TALLINK GRUPP AS
GROUP ANNUAL REPORT 2016

Beginning of the financial year	1 January 2016
End of the financial year	31 December 2016
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COMPANY OVERVIEW

Tallink Grupp AS with its subsidiaries (hereinafter also referred to as “the Group”) is the leading European ferry operator in offering high quality mini-cruise and passenger transport services in the Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. The Group provides its services on various routes between Finland and Sweden, Estonia and Finland, Estonia and Sweden, and Latvia and Sweden under the brand names of “Tallink” and “Silja Line”. The Group has a total fleet of 16 vessels that include cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates four hotels in Tallinn and one in Riga.

STRATEGY

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

The Group’s strategy is to
- Strive for the highest level of customer satisfaction
- To increase the volumes and strengthen the market position in the region
- To develop a wide range of quality services for different customers and to pursue new growth opportunities
- Ensure cost efficient operations
- To maintain an optimal debt level that allows sustainable dividends

A modern fleet, a wide route network, a strong market share and brand awareness together with high safety, security and environmental standards are the main competitive advantages for the Group. They are the cornerstones for successful and profitable operations.

MANAGEMENT REPORT

In the 2016 financial year the Group carried an all-time high number, a total of 9.5 million passengers which is 5.4% more than the year before (2015: 9.0 million). The number of cargo units transported increased by 6.5% and the number of passenger vehicles transported increased by 4.2% compared to the previous financial year. The Group’s consolidated revenue amounted to EUR 937.8 million (2015: EUR 945.2 million) and EBITDA to EUR 149.5 million (2015: EUR 181.4 million). Net profit amounted to EUR 44.1 million or EUR 0.066 per share (2015: EUR 59.1 million or EUR 0.088 per share).

The Group increased the number of passengers on all operated routes and the majority of the routes had strong growth in passenger volumes throughout the year. The Group deployed previously chartered out ship Silja Europa to the Tallinn - Helsinki route and on top of that, three ships were rerouted in December 2016. Through these actions optimal carriage capacity was achieved on all operated routes.

On the Estonia-Finland route the annual passenger number increased in 2016 by 7.0% to a record level of 5.1 million (2015: 4.7 million). Thanks to the higher capacity and passenger number, the Group increased its market share on the route by 2 percentage points to 58%. On the Finland-Sweden routes the passenger number increased by 2.1% to 2.9 million passengers, the Group increased its market share on the route by 1 percentage point to 54%. The Group’s total passenger market share on the North Baltic Sea increased to 48%.

The positive development of the Estonia-Sweden and Latvia-Sweden routes throughout the 2016 financial year resulted in a higher passenger number, revenue and segment result. The Estonia-Sweden route passenger number increased by 3.8% to 1.0 million passengers. The Latvia-Sweden route passenger number increased by 11.1% to 0.5 million passengers.

In the 2016 financial year the Group increased revenue on all operated routes. The revenue growth in core operations from onboard and ticket sale was supported by the larger number of passengers travelling with ships operated by the Group.

The revenue from chartering activities decreased throughout the 2016 financial year as fewer ships were chartered out compared to the previous financial year. Two of the chartered out ships Silja Festival and Regina Baltica were sold in the first half of the 2015 financial year and cruise ferry Silja Europa returned from charter to the Tallinn – Helsinki route on March 2016. Three Superfast ferries remain chartered out.

Due to the changes in chartering and the routes' operating capacity the Group´s profits declined as chartering activity where profitability is higher was replaced by route operations that involve higher ship operating costs. In addition the Group incurred the charter costs of fast ferry Superstar, which was sold at the end of 2015 and chartered back until the delivery of a new fast ferry, Megastar, in January 2017.

In the 2016 financial year the Group's investments amounted to EUR 68.9 million. The majority of investments were made in the renewal and upgrade of the fleet: down payment for the new LNG fast ferry Megastar, large scale renovation of cruise ferry Silja Europa, upgrade of a number of restaurants, shops and cabins in older vessels of the Group's fleet. Investments were also made in the ships' technical maintenance, energy efficient technical solutions for ships, and development of online booking and sales systems.

