**1,238,689**	**62,284**	**50,942**	**(29,006)**	**3,406,255**
Result						
Segment result	414,783	203,895	9,488	(52,083)	0	576,083
Unallocated expenses						(129,815)
Operating profit						**446,268**
Net financial items						(134,300)
Share of profit of associates						1,360
Profit before income tax						**313,328**
Income tax						(305)
Net profit						**313,023**
Assets and liabilities						
Segment assets	3,151,563	3,083,467	18,233	319,283	(8,774)	6,563,772
Unallocated assets						344,153
						6,907,925
Segment liabilities	265,323	143,163	18,876	10,525	(8,774)	429,113
Unallocated liabilities						4,296,435
						4,725,548
Other segment information						
Capital expenditures:						
—segment's property, plant and equipment ("PP&E")	218,490	2,146,280	4,141	9,306	0	2,378,217
—unallocated PP&E						16,247
—segment's intangible assets ("IA")	620	437	0	109	0	1,166
—unallocated IA						2,036
Depreciation	131,102	90,198	433	13,565	0	235,298
Unallocated depreciation						9,681
Amortization	20,622	7,929	0	3	0	28,554
Unallocated amortization						227

As of August 31, 2005 unallocated liabilities include the loans for financing the ships operating between Estonia and Finland in the amount of EEK 1,636,978,000 (2004: EEK 2,002,310,000) and for financing the ships operating between Estonia and Sweden in the amount of EEK 1,677,645,000 (2004: EEK 1,979,972,000). Corresponding interest expenses amounted to EEK 68,714,000 and EEK 74,655,000 (2004: EEK 67,987,000 and EEK 49,073,000).

Net sales by geographical segments—customers' location

As it is not possible to record revenue by customer group (especially regarding onboard sales) this information has not been disclosed in the notes to the financial statements.

Note 3 SEGMENT INFORMATION (Continued)

Information by operational segments

for the year ended August 31

	2005	2004
Ticket sales	1,018,683	879,684
Revenue from packages	163,175	169,197
Sales of cargo transport	721,690	609,383
Accommodation sales[1]	86,876	31,546
Restaurant and shops sales onboard and on mainland	1,912,232	1,664,566
Income from leases of vessels	95,416	0
Other	64,889	51,879
Total revenue of the Group	**4,062,961**	**3,406,255**

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

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

Note 4 INCOME AND EXPENSES

for the year ended August 31

	The Group		The Parent	
Cost of sales	**2005**	**2004**	**2005**	**2004**
Cost of goods	(878,311)	(746,858)	(593,996)	(526,086)
Port charges	(530,175)	(494,274)	(335,883)	(303,996)
Bunker cost	(401,593)	(274,429)	(234,199)	(145,649)
Charter hire (operating leases of ships)	0	0	(92,739)	(100,150)
Staff costs	(413,369)	(368,293)	(243,669)	(277,085)
Depreciation and amortization	(260,281)	(236,540)	(694,674)	(441,425)
Spare parts and maintenance expenses	(146,618)	(89,635)	(126,053)	(74,423)
Cost of package sales, excluding ship tickets	(134,862)	(104,284)	(7,563)	(3,148)
Other costs	(214,297)	(164,432)	(97,513)	(99,406)
Total cost of sales	**(2,979,506)**	**(2,478,745)**	**(2,426,289)**	**(1,971,368)**

	The Group		The Parent	
Marketing expenses	**2005**	**2004**	**2005**	**2004**
Advertising expenses	(97,104)	(122,121)	(13,016)	(20,394)
Agency fees paid to subsidiaries	0	0	(138,908)	(118,257)
Staff costs	(152,469)	(131,135)	(24,968)	(19,225)
Depreciation and amortization	(5,267)	(4,622)	(679)	(226)
Other costs	(81,363)	(93,549)	(13,766)	(12,894)
Total marketing expenses	**(336,203)**	**(351,427)**	**(191,337)**	**(170,996)**

	The Group		The Parent	
Administrative expenses	**2005**	**2004**	**2005**	**2004**
Staff costs	(44,029)	(44,594)	(30,530)	(34,236)
Depreciation and amortization	(6,330)	(32,598)	(2,130)	(1,205)
Other costs	(69,585)	(51,091)	(50,936)	(35,824)
Total administrative expenses	**(119,944)**	**(128,283)**	**(83,596)**	**(71,265)**

Note 4 INCOME AND EXPENSES (Continued)

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

	The Group		The Parent	
	2005	2004	2005	2004
Wages and salaries	(447,845)	(399,015)	(40,690)	(46,013)
Social security costs	(147,521)	(128,648)	(14,244)	(16,279)
Cost of training of staff	(4,969)	(4,042)	(1,676)	(692)
Other staff costs	(9,532)	(12,317)	(242,557)	(267,562)
Total staff costs	**(609,867)**	**(544,022)**	**(299,167)**	**(330,546)**

The other staff costs of the Parent include personnel services purchased from its subsidiaries.

Finance income and finance expenses

	The Group		The Parent	
	2005	2004	2005	2004
Financial income				
Net foreign exchange gains	454	0	0	0
Other interest and financial income	2,963	9,475	8,935	29,239
	3,417	**9,475**	**8,935**	**29,239**
Financial expenses				
Net foreign exchange losses	0	(2,528)	(693)	(2,283)
Interest expenses	(161,983)	(141,108)	(160,665)	(160,212)
Other financial expenses	(140)	(139)	(2)	(1)
	(162,123)	**(143,775)**	**(161,360)**	**(162,496)**
Total net financial items	**(158,706)**	**(134,300)**	**(152,425)**	**(133,257)**

Note 5 TAXES

Income tax

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

	2005	2004
Income tax on profit of Swedish subsidiary	(365)	(296)
Income tax on profit of Russian subsidiary	9	(9)
Total income tax expense	**(356)**	**(305)**

According to Russian, Finnish and Swedish law it is permissible for accounting and taxation purposes to charge the profit and loss account with depreciation in excess of plan and thereby accomplish a postponement of tax payments. These postponements are shown as deferred tax liability. The Finnish subsidiary also has carry-forwards of tax losses, which are considered in calculation of the deferred tax assets.

As of August 31, 2005 and 2004 the Swedish subsidiary Tallink Sverige AB has a deferred tax liability, the Finnish subsidiary Tallink Finland OY has an unrecorded deferred tax asset (it is not probable that future taxable profit will be available against which the unused tax losses can be utilized) and the Russian subsidiary Tallink-Ru OOO does not have a significant deferred tax liability or asset.

	August 31, 2005	August 31, 2004
Deferred tax liability (non-current liability)	329	275
Unrecorded deferred tax asset (related to Finnish subsidiary)	2,430	2,313

Note 5 TAXES (Continued)

Tax balances

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

	The Group		The Parent	
	2005	2004	2005	2004
Tax assets				
VAT	4,360	5,179	24	4,099
Income tax	125	319	0	0
Other taxes	27	14	27	0
	4,512	**5,512**	**51**	**4,099**
Tax liabilities				
Salary related taxes	37,244	39,038	3,797	3,401
Excise duties	5,724	2,496	0	0
VAT	27,828	29,203	18,997	17,626
Other taxes	9	42	0	21
	70,805	**70,779**	**22,794**	**21,048**

Note 6 EARNINGS PER SHARE

for the year ended August 31

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

	2005	2004 adjusted	2004 reported before
Weighted average number of ordinary shares (thousands pcs)	110,000	109,050	27,262
Net profit attributable to ordinary shareholders	473,171	313,023	313,023
Earnings per share (in EEK per share)	4.30	2.87	11.5

On September 18, 2003 Tallink Grupp issued 5,100,000 new shares for cash. The total number of ordinary shares after this share issue amounted to 27,500,000. The calculation of weighted average number of ordinary shares for the year ended August 31, 2004 was as follows:

- period from September 1 to September 17 (17 days): 22,400,000 shares;
- period from September 18 to August 31 (348 days): 27,500,000 shares.

On February 5, 2005, the share capital was increased from 27,500,000 to 110,000,000 shares. Since the second increase of share capital was a bonus issue, the average number of ordinary shares for comparative period has been adjusted (multiplied by four) and 110,000,000 has been used as the number for the average number of ordinary shares for the calculation of earning per share for the current period.

For additional information on issues of shares see also Note 17.

Note 7 CASH AND CASH EQUIVALENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Cash at bank and in hand	82,048	226,135	31,903	162,616
Short-term deposits	244,738	140,533	116,437	8,604
Total cash and cash equivalents	**326,786**	**366,668**	**148,340**	**171,220**

Note 7 CASH AND CASH EQUIVALENTS (Continued)

Cash at bank and in hand earns interest at floating rates based on the daily bank deposit rates (rates in 2004/2005 were in the range of 0.25-2.37% and in 2003/2004 in the range of 0.25-2.95%).

Short-term deposits are made for periods that can range from over-night to three months depending on bank loan repayments. As of August 31, 2005 short-term deposits in a total amount of EEK 128,301,000 (2004: EEK 131,929,000) can be used for bank loan repayments only.

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

Note 8 RECEIVABLES AND PREPAYMENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Trade receivables	117,510	141,535	55,636	52,896
Allowance for trade receivables	(3,337)	(1,911)	(394)	(340)
Receivables from subsidiaries	0	0	344,625	260,500
Allowance for receivables from subsidiaries	0	0	(77)	(48,481)
Receivables from associates (Note 20)	0	1,846	0	1,538
Other receivables	34,275	37,921	24,231	28,053
Accrued interest income	413	413	0	0
Prepaid expenses	49,167	39,337	14,898	18,675
Total receivables and prepayments	**198,028**	**219,141**	**438,919**	**312,841**

During the reporting period EEK 15,514,000 was expensed as doubtful and uncollectible trade receivables (2004: EEK 4,808,000).

As of August 31, 2005 the amounts owned by subsidiaries consist of EEK 168,888,000 (2004: EEK 89,893,000) of prepayments for services, EEK 10,108,000 (2004: EEK 20,586,000) of receivables for services, EEK 158,685,000 (2004: EEK 147,821,000) of loans (see Note 12) and EEK 6,944,000 (2004: EEK 2,200,000) of interests receivable.

As of August 31, 2005 and 2004 the balance of Other receivables of the Group includes the sold goods' commission receivable for the last eight (2004: five) months in the amount of EEK 18,502,000 and EEK 17,224,000, respectively, (for the Parent: EEK 10,989,000 and EEK 10,761,000) and the receivable from the Port of Tallinn for a landing-stage organized by the Parent in the amount of EEK 7,972,000 and EEK 15,636,000, respectively.

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

Note 9 INVENTORIES

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Raw materials (primarily fuel)	14,135	13,118	6,384	6,191
Goods for sale	70,575	70,996	33,550	32,689
Prepayments for inventories	190	439	169	407
Total inventories	**84,900**	**84,553**	**40,103**	**39,287**

Note 10 INVESTMENTS IN SUBSIDIARIES

as of August 31

Name of subsidiary	Country of incorporation	Acquisition cost 2005	Acquisition cost 2004	Equity[3] 2005	Equity[3] 2004
Hansaliin OÜ	Estonia	40	40	91	88
Hansatee Kinnisvara OÜ	Estonia	400	400	3,811	2,270
Tallink Duty Free AS	Estonia	400	400	5,707	3,155
HT Laevateenindus OÜ	Estonia	400	400	4,122	2,545
HT Meelelahutus OÜ	Estonia	400	400	4,662	4,585
Tallink AS	Estonia	96,401	400	377	(50,728)
Hansatee Cargo AS	Estonia	204,401	400	61,088	1,637
TLG Hotell OÜ	Estonia	40	40	50,908	9,147
Tallink Travel Club OÜ	Estonia	800	800	560	766
V.S&I AS	Estonia	400	0	399	0
TLG Meedia OÜ	Estonia	210	0	912	0
Tallink Finland OY	Finland	24,010	24,010	8,870	9,270
Kapella Shipping Ltd	Bahamas	66	66	46,334	40,979
Tallink Line Ltd	Cyprus	48,014	48,014	385,813	316,915
Tallinn-Helsinki Line Ltd	Cyprus	12,000	12,000	68,247	45,850
Vana Tallinn Line Ltd	Cyprus	46,014	46,014	407,231	345,866
Tallink Fast Ltd	Cyprus	26	26	346,495	297,005
Tallink Ltd	Cyprus	28	28	375,294	280,929
Tallinn Swedish Line Ltd	Cyprus	27	27	258,028	120,929
Tallinn Stockholm Line Ltd	Cyprus	27	27	167,432	111,006
Tallink Victory Line Ltd	Cyprus	27	27	271,169	81,445
Hansalink Ltd	Cyprus	367,636	367,636	165,660	144,087
Tallink Autoexpress Ltd	Cyprus	27	27	92,408	22,384
Tallink High Speed Ltd	Cyprus	27	27	16,096	(731)
Tallink Sea Line Ltd	Cyprus	27	0	(22)	0
Tallink Superfast Ltd	Cyprus	27	0	(6)	0
Tallink-Ru OOO	Russia	5	5	(49)	37
		801,880	**501,214**		
HT Hulgi Tolliladu OÜ[1]	Estonia	400	400	312	317
TDF Kommerts OÜ[1]	Estonia	40	0	(11)	0
Tallink Sverige AB[2]	Sweden	184	184	3,337	2,542
		624	**584**		

1 HT Hulgi Tolliladu OÜ and TDF Kommerts OÜ are subsidiaries of Tallink Duty Free AS
2 Tallink Sverige AB is a subsidiary of Hansatee Cargo AS
3 The Parent wholly owns all its subsidiaries, with the exception of TLG Meedia OÜ, of which the Parent owns 70%.