In February 2015 Tallink Grupp AS and Meyer Turku Oy signed a contract for the construction of the new LNG powered fast ferry Megastar for the Tallinn-Helsinki route shuttle service. The production of the Megastar continued throughout 2016 and the vessel was delivered to the Group in January 2017. The cost of the ship is over EUR 230 million and EUR 23 million of it was paid to the shipyard during 2016. Total prepayment for the ship as at 31 December 2016 was EUR 46 million.

The key highlights of the 2016 financial year were the following:

- Higher passenger number and revenue
- Lower chartering revenues compared to last year
- Market share growth on routes
- Cruise ferry Silja Europa's return from charter to the Tallinn-Helsinki route
- A new logistics centre launched in Maardu, Harjumaa
- New passenger terminals opened in Stockholm and Helsinki
- Ships re-rerouted in December 2016
- Group-wide ship renovation programme continued
- Construction of the new LNG fast ferry Megastar finalised

KEY FIGURES OF THE FINANCIAL YEAR 2016

For the year ended 31 December	2016	2015	Change %
Revenue (million euros)	937.8	945.2	-0.8%
Gross profit (million euros)	192.6	223.4	-13.8%
Net profit for the period (million euros)	44.1	59.1	-25.4%
EBITDA (million euros)	149.5	181.4	-17.6%
Depreciation and amortisation (million euros)	77.9	78.1	-0.3%
Investments (million euros)	68.9	43.6	58.0%
Weighted average number of ordinary shares outstanding[1]	669 882 040	669 882 040	0.0%
Earnings per share	0.066	0.088	-25.0%
Number of passengers	9 457 522	8 976 226	5.4%
Number of cargo units	328 190	308 029	6.5%
Average number of employees	7 163	6 835	4.8%

As at 31 December	2016	2015	Change %
Total assets (million euros)	1 539.0	1 538.8	0.0%
Total liabilities (million euros)	725.5	714.3	1.6%
Interest-bearing liabilities (million euros)	558.9	549.3	1.7%
Net debt (million euros)	480.1	467.3	2.7%
Total equity (million euros)	813.6	824.4	-1.3%
Equity ratio (%)	52.9%	53.6%	
Number of ordinary shares outstanding[1]	669 882 040	669 882 040	0.0%
Shareholders' equity per share	1.21	1.23	-1.6%

Ratios	2016	2015	Change %
Gross margin (%)	20.5%	23.6%	
EBITDA margin (%)	15.9%	19.2%	
Net profit margin (%)	4.7%	6.3%	
Return on assets (ROA)	4.7%	6.3%	
Return on equity (ROE)	5.4%	7.4%	
Return on capital employed (ROCE)	5.4%	7.7%	
Net debt to EBITDA	3.2	2.6	23.1%

EBITDA: Earnings before net financial items, share of profit of equity accounted investees, taxes, depreciation and amortisation
Earnings per share: net profit / weighted average number of shares outstanding
Equity ratio: total equity / total assets
Shareholder's equity per share: shareholder's equity / number of shares outstanding
Gross margin: gross profit / net sales
EBITDA margin: EBITDA / net sales
Net profit margin: net profit / net sales
ROA: Earnings before net financial items, taxes /Average total assets
ROE: Net profit/Average shareholders' equity
ROCE: Earnings before net financial items, taxes / (Total assets – Current liabilities (average for the period))
Net debt: Interest-bearing liabilities less cash and cash equivalents
Net debt to EBITDA: Net debt / 12-months trailing EBITDA
[1] Share numbers exclude own shares.

SALES

The Group's consolidated revenue amounted to EUR 937.8 million in 2016 (945.2 million in 2015). Restaurant and shop sales on-board and on mainland of EUR 521.5 million (500.6 million in 2015) contributed more than half of total revenue. Ticket sales amounted to EUR 236.0 million (228.0 million in 2015) and sales of cargo transport to EUR 103.9 million (104.4 million in 2015).

In the 2016 financial year the revenue structure of the Group changed compared to the previous financial year. After the expiry of the cruise ferry Silja Europa charter contract in February 2016 the Group increased the capacity of its route operations by deploying the ship on Tallinn-Helsinki route. Therefore, in 2016 a decrease in chartering revenue was expected and by increasing the capacity of its core route operations the Group increased the passenger number to an all-time high level and earned total annual revenue comparable to the year before.