The following changes have been made to the Parent's investments in subsidiaries:

	Year ended August 31, 2005	Year ended August 31, 2004
Investments at the beginning of financial year	2,072,910	1,574,646
New investments in subsidiaries	664	859
Increase of share capital of subsidiaries	300,002	0
Share of profit of subsidiaries accounted for under equity method	779,135	448,951
including change in allowance for receivables from subsidiaries (Note 8)	(48,404)	48,454
Investments at the end of year	**3,104,308**	**2,072,910**

Some of subsidiaries have a negative equity. Due to negative equity of certain subsidiaries the Parent has considered the receivables from these subsidiaries to be doubtful receivables and has expensed them in the total amount of EEK 77,000 as of August 31, 2005 (2004: EEK 48,481,000). These allowances and their reversals are also treated as an equity method gain/loss.

Note 10 INVESTMENTS IN SUBSIDIARIES (Continued)

During the reporting period, the Group established five new subsidiaries (four with 100% ownership and one with 70% ownership). The payments into the share capital of these subsidiaries in the total amount of EEK 794,000 including EEK 90,000 paid in by minority interests and EEK 40,000 paid in by a subsidiary of the Parent were made in cash.

In August 2005 the Parent increased the share capital of Hansatee Cargo AS and Tallink AS both by EEK 1,000 and share premiums of EEK 204,000,000 and EEK 96,000,000, respectively. The investments into share capital of the subsidiaries were made in cash.

During the previous reporting period the Group established three new subsidiaries (all with 100% ownership). The payments into the share capital of the subsidiaries in the total amount of EEK 59,000 were made in cash. Additionally, in December 2003 the Group acquired 100% of the shares of Downtown Travel Club OÜ (renamed to Tallink Travel Club OÜ) from Infortar AS (the parent company of the Group) for EEK 800,000, EEK 754,000 of the purchase price was offset between the Parent, Infortar and Downtown Travel Club OÜ and the remaining (EEK 46,000) was paid in cash. The new subsidiary operates as a travel agent company.

The fair value of the identifiable assets and liabilities of Tallink Travel Club OÜ at the date of acquisition are as follows:

Current receivables	754
Equipments	13
Payables to the Parent	(14)
Other current payables	(2)
Fair value of net assets	**751**
Goodwill[1]	49
Consideration	**800**

1 Goodwill arising from the purchase of the new subsidiary was immediately expensed as an immaterial item.

Assets and liabilities of Tallink Travel Club OÜ as of August 31, 2004 and its income and expenses for the period of January 2004 to August 2004 do neither affect the financial position of the Group at the reporting date nor the results of the Group for the reporting period significantly.

Note 11 INVESTMENTS IN ASSOCIATES

The Group had one associate HT Valuuta AS with 25% ownership and EEK 100,000 of acquisition cost during 2004/2005. HT Valuuta has been registered in Estonia. On August 30, 2005 HT Valuuta was sold to Infortar AS. The receivable from the sale of the shares of HT Valuuta was settled in September 2005. The following changes have been made in the Group's investments into associates:

	Year ended August 31, 2005	Year ended August 31, 2004
Investments at the beginning of financial year	2,557	1,997
Dividends received	(1,200)	(800)
Share of profit of associates accounted for under equity method	645	1,360
Sales price of shares	(5,000)	0
Gain from sale of shares	2,998	0
Investments at the end of year	**0**	**2,557**

Note 12 OTHER FINANCIAL ASSETS AND PREPAYMENTS

as of August 31

	The Group		The Parent	
	2005	2004	2005	2004
Receivables from subsidiaries	0	0	467,997	617,627
Other receivables and prepaid expenses	72	2,113	266,357	2,041
Total other financial assets and prepayments	**72**	**2,113**	**734,354**	**619,668**

Note 12 OTHER FINANCIAL ASSETS AND PREPAYMENTS (Continued)

As of August 31, 2005 *the receivables from subsidiaries* consists of the following loans granted to subsidiaries:

(1) to Tallink Ltd in the amount of EEK 120,997,000 (2004: EEK 120,997,000) with 2014 as the maturity date and interest rate of 6%;

(2) to Victory Line Ltd in the amount of EEK 347,000,000 (2004: EEK 496,630,000) with a non-agreed maturity date and an interest rate of 0%. In the opinion of the Parent's management there is not a material impact on the financial statements from not using the effective interest rate, as Victory Line Ltd is a fully-owned subsidiary of the Parent. Therefore, the specified loan carrying amount has not been adjusted with the effective interest rate in either company's financial statements. The split between current and non-current assets has been made based on the estimate of the Parent's management of the actual payments in the next financial year.

The short-term portion of the loans specified above in the total amount of EEK 158,685,000 (2004: EEK 147,821,000) has been recorded under current receivables (see Note 8).

As of August 31,2005 and 2004 *other receivables and prepaid expenses* of the Group included long-term prepayment (term-less).

As of August 31,2005 the balance of *other receivables and prepaid expenses* of the Parent includes the additional prepayments made for the new ships of Tallink Sea Line Ltd and Tallink Hansaway Ltd (subsidiaries). The specified prepayments have been recorded as a prepayment for property, plant and equipment in the balance sheet of the Group—see also Note 13.

Note 13 PROPERTY, PLANT AND EQUIPMENT

for the year ended August 31

The Group	Land and buildings	Ships	Plant and equipment	Construction in progress & prepayments	Total
Book value as of August 31, 2003	**8,291**	**3,523,802**	**24,246**	**345,745**	**3,902,084**
Additions	4,333	2,626,260	27,268	(263,397)[1]	2,394,464
Disposals	0	0	(631)	0	(631)
Depreciation for the year	(1,246)	(230,040)	(13,693)	0	(244,979)
Book value as of August 31, 2004	**11,378**	**5,920,022**	**37,190**	**82,348**	**6,050,938**
Additions	1,667	149,244	12,954	193,404[1]	357,269
Disposals	0	0	(975)	0	(975)
Depreciation for the year	(1,458)	(251,184)	(17,870)	0	(270,512)
Book value as of August 31, 2005	**11,587**	**5,818,082**	**31,299**	**275,752**	**6,136,720**
As of August 31, 2004					
—cost	17,516	6,801,988	91,558	82,348	6,993,410
—accumulated depreciation	(6,138)	(881,966)	(54,368)	0	(942,472)
As of August 31, 2005					
—cost	19,183	6,933,884	95,764	275,752	7,324,583
—accumulated depreciation	(7,596)	(1,115,802)	(64,465)	0	(1,187,863)

1 The amount of additions of construction in process and prepayments includes also transfers from construction in process and prepayments to ships in the total amount of EEK 345,745,000 and EEK 82,128,000 in the financial year ended August 31, 2005 and 2004, respectively.

For more information about the leased assets see also Note 15.

During the financial year the Group has capitalised borrowing costs as a part of the ship cost in the amount of EEK 0 (2004: EEK 672,000)—100% of borrowing expenses related to the loans received to finance the building of ships.

Note 13 PROPERTY, PLANT AND EQUIPMENT (Continued)

As of August 31, 2005 the Group's ships with book value of EEK 5,808,722,000 (2004: EEK 5,991,839,000) and market value of EEK 6,563,749,000 (2004: EEK 6,626,352,000) are subject to a first or second mortgage to secure the Group's bank loans (see also Note 15). Market value of pledged ships is an average of values quoted by two shipbrokers as of August 31, 2005 and August 31, 2004.

In the current financial year the Group has changed its estimates of the useful lives of the components of two new cruise ships. The new estimate is based on the experiences received from the first year of operations with totally new cruise ships. In the opinion of the management of the Group, these new useful lives are effective as of the beginning of the current financial year. In the interim reports for the 3-, 6- and 9-month periods ended on November 30, 2004, February 28, 2005 and May 31, 2005, respectively, the previous estimates of useful lives were used for calculating and recording depreciation charge. The total annual effect of the change amounts to EEK 26,051,000 (including the effect of correction of error made in the prior interim financial statements in the amount of EEK 19,538,000).

The Parent	Land and buildings	Ships	Plant and machinery	Other equipment	Total
Book value as of August 31, 2003	**2,883**	**2,832,210**	**10,073**	**2,405**	**2,847,571**
Additions	4,234	235,995	1,108	9,991	251,328
Depreciation for the year	(284)	(436,285)	(4,074)	(1,966)	(442,609)
Book value as of August 31, 2004	**6,833**	**2,631,920**	**7,107**	**10,430**	**2,656,290**
Additions	0	351,896	353	4,236	356,485
Depreciation for the year	(415)	(688,064)	(4,359)	(3,820)	(696,658)
Book value as of August 31, 2005	**6,418**	**2,295,752**	**3,101**	**10,846**	**2,316,118**
As of August 31, 2004					
—cost	7,868	4,067,236	29,048	16,443	4,120,595
—accumulated depreciation	(1,035)	(1,435,316)	(21,941)	(6,013)	(1,464,305)
As of August 31, 2005					
—cost	7,868	4,409,800	29,247	20,060	4,466,975
—accumulated depreciation	(1,450)	(2,114,048)	(26,146)	(9,214)	(2,150,858)

The Parent has only leased ships from its subsidiaries. For more information about the leased assets see also Note 15.

Note 14 INTANGIBLE ASSETS

for the year ended August 31,

The Group	Goodwill[1]	Patents and licenses[2]	Development costs	Total
Book value as of August 31, 2003	**194,056**	**587**	**7,379**	**202,022**
Additions	0	3,202	0	3,202
Amortization for the year	(20,908)	(811)	(7,062)	(28,781)
Book value as of August 31, 2004	**173,148**	**2,978**	**317**	**176,443**
Additions	0	1,076	0	1,076
Amortization for the year	0	(1,049)	(317)	(1,366)
Book value as of August 31, 2005	**173,148**	**3,005**	**0**	**176,153**

1 Goodwill is entirely related to the segment of Estonia—Finland routes. For the impairment test the value in use is used for determining the recoverable amount. Management has calculated the value in use based on the discounted 5-years cash flow projections using the average gross margins achieved in the current year, the growth rate in revenue of 1-2% per annum and the discount rate of 12% (the group's weighted average cost of capital).

2 The useful life of patents and licenses is finite with a maximum of five years.

Note 14 INTANGIBLE ASSETS (Continued)

	Goodwill	Patents and licenses	Development costs	Total
As of August 31, 2004				
—cost	203,706	5,314	7,379	216,399
—accumulated amortization	(30,558)	(2,336)	(7,062)	(39,956)
As of August 31, 2005				
—cost	173,148	6,390	0	179,538
—accumulated amortization	0	(3,385)	0	(3,385)

The Parent—patents and licenses

	Year ended 31 August 2005	Year ended 31 August 2004
Book value at the beginning of period	**2,517**	**0**
Additions	0	2,768
Amortization for the year	(825)	(251)
Book value at the end of period, incl.:	**1,692**	**2,517**
—costs	2,768	2,768
—accumulated amortization	(1,076)	(251)

Note 15 INTEREST BEARING LOANS AND BORROWINGS

as of August 31

The Group

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

2004	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2008	380	1,397	1,777
Long-term bank loans	2004-2014	602,261	3,432,214	4,034,475
Other long-term loans	2007	48,766	49,764	98,530
Bonds	2004	99,310	0	99,310
Total borrowings		**750,717**	**3,483,375**	**4,234,092**

The Parent

2005	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2005-2014	456,680	1,973,205	2,429,885
Bank overdraft	2007	18,249	0	18,249
Long-term bank loans	2005-2009	134,697	173,546	308,243
Bonds	2006	58,747	134,559	193,306
Total borrowings		**668,373**	**2,281,309**	**2,949,682**

Note 15 INTEREST BEARING LOANS AND BORROWINGS (Continued)

2004	Maturity	Current portion	Non-current portion	Total borrowings
Obligation under finance lease	2005-2014	448,991	2,173,694	2,622,685
Long-term bank loans	2006-2008	69,424	81,299	150,723
Bonds	2004	99,310	0	99,310
Total borrowings		**617,725**	**2,254,993**	**2,872,718**

As of August 31, 2005 the Group is allowed to use *bank overdrafts* up to an amount of EEK 200,000,000 (including EEK 150,000,000 granted to the Parent) and EUR 7,000,000 (2004: EEK 200,000,000, EEK 150,000,000 and EUR 1,009,000, respectively). Bank overdrafts are secured with commercial pledges in the total amount of EEK 183,250,000 (2004: EEK 151,250,000) and ship mortgages (see Note 13). In the year ended August 31, 2005 the average effective interest rate of the bank overdrafts is EURIBOR+1.85% (2004: +2.17%) for overdrafts from Estonian commercial banks and EURIBOR+1.25% (2004: +1.25%) from the Finnish commercial bank. As of August 31, 2005 the balance of overdraft in use amounted to EEK 18,249,000. As of August 31 2004 there were no outstanding overdraft balances.

In the year ended August 31, 2005 the weighted average interest rate of *bank loans* of the Group and the Parent were EURIBOR+1.38% and EURIBOR+1.14% (2004: +1.44% and +1.34%).

Interest rate of *other loans,* which is a loan from the parent company of the Group—Infortar, is a fixed interest rate of 7%.

Bonds with the book value of EEK 193,306,000 as of August 31, 2005 (2004: EEK 99,310,000) are zero-coupon bonds. The total nominal value of these bonds is EEK 200,000,000 (2004: EEK 100,000,000). The difference between the nominal value and the received amount is expensed during the loan period which means that the average effective interest rate is approximately 3.4% (2004: 3.0%).

Lease liability of the Group as of August 31, 2005 is related to the office equipment in Sweden. Lease liability of the Parent is related to the ship leases from its subsidiaries. The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments have been presented below.

For additional information about the currency structure of the borrowings see Note 21.

	August 31, 2005		August 31, 2004	
The Group	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	1,040	981	406	380
After 1 year, but not more than 5 years	1,051	935	1,492	1,397
Total minimum lease payments	**2,091**		**1,898**	
Future financial charges	(175)		(121)	
PV of minimum lease payments	**1,916**	**1,916**	**1,777**	**1,777**

	August 31, 2005		August 31, 2004	
The Parent	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	573,075	456,680	569,870	448,991
After 1 year, but not more than 5 years	1,383,961	1,108,188	1,392,513	1,069,585
More than 5 years	949,125	865,017	1,237,805	1,104,109
Total minimum lease payments	**2,906,161**		**3,200,188**	
Future financial charges	(476,276)		(577,503)	
PV of minimum lease payments	**2,429,885**	**2,429,885**	**2,622,685**	**2,622,685**

Note 15 INTEREST BEARING LOANS AND BORROWINGS (Continued)

Movements in assets purchased under finance lease terms are as follows for the year ended August 31:

	The Group		The Parent	
	2005	2004	2005	2004
Book value at the beginning of the year	**1,678**	**1,909**	**2,628,276**	**2,815,303**
Additions	1,107	451	351,896	233,794
Depreciation for the year	(955)	(682)	(685,439)	(420,821)
Book value at the end of the year, incl.	**1,830**	**1,678**	**2,294,734**	**2,628,276**
—cost	4,078	3,024	4,406,349	4,054,452
—accumulated depreciation	(2,248)	(1,346)	(2,111,615)	(1,426,176)

Note 16 PAYABLES AND DEFERRED INCOME

as of August 31

	The Group		The Parent	
Current payables	2005	2004	2005	2004
Trade payables	229,729	280,431	115,674	163,736
Payables to subsidiaries	0	0	972,032	579,063
Payables to associates (Note 20)	0	147	0	147
Other payables	2,955	2,865	919	843
Payables to employees	54,857	53,848	8,170	7,210
Interests payable	41,542	50,228	596	726
Other accruals	2,978	7,298	16	0
Deferred income	31,817	25,585	8,013	3,080
Total current payables and deferred income	**363,878**	**420,402**	**1,105,420**	**754,805**

As of August 31, 2005 *other non-current payables* of the Parent include a loan in the amount of EEK 50,441,000 (2004: EEK 50,441,000) granted by its subsidiary—Vana Tallinn Line Ltd. The loan has an interest rate of 0% and a maturity date of 2010. In the opinion of the Parent's management there is not a material impact on the financial statements from not using the effective interest rate, as Vana Tallinn Line Ltd is a fully-owned subsidiary of the Parent. Therefore, the specified loan carrying amount has not been adjusted with the effective interest rate in both companies' financial statements.

Note 17 SHARE CAPITAL

As of August 31

	2005	2004
Ordinary shares of EEK 10 each (thousand pcs.)	110,000	27,500
The number of shares issued and fully paid (thousand pcs.)	110,000	27,500
Share capital	1,100,000	275,000
Share premium per share in EEK	0	15.09
Total share premium	0	414,870

According to the Parent's Articles of Association effective as of August 31, 2005 the maximum number of authorized common shares is 160,000,000 (2004: 89,600,000).

At AS Tallink Grupp Shareholders' Extraordinary General Meeting on September 15, 2003 AS Tallink Grupp increased the share capital from EEK 224,000,000 to EEK 275,000,000 by issuing 5,100,000 new shares with a par value of EEK 10 each. The new shares were issued at a premium of EEK 72.14 per share. The payment for the new shares was made on 18 September 2003. The share premium has been reduced by the expenses related to the issue of shares in the total amount of EEK 22,267,000.

Note 17 SHARE CAPITAL (Continued)

At AS Tallink Grupp Shareholders' General Meeting on February 5, 2005 AS Tallink Grupp increased the share capital from EEK 275,000,000 to EEK 1,100,000,000 by issuing 82,500,000 new shares with a par value of EEK 10 each. This increase was a bonus issue, i.e. new shares were issued on account of share premium in the amount of EEK 414,870,000 and retained earnings in the amount of EEK 410,130,000. Therefore, the Parent's shareholders received three new shares for each share they owned before the issue.

Note 18 NOTE TO CASH FLOW STATEMENT

for the year ended August 31

	The Group		The Parent	
	2005	2004	2005	2004
Depreciation and amortization	271,878	273,760	697,483	442,856
Net (gain) / loss on disposals of property, plant and equipment	(354)	249	0	18
Net interest expenses	159,020	131,633	151,730	130,973
Share of profit of subsidiaries and associates	(3,643)	(1,360)	(782,779)	(450,311)
Net foreign exchange (gain) / loss related to investing and financing activities	(44)	17	0	0
Income tax expense	356	305	0	0
Total adjustments of profit	**427,213**	**404,604**	**66,434**	**123,536**

Non-monetary transactions:

(1) Property, plant and equipment purchased under finance lease terms—see movements in lease assets disclosed in Note 15;

(2) Bonus issue of shares—see Note 17.

Note 19 CONTINGENCIES AND COMMITMENTS

Legal claim

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

Previously the invoices for these disputed icebreaker and lighthouse fees were recorded as expenses and accounts payable in the total amount of EEK 33,554,000. According to the submitted complaint and considering the results of similar court cases and the decision of the Ministry of Economic Affairs and Communications to expense the receivables from the Group, the management of the Group has changed its estimate on the probability of outflow of resources regarding these fees and reversed the related expense. The effect of the reversal has been recorded as a reduction of current year (in the fourth quarter, i.e. the effect of the changes in estimate has not been recorded and disclosed in the prior interim consolidated condensed financial statements of the Group) port expenses under cost of sales.

Income tax on dividends

The Group's retained earnings as of August 31, 2005 were EEK 1,528,048,000 (2004: EEK 1,465,007,000). The maximum possible income tax liability as of August 31, 2005, which would become payable if retained earnings were fully distributed is EEK 366,732,000 (2004: EEK 351,602,000). Income tax rate effective for dividends paid out before January 1, 2006 was used for the calculation of the maximum income tax liability and on the assumption of distributable dividends and related income tax together cannot exceed the amount of retained earnings as of August 31, 2005 and 2004, respectively.

Note 19 CONTINGENCIES AND COMMITMENTS (Continued)

Off-balance sheet guarantees

- Tallink Grupp AS has given a guarantee in the maximum amount of SEK 10,010,000 to SEB Eesti Ühispank related to its Swedish subsidiary with a due date of October 14, 2005.
- Tallink Grupp AS has given guarantees to HSH Nordbank AG (formerly Hamburgische Landesbank) and Skandinaviska Enskilda Banken AB for the loans granted to its ship-owning subsidiaries amounting to EEK 3,216,093,000. The primary securities for these loans are the pledge of shares of the ship-owning subsidiaries and mortgages on the ships belonging to these subsidiaries.
- Tallink Grupp AS has given guarantees in the amount of SIT 119,920 and EUR 5,000 to SEB Eesti Ühispank related to Vaba Maa AS with dates are June 30, 2006 and November 01, 2005, respectively.
- Tallink Grupp AS has given guarantees in the amount of EEK 2,200,000 to SEB Eesti Ühispank related to TDF Kommerts OÜ with a due date of September 24, 2006.
- Tallink Grupp AS has given a guarantee in the amount of EEK 260,000 to SEB Eesti Ühispank related to Tallink Travel Club OÜ with a due date of May 26, 2006.

Non-cancellable operating leases

On 01 October 2003 the Group concluded a non-cancellable lease agreement for the hotel building. The lease period of 10 years started on May 2004. The Group also has the option to renew the agreement for further five years. The annual non-cancellable lease payments will be in the range of EEK 36,000,000 to EEK 45,000,000 depending on the result of hotel’s operations.

Capital investment commitments

On October 27, 2004 Aker Finnyard and Tallink Grupp AS signed a shipbuilding contract to construct a new passenger cruise ship. The new ship will be delivered in May 2006. The construction value of the new ship is EUR 165,000,000. 20% will be paid during construction and 80% at, its delivery of the ship. By August 31, 2005 the Group has made the prepayments for the ship in the total amounts of EUR 15,000,000. On August 1, 2005 Aker Finnyard and Tallink Grupp AS signed another shipbuilding contract to construct a new fast passenger ship. The construction value of this new ship is EUR 110,000,000, of which 20% will be paid during construction and 80% at delivery. By August 31, 2005 the Group has made the prepayments for the ship in the total amounts of EUR 2,000,000.

Note 20 RELATED PARTY DISCLOSURES

The Group has entered into the following transactions with related parties and has the following balances with related parties (for the year ended August 31, and as of August 31, respectively). Prices used in sales to and purchases from related parties of the Group do not significantly differ from normal market prices.

2005	Sales to related parties	Purchase from related parties	Receivables from related parties	Payables to related parties
Infortar AS—services	99	6,430	0	0
Infortar AS—loans	0	0	0	98,530
Infortar AS—guarantee fee	0	537	0	0
Infortar AS—interests	0	6,993	0	0
Infortar AS—sale of HT Valuuta AS	5,000	0	5,000	0
HT Valuuta—services	2,247	0	3	0
HTG Vara AS—leases	0	30,000	0	0
Mersok OÜ—leases	0	144	0	14
Vaba Maa AS—services	0	2,916	0	75
2004				
Infortar AS—services	37	6,424	0	1,475
Infortar AS—loans	0	0	0	98,530
Infortar AS—guarantee fee	0	1,159	0	0
Infortar AS—interests	0	7,422	0	1,188
Vaba Maa AS—services	0	1,620	0	565
HTG Vara AS—leases	0	9,274	0	0
Mersok OÜ—leases	0	144	0	14
HT Valuuta—services	12,186	0	1,835	147
HT Valuuta—interests *	57	0	11	0

* a loan in the amount of EEK 4,000,000 was granted and received back during the financial year ended August 31, 2004.

Related parties are:

The ultimate parent

Linandell OÜ—there are no transactions between the Group and Linandell OÜ during the financial year (2004: zero).

The parent

Infotar AS has 55.53% interest in Tallink Grupp AS.

The companies controlled by the parent or ultimate parent

See above for transactions with Vaba Maa AS, HT Valuuta and HTG Vara AS. There are no transactions with other companies controlled by the parent or ultimate parent, i.e. Tailwind AS, Fastinvest OÜ, Sunbeam OÜ, Inforte OÜ, Inf Invest OÜ, Inf Maja OÜ and Infor Invest.

The management and companies controlled by them

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

Directors' remuneration and termination benefits

The executive members of the Management Board received a remuneration totalling EEK 13,017,000 (2004: EEK 16,131,000). The executive members of the Management Board do not receive pension entitlements from the Group. Some members of Management Board have a right to termination benefits. The maximum amount of such benefits as of August 31, 2005 is EEK 6,480,000 (2004: EEK 6,480,000).

Note 21 FINANCIAL RISK MANAGEMENT

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

Currency risk

Approximately 15% of the Group's total revenues are in SEK. The Group seeks to minimize its currency transactions risk through matching foreign currency inflows with outflows. The Group's other transactional currency exposure is related to the US dollar for the purchase of ship fuel and insurance. The net position in the currency exposure is not hedged by derivative financial instruments at the end of this financial year.

The following tables present the Group's net currency exposure as of 31 August.

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

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

2004	EEK, EUR	USD	SEK	Total
Cash and cash equivalents	336,713	0	29,955	366,668
Trade receivables	100,455	0	39,169	139,624
Other financial assets	29,574	0	18,231	47,805
	466,742	**0**	**87,355**	**554,097**
Current portion of borrowings	(750,337)	0	(380)	(750,717)
Trade payables	(260,090)	(2,313)	(18,028)	(280,431)
Other current payables	(171,723)	0	(13,442)	(185,165)
Non-current portion of borrowings	(3,481,978)	0	(1,397)	(3,483,375)
	(4,664,128)	**(2,313)**	**(33,247)**	**(4,699,688)**
Currency net position	**(4,197,386)**	**(2,313)**	**54,108**	**(4,145,591)**

Interest rate risk

In its operations, the Group uses a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases, bonds as well as cash. The Group borrows in desired currencies at both fixed and floating interest rates depending on its assessment of current market rates and future trends. At year-end, loans with fixed interest rate represented close to 7.7% of the Group's total interest-bearing liabilities. The Group uses an interest rate swap to modify its exposure to interest rate movements and to manage its interest expense. As of August 31, 2005 the Group has an agreement in effect, which exchanges floating interest rate for fixed interest rate and which has a notional amount of EUR 5,938,000 (2004: EUR 9,331,000) and matures in 2007. As of August 31, 2005 the fair value of this derivative amounts to EEK 913,000 (2004: EEK 793,000) which is recorded as an other payable in the balance sheet.