Geographically, 37.7% or EUR 353.3 million of revenue came from the Estonia-Finland route and 36.0% or EUR 337.4 million from the Finland-Sweden route. Revenue from the Estonia-Sweden route was EUR 110.1 million or 11.7% and from the Latvia-Sweden route EUR 44.6 million or 4.8%. The share of revenue generated by other geographical segments decreased to 9.9% or EUR 92.5 million.

The following tables provide an overview of the distribution of revenue from operations between the Group's geographical and operating segments:

Geographical segments	**2016**	**2015**
Finland - Sweden	36.0%	35.3%
Estonia - Finland	37.7%	35.8%
Estonia - Sweden	11.7%	11.0%
Latvia - Sweden	4.8%	4.4%
Other	9.9%	13.5%

Operating segments	**2016**	**2015**
Restaurant and shop sales on-board and on mainland	55.6%	53.0%
Ticket sales	25.2%	24.1%
Sales of cargo transportation	11.1%	11.0%
Sales of accommodation	2.1%	2.0%
Income from charter of vessels	2.7%	5.7%
Other	3.3%	4.2%

EARNINGS

Gross profit was EUR 192.6 million (EUR 223.4 million in 2015), EBITDA EUR 149.5 million (EUR 181.4 million in 2015). Net profit for 2016 was EUR 44.1 million (EUR 59.1 million in 2015). Basic and diluted earnings per share were EUR 0.066 (EUR 0.088 in 2015).

The cost of goods related to sales at shops and restaurants, which is the largest operating cost item, amounted to EUR 225.0 million (EUR 215.4 million in 2015).

Fuel cost for 2016 was EUR 74.2 million (EUR 94.2 million in 2015). Fuel cost was impacted by lower fuel price level throughout the year and efficiencies from continuous efforts to optimize the fleet's fuel cost, the total annual fuel cost decreased by 21.2%.

The Group's personnel expenses amounted to EUR 210.0 million (EUR 193.8 million in 2015). The average number of employees in the 2016 financial year was 7 163 (6 835 in 2015).

Administrative expenses for 2016 amounted to EUR 51.0 million, and sales and marketing expenses to EUR 72.3 million (EUR 47.3 million and 63.6 million respectively in 2015).

Depreciation and amortisation of the Group's assets was EUR 77.9 million (EUR 78.1 million in 2015). There were no impairment losses related to the Group's property, plant, equipment and intangible assets.

The Group's net finance costs for 2016 amounted to EUR 26.8 million (EUR 34.2 million in 2015).

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

LIQUIDITY AND CASH FLOW

The Group's net operating cash flow for 2016 was EUR 147.4 million (EUR 191.9 million in 2015).

The Group's cash used in investing activities was EUR 68.6 million (EUR 43.6 million in 2015). The expenditures were: down payment for new LNG vessel (EUR 23.0 million), large scale renovation of cruise ferry Silja Europa, investments in improvements to the public areas of the ships, scheduled maintenance expenses resulting from dockings and investments in various IT systems. The Group's proceeds from the sale of assets were EUR 0.2 million (EUR 115.6 million in 2015).

In the 2016 financial year, the Group's net repayments of existing loans totalled EUR 313.5 million (EUR 192.3 million in 2015), including early repayment of a syndicated loan related to loan refinancing. The total proceeds from loan contracts amounted to EUR 316.7 million, including a new syndicated loan in the amount of EUR 280.0 million and a change in overdraft.

Interest payments were EUR 24.1 million (EUR 33.2 million in 2015).

As at 31 December 2016, the Group's cash and cash equivalents totalled EUR 78.8 million (EUR 82.0 million as at 31 December 2015). In addition, available unused overdraft credit lines amounted to EUR 35.0 million (EUR 71.6 million in 2015).

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

FINANCING SOURCES

The Group finances its operations and investments with operating cash flows, debt and equity financing and potential proceeds from disposals of assets. At 31 December 2016, the Group's interest-bearing liabilities as a percentage of capitalization (interest-bearing liabilities and shareholders' equity) was 40.7% compared to 40.0% at 31 December 2015. The increase results from a EUR 9.6 million increase in interest-bearing liabilities and a EUR 10.9 million decrease in equity.

LOANS AND BORROWINGS

At the end of the 2016 financial year, interest-bearing liabilities totalled EUR 558.9 million, 1.7% higher compared to the previous financial year.

On 20 December 2016 Tallink Grupp AS signed a loan agreement in the amount of EUR 280 million with the group of banks: Nordea Bank Finland Plc, Norddeutsche Landesbank Girozentrale, Danske Bank A/S, KfW IPEX Bank GmbH, AS

Swedbank, Skandinaviska Enskilda Banken AB and HSH Nordbank AG. The final maturity of the EURIBOR based floating interest rate loan is six years. The loan is guaranteed by the subsidiaries of Tallink Grupp AS and mortgages on ships.

The new loan was used to repay the outstanding balance of a syndicated loan taken in December 2012 and to strengthen the working capital position of the company. As a result of the transaction Group's refinancing risk decreases, repayment profile lengthens and yearly loan service burden declines.

All interest-bearing liabilities have been incurred in euros or in Norwegian krone.

SHAREHOLDERS' EQUITY

The Group's consolidated equity decreased by 1.3%, from EUR 824.4 million to EUR 813.6 million, the change in equity is attributed mainly to the net profit of EUR 44.1 million for the financial year and dividend and share capital payments to shareholders in the total amount of EUR 53.6 million. Shareholders' equity per share, excluding own shares, was EUR 1.21. At the end of the 2016 financial year, the Group's share capital amounted to EUR 361 736 302. For further information about shares, please see the "Shares and Shareholders" section of this report.

VESSELS AND OTHER INVESTMENTS

The Group's main revenue-generating assets are vessels, which account for approximately 80% of total assets. During the financial year the Group owned 15 vessels. Fast ferry Superstar was operated under a charter agreement until the delivery of the new LNG fast ferry Megastar in January 2017. The vessel types and operations at the end of the financial year are described in the table below:

Vessel name	Vessel Type	Built/renovated	Route	Other information
Silja Europa	Cruise ferry	1993/2016	Finland-Estonia	overnight cruise
Superstar	High-speed ro-pax	2008	Finland-Estonia	shuttle service
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Estonia	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Baltic Princess	Cruise ferry	2008	Finland-Sweden	overnight cruise
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Isabelle	Cruise ferry	1989	Sweden-Latvia	overnight cruise
Superfast VII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VII"
Superfast VIII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VIII"
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed "Atlantic Vision"

As at 31 December 2016 the book value of the ships amounted to EUR 1 230 million (EUR 1 270 million at the end of 2015). The Group's vessels are regularly valued by 2 to 3 independent international shipbrokers who are also approved by mortgagees.

On 24 January 2017 Tallink Grupp AS's subsidiary Tallink Line Ltd. took delivery of the new LNG fast passenger ferry Megastar from Meyer Turku Oy shipyard in Turku, Finland. The 212-metre long Megastar has capacity for 2 800 passengers and a car deck for 800 passenger vehicles. The ship has modern dual-fuel engines capable of running on LNG (liquefied natural gas) and marine diesel oil. Using LNG as a main fuel enables to lower emissions and reduce energy consumption. Megastar will comply with the current and known future emission regulations for the ECAs (Emission Control Area), including the Baltic Sea.

All of the Group's vessels have protection and indemnity insurance (P&I), hull and machinery insurance (H&M) and they meet all applicable safety regulations.

The Group does not have any substantial on-going research and development projects.

MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2016 financial year was 9.5 million. The total number of cargo units carried by the Group's vessels was over 328 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2016 and 2015 financial years.

Passengers	**2016**	**2015**
Finland-Sweden	2 886 383	2 825 699
Estonia-Finland	5 077 985	4 744 708
Estonia-Sweden	983 196	946 832
Latvia-Sweden	509 958	458 987
Total	**9 457 522**	**8 976 226**

Cargo units	**2016**	**2015**
Finland-Sweden	69 167	64 309
Estonia-Finland	209 062	197 324
Estonia-Sweden	42 402	39 155
Latvia-Sweden	7 559	7 241
Total	**328 190**	**308 029**