Note 21 FINANCIAL RISK MANAGEMENT (Continued)

The following tables present the analysis of the Group's borrowings as of August 31, 2005 and 2004 by fixed and floating interest rates. The division of interest-bearing liabilities between the groups of up to 1 year, 1-5 years and longer than five years is based on the maturity date in the case of liabilities with fixed interest rates and the repricing date in the case of floating interest rate.

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

2004	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Finance lease liability	380	1,397	0	1,777
Other loans	48,766	49,764	0	98,530
Bonds	99,310	0	0	99,310
Floating rate				
Secured bank loans	4,034,475	0	0	4,034,475

Credit risk

The maximum credit risk exposure of unsecured receivables of the Group at the balance sheet date is EEK 153,373,000 (2004: EEK 185,316,000). There is no significant concentration of credit risk within the Group.

Bunker price risk

The total bunker cost for the fleet represents approximately 12% of the total operating expenses. Changes in the bunker prices follow the changes in the oil price and the USD price. In order to fix the cost of gasoil between June 1 and August 31, 2005 the Group executed a fuel-related agreement with fuel supplier NT Marine in May 2005. There is no active hedge at the end of the financial year.

Liquidity risk

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

Fair values

In the opinion of the Group's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities of the Group as of August 31, 2005 and 2004.

Note 22 EVENTS AFTER THE BALANCE SHEET DATE

In September 2005 Tallink Grupp AS established its subsidiary Tallink Hansaway Limited in which it holds 100% of the shares. The payment into the share capital in the amount of EEK 27,000 has not been made by October 10, 2005. The new subsidiary has been registered in Cyprus and was established and its purpose is to own ships.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

MANAGEMENT BOARD'S APPROVAL OF THE FINANCIAL STATEMENTS

We hereby take responsibility for the preparation of the consolidated financial statements of Tallink Grupp AS (referred to as "the Parent") and its subsidiaries (together referred to as "the Group) and the financial statements of the Parent set out on pages F-2 to F-32 and confirm that:

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

Chairman of the Board Enn Pant	Member of the Board Kalev Järvelill
Member of the Board Andres Hunt	Member of the Board Keijo Mehtonen

Tallinn
October 10, 2005

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

AUDITORS' REPORT TO THE AS TALLINK GRUPP SHAREHOLDERS

We have audited the financial statements of AS Tallink Grupp (hereafter "the Company") and the consolidated financial statements of AS Tallink Grupp and its subsidiaries (hereafter "the Group") for the financial year ended August 31, 2005, which are set out on pages F-2 through F-32 of the Offering Memorandum. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of August 31, 2005, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

The audit of the financial statements for the financial year ended August 31, 2005 was completed on October 25, 2005, except for the minor financial statements style presentation amendments, as to which the date is November 18, 2005.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

INCOME STATEMENT
for the financial year ended August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	2004	**2003**	**2004**	**2003**	**Notes**
Net sales	3,406,255	2,995,598	2,210,754	2,200,187	3
Cost of sales	(2,478,745)	(2,132,865)	(1,971,368)	(1,863,094)	4
Gross profit	**927,510**	**862,733**	**239,386**	**337,093**	
Marketing expenses	(351,427)	(260,951)	(170,996)	(127,762)	4
Administrative and general expenses	(128,283)	(118,061)	(71,265)	(67,311)	4
Other operating income	799	2,663	242	1,862	4
Other operating expenses	(2,331)	(5,609)	(1,398)	(5,117)	4
Operating profit	**446,268**	**480,775**	**(4,031)**	**138,765**	3
Net financial (expense) income	(134,300)	(99,542)	(133,257)	(89,219)	4
Income from subsidiaries	0	0	448,951	331,494	11
Income from associates	1,360	891	1,360	891	12
Profit from normal operation before income tax	**313,328**	**382,124**	**313,023**	**381,931**	3
Income tax	(305)	(193)	0	0	5
Net profit for the financial year	**313,023**	**381,931**	**313,023**	**381,931**	3
Earnings per share (in EEK per share)					6
—basic	11.5	17.1	11.5	17.1	
—diluted	11.5	17.1	11.5	17.1	

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

BALANCE SHEET
As of August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	31.8.2004	31.8.2003	31.8.2004	31.8.2003	Notes
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	366,668	231,824	171,220	142,440	7
Trade receivables	139,624	107,649	52,556	43,554	8
Tax assets	5,512	7,405	4,099	941	5
Other receivables and prepaid expenses	79,517	44,307	260,285	195,695	9
Inventories	84,553	51,468	39,287	28,992	10
TOTAL CURRENT ASSETS	**675,874**	**442,653**	**527,447**	**411,622**	
NON-CURRENT ASSETS					
Investments in subsidiaries	0	0	2,072,910	1,574,646	11
Investments in associates	2,557	1,997	2,557	1,997	12
Other financial assets	2,113	412	619,668	594,713	13
Property, plant and equipment	6,050,938	3,902,084	2,656,290	2,847,571	14
Intangible assets	176,443	202,022	2,517	0	15
TOTAL NON-CURRENT ASSETS	**6,232,051**	**4,106,515**	**5,353,942**	**5,018,927**	
TOTAL ASSETS	**6,907,925**	**4,549,168**	**5,881,389**	**5,430,549**	
LIABILITIES AND OWNERS' EQUITY					
CURRENT LIABILITIES					
Current portion of interest-bearing liabilities	750,717	670,711	617,725	573,667	16
Trade payables	280,431	176,113	163,736	58,181	
Tax liabilities	70,779	25,846	21,048	2,326	5
Other payables and deferred income	139,971	80,294	591,069	541,163	17
TOTAL CURRENT LIABILITIES	**1,241,898**	**952,964**	**1,393,578**	**1,175,337**	
NON-CURRENT LIABILITIES					
Interest bearing loans and borrowings	3,483,375	2,123,300	2,254,993	2,727,933	16
Other noncurrent liabilities	0	0	50,441	54,572	16
Deferred income tax	275	197	0	0	5
TOTAL NON-CURRENT LIABILITIES	**3,483,650**	**2,123,497**	**2,305,434**	**2,782,505**	
TOTAL LIABILITIES	**4,725,548**	**3,076,461**	**3,699,012**	**3,957,842**	
OWNERS' EQUITY					
Issued capital	275,000	224,000	275,000	224,000	18
Share premium	414,870	69,223	414,870	69,223	18
Reserves	27,500	22,400	27,500	22,400	2
Retained earnings	1,151,984	775,153	1,151,984	775,153	
Net profit for the financial year	313,023	381,931	313,023	381,931	
TOTAL OWNERS' EQUITY	**2,182,377**	**1,472,707**	**2,182,377**	**1,472,707**	
TOTAL OWNERS' EQUITY AND LIABILITIES	**6,907,925**	**4,549,168**	**5,881,389**	**5,430,549**	

CASH FLOW STATEMENT
for the financial year ended August 31, in thousands of EEK

	Consolidated Group		Parent Company		
	2004	2003	2004	2003	Notes
Cash flows from operating activities					
Net profit	313,023	381,931	313,023	381,931	
Adjustments of profit	404,604	418,241	123,536	203,009	
Depreciation and amortisation	*273,760*	*322,116*	*442,860*	*436,014*	*14, 15*
Net (gains) / losses on disposals of tangible and intangible assets	*249*	*(54)*	*14*	*(17)*	*4*
Net interest expenses	*131,633*	*136,438*	*130,973*	*137,520*	*4*
Income from subsidiaries	*0*	*0*	*(448,951)*	*(331,494)*	*11*
Income from associates	*(1,360)*	*(891)*	*(1,360)*	*(891)*	*12*
Net foreign exchange gain related to investing and financing activities	*17*	*(39,561)*	*0*	*(38,123)*	
Income tax	*305*	*193*	*0*	*0*	*5*
Income tax paid / refunded	(338)	(19)	0	0	
Change in receivables related to operating activities	(66,848)	83,858	(89,878)	161,664	
Change in inventories	(33,085)	8,062	(10,295)	7,947	
Change in liabilities related to operating activities	187,071	(49,825)	174,992	75,029	
Net cash from operating activities	**804,427**	**842,248**	**511,378**	**829,580**	
Cash flows from investing activities					
Purchase of tangible and intangible assets	(2,396,561)	(382,844)	(20,316)	(10,549)	14, 15, 16
Proceeds from disposals of tangible and intangible assets	382	57	0	17	4, 14
Repayments of granted loans	0	5,120	395,779	54,269	
Loans granted	0	0	(457,597)	(186,828)	
Acquisition of subsidiary	(46)	(248,140)	(104)	(249,690)	11
Proceeds from disposals of shares of associates	0	1,564	0	1,564	
Dividends received	800	1,400	800	1,400	12
Interest received	9,269	3,236	30,021	45,734	
Net cash from investing activities	**(2,386,156)**	**(619,607)**	**(51,417)**	**(344,083)**	
Cash flows from financing activities					
Loans received	2,251,129	550,025	97,046	363,974	
Loans repaid	(820,022)	(515,298)	(310,411)	(162,506)	
Interest paid	(110,584)	(139,898)	(154,853)	(167,551)	
Purchases of treasury shares	0	(4,599)	0	(4,599)	18
Proceeds from disposal of treasury shares	0	4,599	0	4,599	18
Issue of shares	396,647	0	396,647	0	18
Payments of finance lease liability	(597)	(38,367)	(459,610)	(420,882)	
Net cash from financing activities	**1,716,573**	**(143,538)**	**(431,181)**	**(386,965)**	
Total net cash flow	**134,844**	**79,103**	**28,780**	**98,532**	
Cash and cash equivalents at beginning of period	**231,824**	**152,721**	**142,440**	**43,908**	
Total net cash flow	134,844	79,103	28,780	98,532	
Cash and cash equivalents at end of period	**366,668**	**231,824**	**171,220**	**142,440**	7

STATEMENT OF CHANGES IN EQUITY
for the financial year ended August 31, in thousands of EEK

	Issued capital	Share premium	Treasury shares	Reserves	Retained earnings	Total
At September 1, 2002	**224,000**	**69,223**	**0**	**22,400**	**775,153**	**1,090,776**
Purchase of treasury shares	0	0	(4,599)	0	0	(4,599)
Sale of treasury shares	0	0	4,599	0	0	4,599
Net profit	0	0	0	0	381,931	381,931
At August 31, 2003	**224,000**	**69,223**	**0**	**22,400**	**1,157,084**	**1,472,707**
Share issue	51,000	345,647	0	0	0	396,647
Transfer from retained earnings to reserves	0	0	0	5,100	(5,100)	0
Net profit	0	0	0	0	313,023	313,023
At August 31, 2004	**275,000**	**414,870**	**0**	**27,500**	**1,465,007**	**2,182,377**

For additional information about shares and movements in equity see Note 18.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2004

NOTES TO THE FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The financial statements of Tallink Grupp AS (both as a group and a parent company) for the year ended August 31, 2004 were authorised for issue in accordance with a resolution of the Management Board on December 17, 2004. Tallink Grupp AS is a limited company incorporated in Estonia that employed 2,820 people at August 31, 2004 (2,040 at August 31, 2003). The principal activities of the group are described in Note 3. Tallink Grupp AS is controlled by Infortar AS, which owned 55.53% of the shares of Tallink Grupp AS as of December 17, 2004.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of Tallink Grupp AS have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect as of August 31, 2004, except IAS 16 (revised 2004), which was adopted before its effective date, i.e., financial years beginning on or after January 1, 2005.

The financial statements have been prepared in thousand Estonian kroons (EEK) and based on historical cost, unless indicated otherwise in the accounting principles below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries drawn up to August 31 each year. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. All inter-company transactions, balances and unrealized profits and losses on transactions between group companies have been eliminated in the financial statements.

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

In the parent company's financial statements investments in its subsidiaries are accounted for under the equity method of accounting. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the parent company's share of net assets of the subsidiary, less any impairment in value.

Investment in associates

The group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence, but which is not a subsidiary of the group. The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the group's share of net assets of the associate, less any impairment in value.

Foreign exchange transactions

Transactions in foreign currencies are recorded at the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement as financial items.

The overseas subsidiaries are considered as "foreign operations that are integral to the operations of the parent company". It means that the individual items in the financial statements of the overseas subsidiaries are translated as if all its transactions had been entered into by the parent company itself. The cost and depreciation of tangible fixed assets is translated using the exchange rate at the date of purchase of the asset. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the acquiring company and are recorded at the exchange rate as of the date of the acquisition.

Property, plant and equipment

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

Buildings—	over 20 years
Plant and equipment—	over 5 years
Ships—	over 6 to 50 years
Other equipment—	over 3 to 5 years.

From September 1, 2003 according to the revised IAS 16 depreciation charge is calculated separately for each significant part of ships on a straight-line basis over estimated useful life of each part as follows:

Hull*—	over 11 to 50 years
Machinery—	over 11 to 40 years
On-board equipment (short-term)—	over 5 to 6 years
On-board equipment (long-term)—	over 10 to 21 years

* From September 1, 2003 the residual value other than zero is used for hull, i.e. depreciation is stopped when the carrying value of the hull equals with its residual value. The residual value is based on the current prices of relevant metals and the probable quantity of scrap metals realizable at the end of ships' useful life.