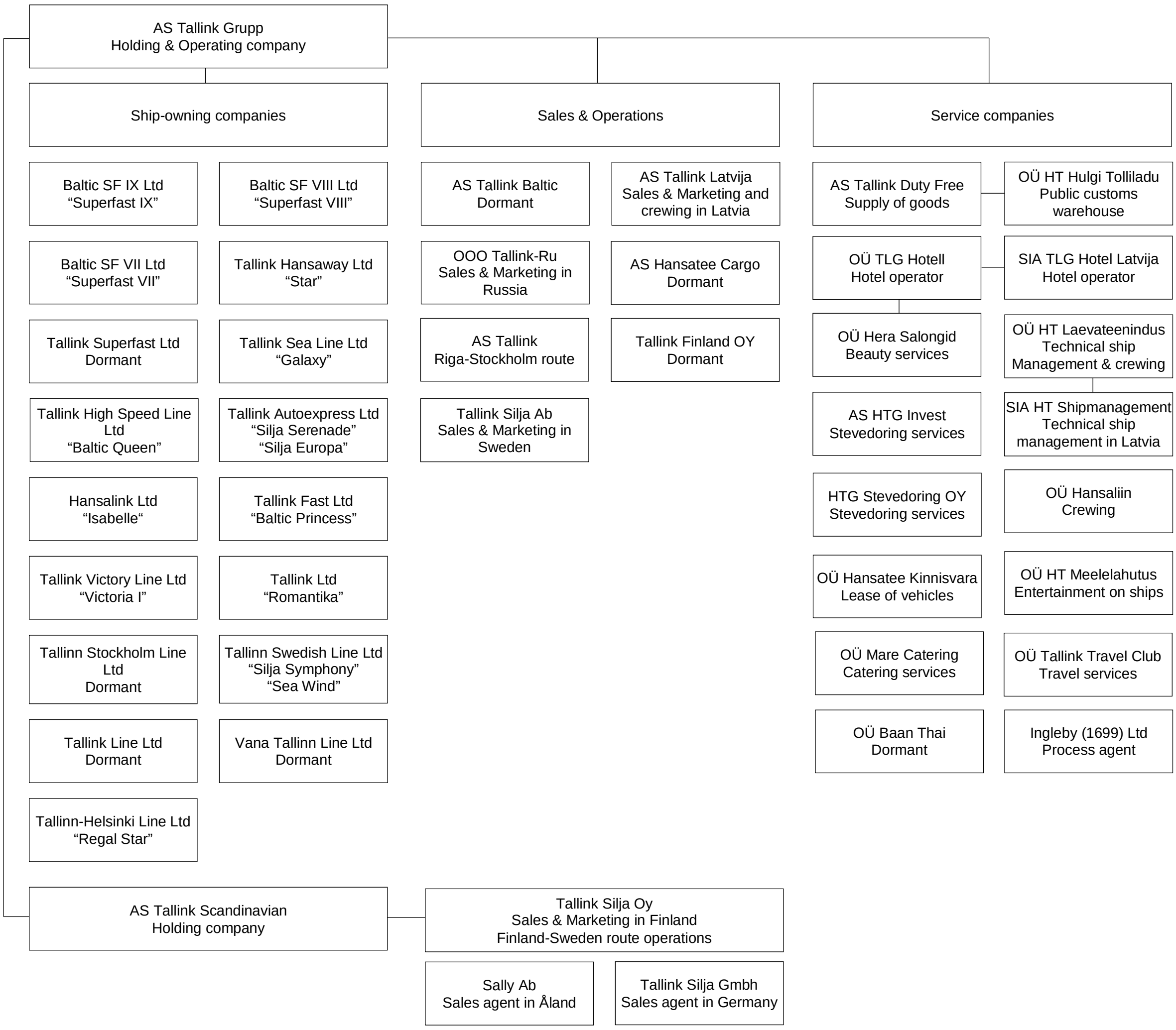
Passenger vehicles	**2016**	**2015**
Finland-Sweden	164 184	161 772
Estonia-Finland	873 132	830 044
Estonia-Sweden	72 893	71 793
Latvia-Sweden	57 286	56 308
Total	**1 167 495**	**1 119 917**

The Group's market shares on routes operated during the 2016 financial year were as follows:

- The Group carried approximately 58% of passengers and 64% of ro-ro cargo on the route between Tallinn and Helsinki.
- The Group carried approximately 53% of passengers and 27% of ro-ro cargo on the routes between Finland and Sweden.
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.
- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm.