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

Due to changes in useful lifes and residual value of hull the depreciation charge decreased by EEK 63,480 thousands during the year 2003/2004 (compared with previous year). In the interim consolidated condensed financial statements for the 3- and 6-months periods ended respectively November 30, 2003 and February 29, 2004 the previous estimates were used in calculation of depreciation charges.

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

The costs related to the building of ships are capitalized. Capitalized costs are as follows:

- payments to the ship builder;
- payments for organising the survey related to the building of new ships;
- borrowing costs (up to the delivery date) related to loans set up for the building of new ships;
- equipment purchased for new ships;
- start-up costs for new ships.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized (e.g., replacements of part of some items) are added to the carrying amount of the assets, if the recognition criteria are met, i.e., (a) it is probable that future economic benefits associated with the item will flow to the enterprise, and (b) the cost of the item can be measured reliably. The replaced items are derecognized. All other expenditures are recognised as an expense in the period in which it is incurred.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dry-docking costs

The ships are dry-docked in intervals of two or three years. The major expenditures related to the dry-docking are capitalized and recorded in the same line of balance sheet as ships. The depreciation period applied to capitalized dry-docking costs coincides with the frequency of dry-docking (2-5 years).

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition.

Goodwill arising from business combinations for which the agreement date is before March 31, 2004

Goodwill is amortized on a straight-line basis maximum of 10 years. The amortization period is based on the best estimate of the period during which future economic benefits are expected to flow to the company. Goodwill is stated at cost less accumulated amortization and any impairment in value. Amortization of goodwill is recorded as "administrative and general expenses" in the income statement.

Goodwill arising from business combinations for which the agreement date is on or after March 31, 2004

After initial recognition, the goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses of goodwill are recorded as "administrative and general expenses" in the income statement".

Research and development costs

Research and development expenditure is expensed except that costs incurred on development projects are recognized as development assets to the extent that such expenditure is reasonably expected to have future economic benefits. However, development costs initially recognized as an expense are not recognized as an asset in a subsequent period if an economic benefit becomes probable.

Other intangible assets

Intangible assets acquired separately from a business are initially recognized at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are amortized on a straight-line basis maximum of 5 years. Amortization of intangible assets is recorded as "administrative and general expenses" in the income statement.

Financial instruments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading (including derivatives) and available-for-sale, are measured at fair value. Other long-term receivables are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account a discount or a premium on acquisition, over the period to maturity. Increases/decreases in the carrying amount of investments and any gains and losses on the disposal of investments are charged or credited to the income statement within "Net financial expense / income".

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Both raw materials and merchandise purchased for resale are written off using the weighted average cost method.

Trade and other receivables

Trade receivables, which generally have 7-30 day payment terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off from the balance sheet when identified.

Cash and cash equivalents

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

Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Borrowing costs related to the building of new ships are capitalised as a part of the acquisition cost of an asset (incurred up to the delivery date).

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to the ownership of the leased items, are capitalised at the present value of the minimum lease payments. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases, where the lesser retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and lease payments are recognised as operating expenses.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the group’s management the probability of an outflow to settle these liabilities is lower than 50%, are disclosed in the Notes to the financial statements as contingent liabilities.

Contingent assets are never recognised. They are disclosed in the Note if their realisability is probable.

Reserves in owners’ equity

Reserves in owners’ equity include a mandatory legal reserve formed according to the Commercial Code amounting to 10% of the share capital. This is transferred from the net profit upon a resolution of the general meeting of shareholders. The mandatory legal reserve cannot be distributed to shareholders as dividends, but it can be used to cover losses.

Segment reporting

All assets directly related to the segments are recorded as the assets of the segment and all liabilities directly related to the segments are recorded as the liabilities of the segments. Unallocated assets and liabilities are

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recorded as the assets and liabilities of the group. The primary segments of the group are geographical segments (by the routes and mainland) and the secondary segments are operational segments (tickets sales, sales of cargo transport, restaurant and shops sales onboard and on mainland, hotel (accommodation) sales and others). Expenses not related to a specific segment are recorded as unallocated expenses of the group.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Ticket sale and sale of cargo transport

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

Sales of hotel rooms

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

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset).

Income tax

Income tax contains current income tax and deferred income tax.

The parent company and its Estonian subsidiaries:

According to the Estonian Income Tax Law, the company's net profit is not subject to income tax but all dividends paid by the company are subject to income tax (26/74 of net dividend paid out before December 31, 2004 and 24/76 of net dividend paid out after December 31, 2004). Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax.

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

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

Swedish, Finnish and Russian subsidiaries:

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in Finland, Sweden and Russia (the tax rate is 29% in Finland, 28% in Sweden and 22% in Russia).

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised only when it is probable that profit will be available against which the deferred tax assets can be utilised.

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

Other subsidiaries:

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

Note 3 SEGMENT INFORMATION

(in thousand EEK)

The Group

The group's operating businesses are organised and managed separately according to the nature of the different markets. The group operates six ships between Estonia-Finland, four ships between Estonia-Sweden, one ship between Estonia-Russia and one hotel in Estonia, which represent different business segments. The group's market share on Estonia-Finland route is about 41% passenger transportation and about 45 cargo transportation, Estonia-Sweden route is about 100% passenger transportation and about 100% cargo transportation and Estonia-Russia route is about 60% passenger transportation and about 80% cargo transportation (according to the Port of Tallinn).

The following tables present revenue and profit as well as certain asset and liability information regarding business segments for the years ended August 31, 2004 and 2003.

Geographical segments—assets' location

2003/2004	Estonia-Finland routes	Estonia-Sweden routes	Estonia-Russia routes	Estonia mainland business	Elimination of inter-segment sales	Total
Revenue						
Ticket sales	*533,600*	*349,080*	*26,877*	*171*		*909,728*
Accomodation sales	*0*	*0*	*0*	*31,486*		*31,486*
Sales of cargo transport	*227,433*	*378,893*	*3,057*	*0*		*609,383*
Restaurant and shops sales onboard and on mainland	*1,173,249*	*463,516*	*20,175*	*8,620*		*1,665,560*
Other	*149,064*	*40,201*	*833*	*0*		*190,098*
Total external sales	2,083,346	1,231,690	50,942	40,277	0	3,406,255
Inter-segment sales	285,100	6,999	106	60	(292,265)	0
Total revenue	**2,368,446**	**1,238,689**	**51,048**	**40,337**	**(292,265)**	**3,406,255**
Result						
Segment result	414,783	203,895	(52,083)	9,488		576,083
Unallocated expenses						(129,815)
Operating profit						**446,268**
Net financial expenses*						(134,300)
Income from associate						1,360
Profit before income tax						**313,328**
Income tax						(305)
Net profit						**313,023**

Note 3 SEGMENT INFORMATION (Continued)

31.08.2004	Estonia-Finland routes	Estonia-Sweden routes	Estonia-Russia routes	Estonia mainland business	Elimination of inter-segment sales	Total
Assets and liabilities						
Segment assets	3,225,470	3,243,915	328,280	10,961	(106,957)	6,701,669
Unallocated assets						206,256
Total assets						**6,907,925**
Segment liabilities	233,209	143,032	66,931	11,089	(106,957)	347,304
Unallocated liabilities*						4,378,244
Total liabilities						**4,725,548**
Other segment information						
Tangible assets capital expenditure	218,490	2,146,280	9,306	4,141		2,378,217
Unallocated tangible assets capital expenditure						16,247
Intangible assets capital expenditure	620	437	109	0		1,166
Unallocated intangible assets capital expenditure						2,036
Depreciation	131,102	90,198	13,565	433		235,298
Unallocated depreciation						9,681
Amortisation	20,622	7,929	3	0		28,554
Unallocated amortisation						226

* Unallocated liabilities include the loans received to finance the ships operating between Estonia and Finland in the amount of EEK 2,002,310 thousands and to finance the ships operating between Estonia and Sweden in the amount of EEK 1,979,972 thousands. Corresponding interest expenses amounted to EEK 67,987 thousands and EEK 49,073 thousands.

2002/2003	Estonia Finland	Estonia Sweden	Elimination of inter-segment sales	Total
Revenue				
Ticket sales	566,773	260,318		827,091
Sales of cargo transport	226,683	352,331		579,014
On-board sales	1,192,438	301,884		1,494,322
Other	66,961	28,210		95,171
Total external sales	2,052,855	942,743	0	2,995,598
Inter-segment sales	280,639	715	(281,354)	0
Total revenue	**2,333,494**	**943,458**	**(281,354)**	**2,995,598**
Result				
Segment result	524,002	77,780		601,782
Unallocated expenses				(121,007)
Operating profit				**480,775**
Net financial expenses*				(99,542)
Income from associate				891
Profit before income tax				**382,124**
Income tax				(193)
Net profit				**381,931**

Note 3 SEGMENT INFORMATION (Continued)

31.08.2003	Estonia Finland	Estonia Sweden	Inter-segment	Total
Assets and liabilities				
Segment assets	3,135,695	1,411,920	(144,091)	4,403,524
Unallocated assets				145,644
Total assets				**4,549,168**
Segment liabilities	292,794	82,128	(144,091)	230,831
Unallocated liabilities*				2,845,630
Total liabilities				**3,076,461**
Other segment information				
Tangible assets capital expenditure	15,705	368,210		383,915
Unallocated tangible assets capital expenditure				3,993
Intangible assets capital expenditure	203,987	0		203,987
Depreciation	191,168	103,200		294,368
Unallocated depreciation				3,134
Amortisation	10,413	12,787		23,200
Unallocated amortisation				1,414

* Unallocated liabilities include the loans received to finance the ships operating between Estonia and Finland in the amount of EEK 1,955,673 thousands and to finance the ships operating between Estonia and Sweden in the amount of EKK 539,780 thousands. Corresponding interest expenses amounted to EEK 92,340 thousands and EEK 24,024 thousands.

Net sales by geographical segments—customers' location

As it is not possible to record revenue by customer group (especially onboard sales), this information has not been disclosed in the notes to the financial statements.

Information by operational segments

As most of the group's and company's assets (incl. tangible fixed assets) are related to sea transportation, then the information about assets and purchases of tangible non-current assets by operational segments has not been additionally disclosed.

Note 4 INCOME AND EXPENSES

(in thousand EEK)

Cost of sales

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Cost of inventories	746,858	616,718	526,086	483,456
Port charges	494,274	409,605	303,996	278,836
Bunker cost	274,429	240,210	145,649	111,325
Charter hire	0	3,095	100,150	134,481
Staff costs	368,293	286,548	277,085	252,118
Depreciation	236,540	293,176	441,425	434,987
Other costs	358,351	283,513	176,977	167,891
TOTAL	**2,478,745**	**2,132,865**	**1,971,368**	**1,863,094**

Note 4 INCOME AND EXPENSES (Continued)

Marketing expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Advertising expenses	122,121	82,887	20,394	10,847
Agency fees paid to subsidiaries	0	0	118,257	93,880
Depreciation	4,622	5,078	226	0
Staff costs	131,135	109,686	19,225	12,345
Other costs	93,549	63,300	12,894	10,690
TOTAL	**351,427**	**260,951**	**170,996**	**127,762**

Administrative and general expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Depreciation	32,598	23,862	1,205	1,027
Staff costs	44,594	42,288	34,236	34,186
Other costs	51,091	51,911	35,824	32,098
TOTAL	**128,283**	**118,061**	**71,265**	**67,311**

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

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Wages and salaries	399,015	323,405	46,013	42,242
Social security costs	128,648	106,533	16,279	13,384
Cost of training of staff	4,042	2,802	692	506
Other staff costs	12,322	5,782	267,562	242,517
TOTAL	**544,027**	**438,522**	**330,546**	**298,649**

Other operating income

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Gain on disposal of property, plant and equipment	116	57	0	17
Insurance benefits	117	317	4	199
Other	566	2,289	238	1,646
TOTAL	**799**	**2,663**	**242**	**1,862**

Other operating expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Loss on disposal of property, plant and equipment	365	3	14	0
Other	1,966	5,606	1,384	5,117
TOTAL	**2,331**	**5,609**	**1,398**	**5,117**

Note 4 INCOME AND EXPENSES (Continued)

Finance income and finance expenses

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Net foreign exchange gains	0	37,054	0	48,306
Other interest and financial income	9,475	3,047	29,239	38,816
Total financial income	**9,475**	**40,101**	**29,239**	**87,122**
Net foreign exchange losses	(2,528)	0	(2,283)	0
Interest expenses	(141,108)	(139,485)	(160,212)	(176,336)
Other financial expenses	(139)	(158)	(1)	(5)
Total financial expenses	**(143,775)**	**(139,643)**	**(162,496)**	**(176,341)**
Net financial (expenses) income	**(134,300)**	**(99,542)**	**(133,257)**	**(89,219)**

Note 5 TAXES

(in thousand EEK)

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

	The Group	
	2003/2004	2002/2003
Income tax from profit of Swedish subsidiary	296	193
Income tax from profit of Russian subsidiary	9	0
Total	**305**	**193**

According to Russian, Finnish and Swedish legislation it is permissible for accounting and taxation purposes to charge the profit and loss account with depreciation in excess of plan and thereby accomplish a postponement of tax payments. These postponements are shown as deferred tax liability. The Finnish subsidiary has also carry-forwards of tax losses, which are considered in calculation of the deferred tax asset.

As of August 31, 2004 and 2003 the Swedish subsidiary—Tallink Sverige AB—has a deferred tax liability, the Finnish subsidiary—Tallink Finland OY—has an unrecorded deferred tax asset (it is not probable that future taxable profit will be available against which the unused tax losses can be utilized) and the Russian subsidiary—Tallink-Ru OOO—has no significant deferred tax liability or asset:

	31.08.04	31.08.03
Deferred tax liability (non-current liability)	275	197
Unrecorded deferred tax asset	2,313	3,699

Refundable taxes and tax liabilities recorded as current assets and liabilities are divided as follows:

	The Group		Parent Company	
Tax assets	31.08.2004	31.08.2003	31.08.2004	31.08.2003
VAT	5,179	7,017	4,099	941
Income tax	319	381	0	0
Other taxes	14	7	0	0
Total	**5,512**	**7,405**	**4,099**	**941**

	The Group		Parent Company	
Tax liabilities	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Salary related taxes	39,038	25,734	3,401	2,300
Excise duties	2,496	0	0	0
VAT	29,203	0	17,626	0
Income tax	9	86	0	0
Other taxes	33	26	21	26
Total	**70,779**	**25,846**	**21,048**	**2,326**

Note 6 EARNINGS PER SHARE

(in thousand EEK)

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

	The Group		Parent Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Weighted average number of ordinary shares (pcs)[1]	27,262,466	22,400,000	27,262,466	22,400,000
Net profit attributable to ordinary shareholders	313,023	381,931	313,023	381,931
Earnings per share (in EEK per share)	11.5	17.1	11.5	17.1

AS Tallink Grupp issued 5,100,000 new shares for cash on September 18, 2003. The total number of ordinary shares after the share issue is 27,500,000. See also Note 18.

[1] As a result of the new share issue, the share capital increased from 22,400,000 shares to 27,500,000 shares on September 18, 2003 (see also Note 18). The calculation of weighted average number of ordinary shares is as follows:

—period from September 1 to September 17 (17 days) —22,400,000 shares;
—period from September 18 to August 31 (348 days) —27,500,000 shares.

Note 7 CASH AND CASH EQUIVALENTS

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Cash at bank and in hand	226,135	73,076	162,616	47,751
Short-term deposits	140,533	158,748	8,604	94,689
TOTAL	**366,668**	**231,824**	**171,220**	**142,440**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates (rates in 2003/2004 were in the range of 0.25-2.95% and in 2002/2003 in the range of 0.25-4.10%). Short-term deposits are made for varying periods of between one month and six months depending on bank loan repayments.

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

Note 8 TRADE RECEIVABLES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Trade receivable	141,535	108,356	52,896	44,119
Allowance for uncollectible receivables	(1,911)	(707)	(340)	(565)
TOTAL	**139,624**	**107,649**	**52,556**	**43,554**

Note 9 OTHER RECEIVABLES AND PREPAID EXPENSES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Amount owed by subsidiaries	0	0	212,019	161,996
Amount owed by associate	1,846	112	1,538	95
Other receivables	37,921	18,078	28,053	12,479
Accrued interest income	413	218	0	0
Prepaid expenses	39,337	25,899	18,675	21,125
TOTAL	**79,517**	**44,307**	**260,285**	**195,695**

See information about the amounts owed by subsidiaries and associates in Note 20.

As of August 31, 2004 and 2003 the balance of other receivables consists mostly of sold goods' commission receivable for last 5 months and the balance of prepaid expenses mostly includes prepayments for insurance and port fees.

As of August 31, 2004 the balance of other receivables includes also a receivable from the Port of Tallinn for a landing-stage organised by the Group in the amount of EEK 15,636 thousands.

As of August 31, 2003 the balance of prepaid expenses includes also expenses related to issuing new shares in the amount of EEK 7,184 thousands, which were recorded as a reduction of share premium in September 2003. See more information about issuing new shares in Note 18.

Note 10 INVENTORIES

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Raw materials (at cost)	13,118	4,653	6,191	2,293
Goods for sale (at cost)	70,996	45,845	32,689	25,994
Prepayments to suppliers	439	970	407	705
TOTAL	**84,553**	**51,468**	**39,287**	**28,992**

Note 11 INVESTMENTS IN SUBSIDIARIES

(in thousand EEK)

Name of subsidiary	Country of incorporation	% equity interest		Equity in thousands EEK	
		Aug 31, 2004	Aug 31, 2003	Aug 31, 2004	Aug 31, 2003
Hansaliin OÜ	Estonia	100	100	88	42
HT Kinnisvara OÜ	Estonia	100	100	2,270	1,237
Tallink Duty Free AS	Estonia	100	100	3,155	2,830
HT Hulgi Tolliladu AS<1>	Estonia	100	100	317	322
HT Laevateenindus OÜ	Estonia	100	100	2,545	1,563
HT Meelelahutus OÜ	Estonia	100	100	4,585	1,586
Tallink AS	Estonia	100	100	(50,728)	410
Hansatee Cargo AS	Estonia	100	100	1,637	49,997
TLG Hotell OÜ	Estonia	100	100	9,147	40
Tallink Sverige AB<2>	Sweden	100	100	2,542	1,763
Tallink Finland OY	Finland	100	100	9,270	8,439
Kapella Shipping Ltd.	Bahama	100	100	40,979	35,593
Tallink Line Ltd.	Cyprus	100	100	316,915	250,270
Tallinn—Helsinki Line Ltd.	Cyprus	100	100	45,850	34,579
Vana Tallinn Line Ltd.	Cyprus	100	100	345,866	288,378
Tallink Fast Ltd.	Cyprus	100	100	297,005	242,975
Tallink Ltd.	Cyprus	100	100	280,929	154,946
Tallinn Swedish Line Ltd.	Cyprus	100	100	120,929	69,525
Tallinn Stockholm Line Ltd.	Cyprus	100	100	111,006	58,113
Tallink Victory Line Ltd.	Cyprus	100	100	81,445	(28)
Hansalink Ltd	Cyprus	100	100	144,087	111,482
Tallink-Ru OOO<3>	Russia	100	0	37	0
Tallink Autoexpress Ltd.<4>	Cyprus	100	0	22,384	0
Tallink High Speed Ltd<5>	Cyprus	100	0	(731)	0
Tallink Travel Club OÜ<6>	Estonia	100	0	766	0

<1> HT Hulgi Tolliladu AS is a subsidiary of Tallink Duty Free AS
<2> Tallink Sverige AB is a subsidiary of Hansatee Cargo AS

Acquisitions of subsidiaries

<3> In April 2004 Tallink Grupp AS established a new subsidiary OOO Tallink-Ru with 100% of the ownership. The payment into the share capital in the amount of EEK 5 thousand was made in May 2004. The new subsidiary has been registered in Russia and was established as a ticket sales agent.

<4> In January 2004 Tallink Grupp AS established a new subsidiary Tallink Autoexpress Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made in August 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

<5> In February 2004 Tallink Grupp AS established a new subsidiary Tallink High Speed Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made in August 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

<6> In December 2003 Tallink Grupp AS purchased 100% of shares of Downtown Travel Club OÜ (renamed to Tallink Travel Club OÜ on March 1, 2004) from Infortar AS (the parent company of the group). The purchase price was EEK 800 thousand . EEK 754 thousand of the purchase price was offset between Tallink Grupp, Infortar and Downtown Travel Club OÜ and the remaining part (EEK 46 thousand) was paid in cash. The new subsidiary operates as a travel agent company.

The fair values of the identifiable assets and liabilities of Tallink Travel Club OÜ at the date of acquisition are as follows:

Short-term receivables	754	Payables to Tallink Grupp	(14)
Equipment	13	Short-term payables	(2)
	767		(16)
Fair value of net assets	**751**		
Goodwill[1]	49		
Consideration	**800**		

1 Goodwill arising from the purchase of the new subsidiary was expensed immediately as an immaterial item.

Assets and liabilities of Tallink Travel Club OÜ as of August 31, 2004 and its income and expenses for the period of January 2004 to August 2004 do not influence the financial position of the group at the reporting date and results of the group for the reporting period significantly.

Note 11 INVESTMENTS IN SUBSIDIARIES (Continued)

Subsidiary	Number of shares 31.08.2003	Additions during 2003/2004	Number of shares 31.08.2004	Acquisition cost 31.08.2003	Book value 31.08.2003	Additions during 2003/2004	Gain/loss under equity method	Book value 31.08.2004
Hansaliin OÜ	1	0	1	40	42	0	46	88
HT Kinnisvara OÜ	1	0	1	400	1,237	0	1,033	2,270
Tallink Duty Free AS*	400	0	400	400	2,830	0	(1,016)	1,814
HT Laevateenindus OÜ	1	0	1	400	1,563	0	982	2,545
HT Meelelahutus OÜ	1	0	1	400	1,586	0	2,999	4,585
Tallink AS*	400	0	400	400	410	0	(48,160)	0
Hansatee Cargo AS*	400	0	400	400	49,997	0	(49,997)	0
Tallink Finland OY	1,500	0	1,500	24,010	8,439	0	831	9,270
Kapella Shipping Ltd	5,000	0	5,000	66	35,593	0	5,386	40,979
Tallink Line Ltd	1,000	0	1,000	48,014	250,270	0	66,645	316,915
Tallinn Helsinki Line Ltd	1,000	0	1,000	12,000	34,579	0	11,271	45,850
Vana Tallinn Line Ltd	1,000	0	1,000	46,014	288,378	0	57,488	345,866
Tallink Fast Ltd	1,000	0	1,000	26	242,975	0	54,030	297,005
Tallink Ltd	1,000	0	1,000	28	154,946	0	125,983	280,929
Tallinn Swedish Line Ltd	1,000	0	1,000	27	69,525	0	51,404	120,929
Tallinn Stockholm Line Ltd	1,000	0	1,000	27	58,113	0	52,893	111,006
TLG Hotell OÜ	1	0	1	40	40	0	9,107	9,147
Tallink Victory Line Ltd. **	1,000	0	1,000	27	0	0	81,473	81,445
Hansalink Ltd	1,000	0	1,000	367,636	374,123	0	4,957	379,080
Tallink-Ru OOO	0	1	1	0	0	5	32	37
Tallink Autoexpress Ltd	0	1,000	1,000	0	0	27	22,357	22,384
Tallink High Speed Ltd ***	0	1,000	1,000	0	0	27	(759)	0
Tallink Travel Club OÜ	0	1	1	0	0	800	(34)	766
Total				**500,355**	**1,574,646**	**859**	**448,951**	**2,072,910**

* In the parent company's financial statements receivables from Tallink AS in the amount of EEK 47,750 thousands, investment to Tallink Duty Free AS (owns a receivable from Tallink AS) in the amount of EEK 1,341 thousands and investment to Hansatee Cargo AS (owns receivables from Tallink AS) in the amount of EEK 1,637 thousands have been reduced by the negative equity of Tallink AS (totalling EEK 50,728 thousands).

** Gain under equity method includes also the reversal of allowance for receivables from Tallink Victory Line Ltd in the amount of EEK 28 thousands (negative equity of Tallink Victory Line Ltd as of August 31, 2003).

*** The receivable from Tallink High Speed Ltd has been reduced by the negative equity of the subsidiary in the amount of EEK 731 thousands.

Note 12 INVESTMENT IN ASSOCIATE

(in thousand EEK)

	HT Valuuta AS
% equity interest at the beginning of the financial year	25
% equity interest at the end of the financial year	25
Acquisition cost—Aug 31, 2003	100
Book value—Aug 31, 2003	**1,997**
Dividends received	(800)
Income under the equity method	1,360
Acquisition value—Aug 31, 2004	100
Book value—Aug 31, 2004	**2,557**

HT Valuuta AS has been registered in Estonia and its shares are not listed.

Note 13 OTHER LONG TERM FINANCIAL ASSETS

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Amounts owed by subsidiaries	0	0	617,627	428,181
Other receivables and prepaid expenses	2,113	412	2,041	166,532
TOTAL	**2,113**	**412**	**619,668**	**594,713**

As of August 31, 2004 and 2003 other receivables and prepaid expenses of the group included long-term prepayment (term-less).

For additional information regarding the amounts owed by subsidiaries see Note 20.

As of August 31, 2003 the balance of other receivables and prepaid expenses of the parent company consists of prepayment made for a new vessel of Tallink Victory Line Ltd (subsidiary). In the balance sheet of the group the specified prepayment has been recorded as a prepayment for tangible fixed assets—see also Note 14.

Note 14 PROPERTY, PLANT AND EQUIPMENT

(in thousand EEK)

The Group

	Land and building	Ships	Plant and equipment	Construction in progress	Pre-payments	Total
Book value at Aug 31, 2003	**8,291**	**3,523,802**	**24,246**	**0**	**345,745**	**3,902,084**
Additions	4,333	2,626,260	27,268	82,128	(345,525)	2,394,464
Disposals	0	0	(631)	0	0	(631)
Depreciation for the year	(1,246)	(230,040)	(13,693)	0	0	(244,979)
Book value at Aug 31, 2004	**11,378**	**5,920,022**	**37,190**	**82,128**	**220**	**6,050,938**
At August 31, 2003						
—Cost	13,453	4,195,115	73,143	0	345,745	4,627,456
—Accumulated depreciation	(5,162)	(671,313)	(48,897)	0	0	(725,372)
At August 31, 2004						
—Cost	17,516	6,801,988	91,558	82,128	220	6,993,410
—Accumulated depreciation	(6,138)	(881,966)	(54,368)	0	0	(942,472)

Note 14 PROPERTY, PLANT AND EQUIPMENT—(Continued)

For more information about the leased assets see also Note 16.