GROUP STRUCTURE

At the reporting date, the Group consisted of 45 companies. All of the subsidiaries are wholly-owned companies of Tallink Grupp AS. The following diagram represents the Group's structure at the reporting date:



The Group also owns 34% of AS Tallink Takso.

PERSONNEL

On 31 December 2016, the Group employed 7 234 employees (6 966 on 31 December 2015).

As at 31 December	2016	2015	Change
Onshore total	**1 642**	**1 565**	**4.9%**
Estonia	884	835	5.9%
Finland	489	471	3.8%
Sweden	181	177	2.3%
Latvia	72	66	9.1%
Russia	11	10	10.0%
Germany	5	6	-16.7%
At sea	**5 030**	**4 788**	**5.1%**
Hotel*	**562**	**613**	**-8.3%**
Total	**7 234**	**6 966**	**3.8%**

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

In the 2016 financial year, staff costs in the cost of sales were EUR 152.4 million (EUR 142.4 million in 2015). Staff costs related to administrative staff and sales & marketing staff were EUR 24.5 million and EUR 33.1 million respectively (EUR 21.3 million and EUR 30.1 million respectively in 2015).

SHARES AND SHAREHOLDERS

As at 31 December 2016 Tallink Grupp AS had a total of 669 882 040 (31 December 2015: 673 817 040) shares issued and fully paid.

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

Shares without nominal value of Tallink Grupp AS were registered on 1 July 2016 in the Commercial Register according to the resolutions adopted by the annual general meeting of shareholders of the company on 14 June 2016. In addition, the annual general meeting decided to reduce share capital by EUR 40.2 million or EUR 0.06 per share. The calculated value of each share after the share capital reduction is EUR 0.54. The share capital reduction was registered in the Commercial Register on 22 September 2016 and related payments to the shareholders were made on 23 December 2016.

The cancellation of own shares held was registered on 1 July 2016 in the Commercial Register according to the resolutions adopted by the annual general meeting of shareholders of the company on 14 June 2016. Prior to the cancellation, Tallink Grupp AS held 3 935 thousand own shares with the total cost of share buyback of EUR 4.2 million.

On 8 February 2011, the annual general meeting of Tallink Grupp AS approved the terms of an employee share option programme that allowed issuing options for up to 15 million shares until 31 August 2013. In accordance with the programme the Group issued options during the 2011 and 2012 financial years. At 31 December 2015, the Group had outstanding 7 276 903 share options. Each option gave the right to purchase one share in Tallink Grupp AS. In the case of issue of new shares, the exercise price was EUR 0.858 and in the case of purchase of shares from the market the exercise price was the average acquisition cost. Pursuant to the terms of the option programme, the Supervisory Board of Tallink Grupp AS had the right to decide the method of fulfilment of the options. In accordance with the terms and conditions of the option programme, the options were exercisable between 21 December 2015 and 21 June 2016.

The value of the options issued at the end of 2012 in the amount of EUR 951 thousand was recorded as an expense during the vesting period of 36 months from the beginning of 2013. On 2 June 2016 the Supervisory Board of Tallink Grupp AS has decided not to fulfil the option agreements. The Supervisory Board has authorized the Management Board to pay to the option holders compensation of EUR 0.15 per share option.

On 9 June 2015, the annual general meeting of Tallink Grupp AS approved the terms of a share option programme that allowed issuing options for up to 20 million shares. As at 31 December 2016 no options had been issued under the 2015 share option programme.

According to the resolution of the general meeting of 9 June 2015, the company was granted the right to acquire its own shares subject to the following conditions:
1) The company is entitled to acquire own shares within five years as from the adoption of the resolution.
2) The total nominal values of the shares owned by the company may not exceed 10% of the share capital.
3) The price payable for one share may not be more than is the highest price paid on the Tallinn Stock Exchange for the share of Tallink Grupp AS at the day when the share is acquired.
4) Own shares will be paid for from the assets exceeding the share capital, mandatory legal reserve and issue premium.