During the financial year the company has capitalised borrowing costs as a part of the cost of ships in the amount of EEK 672 thousands (2002/2003: EEK 12,194 thousands)—100% of interest related to the loans received to finance the building of vessels (up to the delivery date).

From September 1, 2003 Tallink Grupp AS changed the accounting estimates related to the depreciation calculation for each significant part of ships in terms of the estimated useful lives as well as the residual values of ships' hulls (Note 2).

Due to changes in useful life and residual value of hull the depreciation charge decreased by EEK 63,480 thousands during the year 2003/2004 (compared with previous year). In the interim consolidated condensed financial statements for the 3- and 6-months periods ended respectively November 30, 2003 and February 29, 2004 the previous estimates were used in calculation of depreciation charges.

Pledged property, plant and equipment

Most of group's ships are subject to a first or second mortgage to secure group's bank loans.

As of August 31, 2004	Loan balance	Book value of collateral**	Market value* of collateral
Ships	4,034,475	5,991,839	6,626,352

* Average of 2 shipbrokers quotes as of August 31, 2004

Parent Company

	Land and building	Plant and equipment	Other equipment	Ships	Total
Book value at Aug 31, 2003	**2,883**	**10,073**	**2,405**	**2,832,210**	**2,847,571**
Additions	4,234	1,108	9,991	235,995	251,328
Depreciation for the year	(284)	(4,074)	(1,966)	(436,285)	(442,609)
Book value at Aug 31, 2004	**6,833**	**7,107**	**10,430**	**2,631,920**	**2,656,290**
At August 31, 2003					
—Cost	3,634	28,108	7,802	3,850,629	3,890,173
—Accumulated depreciation	(751)	(18,035)	(5,397)	(1,018,419)	(1,042,602)
At August 31, 2004					
—Cost	7,868	29,048	16,443	4,067,236	4,120,595
—Accumulated depreciation	(1,035)	(21,941)	(6,013)	(1,435,316)	(1,464,305)

The parent company has only leased ships (from its subsidiaries). For more information about the leased assets see also Note 16.

Note 15 INTANGIBLE ASSETS

(in thousand EEK)

The Group

	Goodwill	Patents and licences	Development costs	Total
Book value at Aug 31, 2003	**194,056**	**587**	**7,379**	**202,022**
Additions	0	3,202	0	3,202
Amortization for the year	(20,908)	(811)	(7,062)	(28,781)
Book value at Aug 31, 2004	**173,148**	**2,978**	**317**	**176,443**
At August 31, 2003				
Cost	208,821	2,112	33,206	244,139
Accumulated amortization	(14,765)	(1,525)	(25,827)	(42,117)
At August 31, 2004				
Cost	203,706	5,314	7,379	216,399
Accumulated amortization	(30,558)	(2,336)	(7,062)	(39,956)

Note 15 INTANGIBLE ASSETS (Continued)

Parent Company

	Patents and licences	Total
Book value at Aug 31, 2003	**0**	**0**
Additions	2,768	2,768
Amortization for the year	(251)	(251)
Book value at Aug 31, 2004	**2,517**	**2,517**
At August 31, 2004		
Cost	2,768	2,768
Accumulated amortization	(251)	(251)

Note 16 INTEREST BEARING LOANS AND BORROWINGS

(in thousand EEK)

The Group

At August 31, 2004	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2008	380	1,397	1,777
Long-term secured bank loans**	2004-2014	602,261	3,432,214	4,034,475
Other long-term secured loans	2007	48,766	49,764	98,530
Bonds	2004	99,310	0	99,310
Total		**750,717**	**3,483,375**	**4,234,092**

At August 31, 2003	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2008	253	1,671	1,924
Long-term secured bank loans**	2003-2014	396,621	2,046,983	2,443,604
Other long-term secured loans	2007-2011	197,350	74,646	271,996
Bonds	2004	76,487	0	76,487
Total		**670,711**	**2,123,300**	**2,794,011**

Parent Company

At August 31, 2004	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2005-2014	448,991	2,173,694	2,622,685
Long-term secured bank loans	2006-2008	69,424	81,299	150,723
Bonds	2004	99,310	0	99,310
Long-term loan Vana Tallinn Ltd	2005	0	50,441	50,441
Total		**617,725**	**2,305,434**	**2,923,159**

At August 31, 2003	Maturity	Short-term portion	Long-term portion	Total borrowings
Obligation under finance lease	2005-2014	427,756	2,420,744	2,848,500
Long-term secured bank loans	2003-2006	69,424	307,189	376,613
Bonds	2004	76,487	0	76,487
Long-term loan from Vana Tallinn Line Ltd.	2005	0	54,572	54,572
Total		**573,667**	**2,782,505**	**3,356,172**

Note 16 INTEREST BEARING LOANS AND BORROWINGS (Continued)

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* The group is allowed to use *bank overdraft* with limitation of EEK 200,000 thousand (including EEK 150,000 thousand granted to the parent company) and EUR 1,009 thousand . Bank overdrafts are secured with commercial pledge (in the total amount of EEK 151,250 thousand) and ship mortgages. In 2003/2004 the average effective interest rate of bank overdrafts is EURIBOR+2.17% for overdrafts from Estonian commercial banks and EURIBOR+1.25% from Finnish commercial bank. As of August 31, 2004 and 2003 there were no outstanding overdraft balances.

* In 2003/2004 the weighted average interest rate of *secured bank loan* was EURIBOR +1.44% (EURIBOR + 1.34% for the parent company).

* Interest rates of *other secured loans,* which is a loan from the parent company of the group—Infortar—in the amount of EEK 98,530 thousands at August 31, 2004, has a fixed interest rate 7%.

* As of August 31, 2004 *bonds* with the book value of EEK 99,310 thousands (as at Aug 31, 2003: EEK 76,487 thousands) have the fixed interest rate of 0%. The total nominal value of these bonds is EEK 100,000 thousands (2003: EEK 80,390 thousands). The difference between the nominal value and the received amount is expensed during the loan period—it means that average effective interest rate is approx. 3.0% (2003: 6.6%).

* Interest rate of *long-term loan from Vana Tallinn Line Ltd* is 0%. In the opinion of the management of Tallink Grupp there is not a material impact on the financial statements from not using the effective interest rate, as Vana Tallinn Line Ltd is a subsidiary of Tallink Grupp AS. Therefore, the specified loan carrying amount has not been corrected based on the effective interest rate in the both companies' financial statements.

* *Lease liability* of the group as of August 31, 2004 is related to office equipment in Sweden. Lease liability of the parent company is related to the charters of ships from its subsidiaries. The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments are as follows:

The Group

	2003/2004		2002/2003	
	minimum payments	PV of payments	minimum payments	PV of payments
Within one year	406	380	270	253
After 1 year, but not more than 5 years	1,492	1,397	1,785	1,671
Total minimum lease payments	1,898		2,055	
Future financial charges	(121)		(131)	
PV of minimum lease payments	1,777	1,777	1,924	1,924

Book value of leased assets as at August 31, 2003	**1,909**
Additions, incl. exchange rate difference	451
Depreciation for the financial year	(682)
Book value of leased assets as at August 31, 2004	**1,678**
—at costs	3,024
—accumulated depreciation	(1,346)

Parent Company

	2003/2004		2002/2003	
	minimum payments	PV of payments	minimum payments	PV of payments
Within one year	569,870	448,991	597,812	427,756
After 1 year, but not more than 5 years	1,392,513	1,069,585	1,443,419	1,078,529
More than 5 years	1,237,805	1,104,109	1,537,635	1,342,216
Total minimum lease payments	3,200,188		3,578,866	
Future financial charges	(577,503)		(730,365)	
PV of minimum lease payments	2,622,685	2,622,685	2,848,501	2,848,501

Book value of leased assets as at August 31, 2003	**2,815,303**
Additions	233,794
Depreciation for the financial year	(420,821)
Book value of leased assets as at August 31, 2004	**2,628,276**
—at costs	4,054,452
—accumulated depreciation	(1,426,176)

For additional information about currency structure of borrowings see Note 21.

Note 17 OTHER PAYABLES AND DEFERRED INCOME

(in thousand EEK)

	The Group		Parent Company	
	31.08.2004	31.08.2003	31.08.2004	31.08.2003
Customers' prepayments	25,585	14,229	3,080	1,533
Payables to subsidiaries	0	0	579,063	531,852
Payables to associates	147	0	147	0
Other payables	2,865	386	843	94
Payables to employees	53,848	36,162	7,210	6,087
Interests payable	50,228	28,153	726	1,535
Other accruals	7,298	1,364	0	62
TOTAL	**139,971**	**80,294**	**591,069**	**541,163**

* See Note 20 for more information about payables to subsidiaries.

Note 18 SHARE CAPITAL

(in thousand EEK)

	31.08.2004	31.08.2003
Ordinary shares of EEK 10 each (thousands pcs)	27,500	22,400
The number of shares issued and fully paid (thousands pcs)	27,500	22,400
Share capital	275,500	224,000
Share premium per share in EEK	15.09	3.09
Total share premium	414,870	69,223

According to the Articles of Association the maximum number of authorized common shares is 89,600,000.

According to AS Tallink Grupp Shareholders' Extraordinary General Meeting on September 15, 2003 AS Tallink Grupp increased the share capital from EEK 224,000 th to EEK 275,000 th by issuing 5,100,000 new shares with the par value of 10 kroons each. The new shares were issued at a premium of EEK 72.14 per share. The payment for new shares was made on September 18, 2003. The share premium has been reduced by the expenses related to the issuing of shares in the total amount of EEK 22,267 thousands.

During the financial year 2002/2003 AS Tallink Group repurchased its shares for EEK 4,599 thousand and sold these with the same price.

Note 19 COMMITMENTS AND CONTINGENCIES

(in thousand EEK)

Legal claim

Tallinna Sadam AS has filed a claim to Tallinn City Court against Hansatee Cargo AS to claim cargo fees payable in the port of Paldiski in the amount of EEK 4,943 thousands. In the opinion of the management of Hansatee Cargo AS the claim was unfounded. The parties settled the dispute at court and it was accepted by Tallinn City Court with the ruling issued on February 13, 2004. According to the settlement AS Hansatee Cargo paid a one-time compensation to AS Tallinna Sadam in the amount of EEK 3,900 thousands, which was already expensed in 2002/2003.

Income tax on dividends

The group's retained earnings as at August 31, 2004 were 1,465,007 (as at August 31, 2003— EEK 1,157,084 thousand). The maximum possible income tax liability as at August 31, 2004, which would become payable if retained earnings were fully distributed and all shareholders belonged to the taxable category, is 351,062 (as at August 31, 2003 — EEK 300,842) thousand . Accordingly, it would be possible to pay out to the shareholders 1,113,945 (2003: EEK 856,242 thousand), net of tax.

Note 19 COMMITMENTS AND CONTINGENCIES (Continued)

Off-balance sheet guarantees

- Tallink Grupp AS has given a guarantee in the maximum amount of 10,010,000 SEK to Eesti Ühispank related to Swedish subsidiary. Due date is October 14, 2005.
- Tallink Grupp AS has given guarantees to HSH Nordbank AG (ex Hamburgische Landesbank) and Nordea Bank Plc for the loans granted to its overseas subsidiaries amounting to EEK 3,883,752 thousands. The primary securities for these loans are the pledge of shares of the overseas subsidiaries and mortgages on the ships belonging to the above-mentioned subsidiaries.
- Tallink Grupp AS has given a guarantee to Nordea Bank for the overdraft granted to its Finnish subsidiary. At August 31, 2004 the overdraft amounted to zero.
- Tallink Grupp AS has given a guarantee in the amount of EEK 1,000 thousands and EUR 5 thousands to Eesti Ühispank related to Vaba Maa AS. Due date is July 1, 2005.
- Tallink Grupp AS has given a guarantee in the amount of EUR 145 thousands to Eesti Ühispank related to Hakan Wilhelm Nordström. Due date is December 12, 2005.

Non-cancellable operating leases

On October 1, 2003 the group concluded a non-cancellable lease agreement for the hotel building. The lease period of 10 years started on May 2004. The group also has the option to renew the agreement for a further 5 years. The annual non-cancellable lease payments will be in the range of EEK 36,000 thousands to EEK 45,000 thousands (depends on the result of the hotel’s operations).

Note 20 RELATED PARTY DISCLOSURES

(in thousand EEK)

The following transactions have been entered into with related parties.

The Group

2003/2004 or 31.08.2004	Sales to related party	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AS Infortar	37	6,424	0	100,005
AS Infortar, guarantee payments	0	1,159	0	0
AS Infortar, interest expense	0	7,422	0	1,188
AS Vaba Maa	0	1,620	0	565
AS HT Valuuta	12,186	0	1,835	147
AS HT Valuuta, interest revenue	0	57	11	0
2002/2003 or 31.08.2003				
AS Infortar	0	6,489	0	118,520
AS Infortar, purchase of shares*	0	298,000	0	0
AS Infortar, interest expense	0	8,559	0	3,212
AS HT Valuuta	281	0	112	0
AS HT Valuuta, interest revenue	57	0	12	0
Compo Investeeringud OÜ**	1,564	0	0	0
Hansalink Ltd, payments of lease***	0	37,895	0	0

* the shares of HTG Partner AS (associated company) were sold in February 2003 to Compo Investeeringud OÜ.
** before the acquisition of the shares of Hansalink Ltd.

AS Infortar

AS Infortar owns 55.53% of the shares of AS Tallink Grupp

Note 20 RELATED PARTY DISCLOSURES (Continued)

AS HT Valuuta

AS Tallink Group owns 25% of the shares of AS HT Valuuta

AS Vaba Maa

AS Vaba Maa is a subsidiary of Infortar AS

Hansalink Ltd.

AS Infortar owned 100% of the shares in Hansalink Ltd. In February 2003 Tallink Grupp AS purchased 100% of the voting shares of Hansalink Ltd from Infortar AS.

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

Parent Company

Sales	2003/04.a.	2002/03.a.
AS Infortar (parent)	0	298,000
AS Hansatee Cargo (subsidiary)	224,633	280,639
AS Tallink (subsidiary)	52,667	0
AS Hansaliin (subsidiary)	5,583	5,441
AS HT Laevateenindus (subsidiary)	2,175	1,884
AS HT Meelelahutus (subsidiary)	0	5
AS Tallink Duty Free (subsidiary)	8	1,375
Tallink Finland OY (subsidiary)	189	251
AS HT Valuuta (associate)	1,035	55
Compo Investeeringud OÜ (see Note 20/group)	0	1,564

Purchases	2003/04.a.	2002/03.a.
AS Infortar (parent)	720	720
AS Vaba Maa (subsidiary of AS Infortar)	1,335	0
AS Hansatee Cargo (subsidiary)	330	715
AS Hansaliin (subsidiary)	126,013	118,427
AS HT Laevateenindus (subsidiary)	143,196	126,340
AS HT Meelelahutus (subsidiary)	30,917	32,030
AS HT Kinnisvara (subsidiary)	4,172	2,903
AS Tallink Duty Free (subsidiary)	348,685	516,180
OÜ Tallink Travel Club (subsidiary)	1,377	0
OÜ TLG Hotell (subsidiary)	60	0
Tallink Finland OY (subsidiary)	118,132	93,880
Tallink-Ru OOO (subsidiary)	125	0
Tallink Ltd (subsidiary)	257,700	256,996
Tallinn Swedish Line Ltd (subsidiary)	101,007	100,731
Vana Tallinn Line Ltd (subsidiary)	79,115	79,037
Tallink Line Ltd (subsidiary)	94,424	94,200
Tallink Autoexpress Ltd (subsidiary)	38,303	0
Tallink Fast Ltd (subsidiary)	80,039	80,039
Kapella Shipping Ltd (subsidiary)	5,727	17,331
Hansalink Ltd (subsidiary)*	42,950	84,454

* including lease payments and interest expenses until 28.02.2003 and charter hire from 01.03.2003-31.08.2003

Note 20 RELATED PARTY DISCLOSURES (Continued)

Balances between subsidiaries and associates

	31.08.2004	31.08.2003
Short-term receivables from subsidiaries		
Tallinn Stockholm Line Ltd (subsidiary)—prepayment	*12,936*	*23,233*
Tallinn Swedish Line Ltd (subsidiary)—prepayment	*0*	*8,504*
Tallink Finland OY (subsidiary)—for services	*15,978*	*14,866*
AS HT Kinnisvara (subsidiary)—for services	*3,808*	*3,548*
OÜ TLG Hotell (subsidiary)—for services	*300*	*0*
Tallink Ltd (subsidiary)—loan (6%, maturity—2014)	*501*	*20,000*
Tallink Ltd (subsidiary)—interest	*2,200*	*2,284*
Tallink Line Ltd (subsidiary)—loan (12%, maturity—2005)	*0*	*68,595*
Tallink Line Ltd (subsidiary)—interest	*0*	*699*
*Tallink Victory line Ltd (subsidiary)**	*147,320*	*20,268*
Tallink High Speed Line Ltd (subsidiary)—prepayment	*3,787*	*0*
Tallink Autoexpress Line Ltd (subsidiary)—prepayment	*5,056*	*0*
Tallinn—Helsinki Line Ltd (subsidiary)—prepayment	*19,633*	*0*
Tallink-Ru OOO (subsidiary)—for services	*500*	*0*
Total subsidiaries	212,019	161,996
Short-term receivables from associates		
AS HT Valuuta—for services	*1,527*	*85*
AS HT Valuuta—interest	*11*	*10*
Total associates	1,538	95
Long-term receivables from subsidiaries		
*Victory Line Ltd (subsidiary)**	*496,630*	*0*
Tallink Ltd (subsidiary)—loan (6%, maturity—2014)	*120,997*	*428,181*
Total subsidiaries	617,627	428,181
Short-term liabilities to subsidiaries		
AS Infortar (parent)—for services	*71*	*71*
AS Vaba Maa (subsidiary of AS Infortar)—for services	*565*	*0*
Total parent	636	71
OÜ Tallink Travel Club (subsidiary)—for services	*544*	*0*
AS Hansatee Cargo (subsidiary)—for services	*50,035*	*118,339*
Tallink Fast Ltd (subsidiary)—for services	*152,605*	*112,801*
Kapella Shipping Ltd (subsidiary)—for services	*31,588*	*26,021*
Vana Tallinn Line Ltd (subsidiary)—for services	*205,035*	*159,346*
Tallinn Helsinki Line Ltd (subsidiary)—for services	*0*	*34,579*
Hansalink Ltd (subsidiary)—for services	*90,491*	*80,766*
Tallink Line Ltd (subsidiary)—for services	*16,334*	*0*
Tallinn Swedish Line Ltd (subsidiary)—for services	*32,431*	*0*
Total subsidiaries	579,063	531,852
Long-term liabilities to subsidiaries		
Vana Tallinn Line Ltd (subsidiary)—loan (see Note 16)	*50,441*	*54,572*
Total subsidiaries	50,441	54,572

* Receivable from Tallink Victory Line Ltd arose due to payments regarding a new vessel made by the parent company. Interest rate of this *receivable* is 0%. In the opinion of the management of Tallink Grupp there is not a material impact on the financial statements from not using the effective interest rate, as Tallink Victory Line Ltd is a subsidiary of Tallink Grupp AS. Therefore, the specified loan carrying amount has not been corrected based on the effective interest rate in either company's financial statements. The payment schedule for this receivable is not agreed. The split between current and non-current assets has been made based on the estimation of the group's management on the actual payments in 2004/2005.

Note 20 RELATED PARTY DISCLOSURES (Continued)

Directors' remuneration

The executive members of the Management Board received a remuneration totalling EEK 10,147 thousand (2003—EEK 10,551 thousand). The executive members of the Management Board do not receive pension entitlements from the group.

Termination benefits

Some members of Management Board have right to termination benefits. The maximum amount is EEK 6,480 thousands.

Note 21 FINANCIAL INSTRUMENTS

(in thousand EEK)

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

Currency risk

About 18% of the group's total revenues are in SEK. The group seeks to minimise currency transactions risk through matching foreign currency inflows with outflows. The group's other transactional currency exposure is to the US dollar for the purchase of ship fuel and insurance. The net open position in the currency exposure is not hedged by derivative financial instruments at the end of financial year.

August 31, 2004	EEK, EUR*	USD	SEK	Total
Cash and cash equivalents	336,713	0	29,955	366,668
Trade receivables	100,455	0	39,169	139,624
Other financial assets	29,574	0	18,231	47,805
Total financial assets	466,742	0	87,355	554,097
Current portion of borrowings	750,337	0	380	750,717
Trade payables	260,090	2,313	18,028	280,431
Other current financial liabilities	171,723	0	13,442	185,165
Non-current borrowings	3,481,978	0	1,397	3,483,375
Total financial liabilities	4,664,128	2,313	33,247	4,699,688
Currency net position	(4,197,386)	(2,313)	54,108	(4,145,591)

August 31, 2003	EEK, EUR*	USD	SEK	Total
Cash and cash equivalents	221,147	0	10,677	231,824
Trade receivables	79,830	0	27,819	107,649
Other financial assets	10,224	0	16,001	26,225
Total financial assets	311,201	0	54,497	365,698
Current portion of borrowings	670,458	0	253	670,711
Trade payables	148,887	1,465	25,761	176,113
Other current financial liabilities	85,103	0	6,808	91,911
Non-current borrowings	2,121,629	0	1,671	2,123,300
Total financial liabilities	3,026,077	1,465	34,493	3,062,035
Currency net position	(2,714,876)	(1,465)	20,004	(2,696,337)

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

Note 21 FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

In its operations, the group uses a mixture of financial instruments such as shareholders' funds, bank borrowings, finance leases as well as cash. The group borrows in desired currencies at both fixed and floating rates of interest having regarding to current market rates and future trends. At year-end loans with fixed interest rate represented close to 4.7% of the group's total interest-bearing liabilities. The company uses interest rate swaps to modify its exposure to interest rate movements and to manage its interest expense. As of August 31, 2004, the company had an agreement in effect which exchanged floating interest rate for fixed interest rate in a notional amount of EUR 9,33 million maturing in 2007. As of August 31, 2004 the fair value of this derivative amounted to EEK 793 th (recorded as an interest expense in the income statement and as an other payable in the balance sheet).

Analysis of borrowings by fixed and floating interest rates

August 31 , 2004

Fixed rate	<1 year	1-5 year	>5 years	Total
Obligation under finance lease	380	1,397	0	1,777
Other loans	48,766	49,764	0	98,530
Bonds	99,310	0	0	99,310

Floating rate	<1 year	1-5 year	>5 years	Total
Secured bank loans	602,261	1,695,077	1,737,137	4,034,475

August 31, 2003

Fixed rate	<1 year	1-5 year	>5 years	Total
Obligation under finance lease	253	1,671	0	1,924
Other loans	40,884	74,646	0	115,530
Bonds	76,487	0	0	76,487

Floating rate	<1 year	1-5 year	>5 years	Total
Secured bank loans	396,621	1,232,419	814,564	2,443,604
Other loans	156,466	0	0	156,466

Credit risk

The maximum credit risk exposure of unsecured receivables of the group at the balance sheet date is EEK 185,316 thousands (2003: EEK 133,462 thousands). There is no significant concentration of credit risk within the group.

Bunker price risk

The total bunker cost for the fleet represents about 9% of the total operating expenses. Changes in bunker prices follow the changes in the oil price and the USD price. The group's policy for the financial year ended was not to hedge the risk related to the bunker cost although the group is considering possibilities to start hedging bunker price risk along with the relating US dollar risk.

Fair values

In the opinion of the company's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities of the group.

Note 22 EVENTS AFTER THE BALANCE SHEET DATE

(in thousand EEK)

In September 2004 the group established a new subsidiary TDF Kommerts OÜ with 100% of the ownership. The payment into the share capital in the amount of EEK 40 thousand was made in cash. The new subsidiary has been registered in Estonia and was established for later retail business on mainland purpose.

On October 27, 2004 Aker Finnyard and Tallink Grupp AS signed a shipbuilding contract to construct a new passenger cruise ship. The new ship should be delivered in May 2006. The shipbuilding contract price of new ship is EUR 165,000,000 of which 20% will be paid during construction and 80% will be paid at delivery of the ship. On November 18, 2004 Tallink Grupp AS made the first prepayment of EUR 2,000,000 to Aker Finnyard.

In November 2004 Tallink Grupp AS established a new subsidiary Tallink Sea Line Limited with 100% of the ownership. The payment into the share capital in the amount of EEK 27 thousand was made also in November 2004. The new subsidiary has been registered in Cyprus and was established for future ship owning purpose.

In November 2004 bank loans of three subsidiaries were refinanced with a bank loan granted to the parent company. The refinanced loans' amount was EEK 262,073 thousands and the amount of the new loan is EEK 269,122 thousands.

MANAGEMENT BOARD'S APPROVAL OF THE FINANCIAL STATEMENTS

We hereby declare our responsibility for the Financial Statements and confirm that Tallink Group AS's Financial Statements for the year ended August 31, 2004 are prepared in accordance with International Financial Reporting Standards and the Financial Statements set out on pages F-34 to F-63 give a true and fair view of the financial position of the group and the parent company and of the result of their operations and cash flows:

Chairman of the Board
Enn Pant

Member of the Board
Kalev Järvelill

Member of the Board
Keijo Mehtonen

Member of the Board
Andres Hunt

Tallinn
December 17, 2004

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2005

AUDITORS' REPORT TO THE AS TALLINK GRUPP SHAREHOLDERS

We have audited the financial statements of AS Tallink Grupp (hereafter "the Company") and the consolidated financial statements of AS Tallink Grupp and its subsidiaries (hereafter "the Group") for the financial year ended August 31, 2004 (that also include the corresponding figures for the financial year ended August 31, 2003), which are set out on pages F-34 through F-63 of the Offering Memorandum. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements for the financial year ended August 31, 2004 (including the corresponding figures for the financial year ended August 31, 2003) present fairly, in all material respects, the financial position of the Company and the Group as of August 31, 2004, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

The audit of the financial statements for the financial year ended August 31, 2004 was completed on December 21, 2004, except for the minor financial statements style presentation amendments done in 2005, as to which the date is November 18, 2005.

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REGAL STAR


ROMANTIKA


KAPELLA


FANTAASIA


AUTOEXPRESS


MELOODIA


AUTOEXPRESS 2


VANA TALLINN


AUTOEXPRESS 3


REGINA BALTICA


AUTOEXPRESS 4

TALLINK