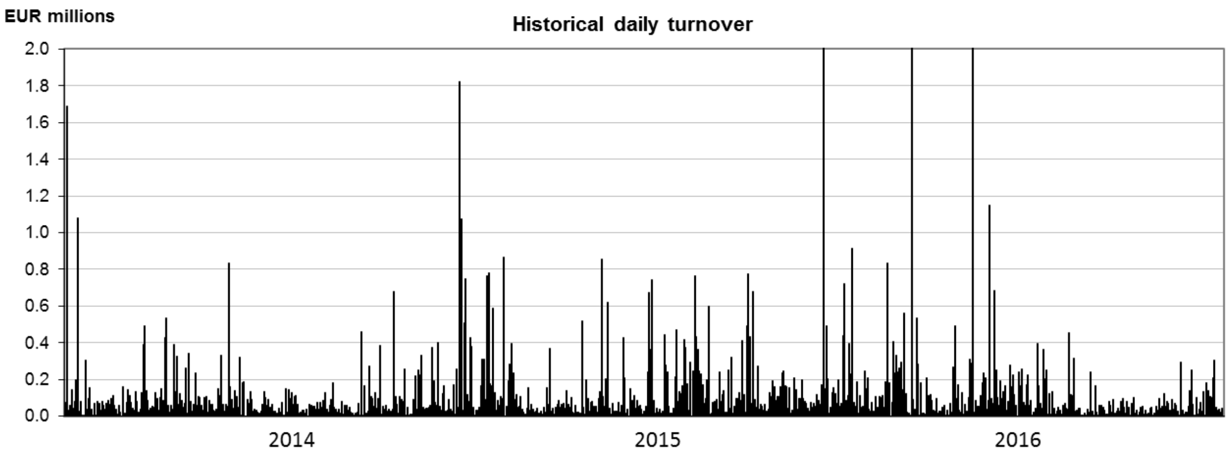
No share buybacks have been performed since the adoption of this resolution. The Supervisory Board is authorized within three years as from 1 January 2016 to increase the share capital by EUR 25 000 000 to up to EUR 429 290 224. The Management Board of Tallink Grupp AS has not been granted the right to issue new shares.

TRADING

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

During the 2016 financial year, there were transactions with 72 905 733 Tallink Grupp AS shares on the Tallinn Stock Exchange. The highest daily average share price on the Tallinn Stock Exchange was EUR 1.04 and the lowest daily average share price was EUR 0.833. The average daily turnover of Tallink Grupp AS shares on the Tallinn Stock Exchange was EUR 239.3 thousand.

The following charts give an overview of the performance of the share price and trading on the Tallinn Stock Exchange during the last three years, from 1 January 2014 to 31 December 2016. The market capitalization in the end of the 2016 financial year was EUR 611.6 million.



The table below presents the distribution of share capital by size of share ownership as at 31 December 2016:

Ownership size	Shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	667	6.00%	26 225	0.00%
100 - 999	3 216	28.92%	1 481 249	0.22%
1 000 - 9 999	6 296	56.62%	14 060 584	2.10%
10 000 - 99 999	790	7.11%	20 190 736	3.02%
100 000 - 999 999	100	0.90%	28 991 056	4.33%
1 000 000 - 9 999 999	43	0.39%	121 873 407	18.19%
10 000 000 +	7	0.06%	483 258 783	72.14%
Total	**11 119**	**100.00%**	**669 882 040**	**100.00%**

As at 31 December 2016, 7.04% of the Group's shares were held by individuals.

The table below presents the investors of the Group by investor type at 31 December 2016:

Investor type	Shareholders	Number of shares	% of share capital
Principal shareholder, Infortar AS	1	254 776 164	38.03%
Institutional investors	1 074	367 923 220	54.92%
Private individuals	10 044	47 182 656	7.04%

The table below presents the 10 largest shareholders of the Group at 31 December 2016:

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	121 693 230	18.17%
Baltic Cruises Investment L.P.	36 931 732	5.51%
ING Luxembourg S.A. AIF Acc.	24 829 806	3.71%
ING Luxembourg Client Acc.	19 262 260	2.88%
State Street Bank Trust Omnibus Acc. A Fund OM01	13 866 887	2.07%
Clearstream Banking Luxembourg S.A. Clients	11 898 704	1.78%
Nordea Bank Finland Plc. clients	7 577 415	1.13%
Skandinaviska Enskilda Banken Finnish Clients	6 669 637	1.00%
BNYM Clients	6 490 251	0.97%

SHAREHOLDERS' AGREEMENT

Major shareholders of the Group entered into a shareholders' agreement in August 2006. The agreement was amended in December 2012. The main terms of the agreement are published on the Group's website. The agreement sets forth among other terms that the parties of the agreement and each shareholder of Tallink will remain independent in their decisions and will not be restricted by the agreement or otherwise, directly or indirectly, to exercise their voting right or any other powers available to them, in the manner which, in their own opinion, best complies with the obligations under Estonian laws, the Rules of the Tallinn Stock Exchange or the Corporate Governance Recommendations.

TAKEOVER BIDS

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

DIVIDENDS

The Group's strong expansion and growth have been achieved thanks to significant investments in the recent past. The Group's policy has been to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Management Board targets to distribute at least 50% of net profit, calculated over the long term, as dividends or capital repayment, taking however the Group's financial position into account. The management estimates that for the coming years the distribution per share will be at least EUR 0.02 or higher.

In June 2016 the shareholders' annual general meeting decided to pay a dividend of EUR 0.02 per share from net profit for 2015. The total dividend amount of EUR 13.4 million was paid out on 5 July 2016. In addition to the dividend payment the annual general meeting decided the reduction of share capital of EUR 40.2 million or EUR 0.06 per share. The share capital reduction payments to the shareholders were made on 23 December 2016.

To the annual shareholders' meeting in 2017 the Management Board will propose a dividend of EUR 0.03 per share from net profit for 2016.

CORPORATE GOVERNANCE REPORT

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

ORGANIZATION AND ADMINISTRATION

Pursuant to the Estonian Commercial Code and the articles of association of Tallink Grupp AS (the Company), the right of decision and the administration of the Company are divided between the shareholders represented by the shareholders' general meeting, the Supervisory Board and the Management Board.

SHAREHOLDERS' GENERAL MEETING

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

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

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

The agenda of the meeting, the Board's proposals, draft resolutions, comments and other relevant materials are made available to the shareholders before the general meeting on the Company's website and in the stock exchange information system. The shareholders may ask questions before the general meeting by sending an email to info@tallink.ee.

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

In the reporting period Tallink Grupp AS held the annual general meeting on 14 June 2016. The meeting was attended by the Management Board members Janek Stalmeister, Andres Hunt, and Lembit Kitter. The Supervisory Board members present were Mr. Enn Pant, Mr. Toivo Ninnas, Mr. Kustaa Äimä, Mr. Ain Hanschmidt, Mr. Colin Douglas Clark, Ms. Eve Pant and Mr. Kalev Järvelill. The meeting was also attended by the Company's auditor. The chairman of the meeting was Mr. Raino Paron. The meeting was held in Estonian. The attending shareholders represented 526 978 130 votes, i.e. 78.67% of all votes. The resolutions adopted were: approval of the Annual Report, distribution of profits, introduction of a share without nominal value and amendment of the Articles of Association, reduction of share capital, extension of authorities of the members of the Supervisory Board and appointment of an auditor.

THE SUPERVISORY BOARD

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

The Supervisory Board consists of 5 to 7 members. Members of the Supervisory Board are elected for periods of three years at a time. The Supervisory Board elects one of its members as chairman. For electing a member to the Supervisory Board his or her written consent is needed. The general meeting of the shareholders may remove any member of the Supervisory Board without a reason. Such a decision requires 2/3 of the votes represented at the general meeting. A member of the Supervisory Board may resign without a reason by informing the general meeting of the shareholders about the resignation.

The Supervisory Board is responsible for supervising management of the Company and organisation of its operations. The Supervisory Board determines the principles for the Company's strategy, organisation, annual operating plans and budgets, financing and accounting. The Supervisory Board elects the members of the Management Board and determines their salaries and benefits.

At present, the Supervisory Board has seven members: Mr. Enn Pant – Chairman, Mr. Toivo Ninnas, Ms. Eve Pant, Mr. Ain Hanschmidt, Mr. Lauri Kustaa Äimä, Mr. Colin Douglas Clark and Mr. Kalev Järvelill. The members of the Supervisory Board have the knowledge and experience necessary to fulfil their duties following the Corporate Governance Recommendations and legislation.

The meetings of the Supervisory Board are held according to need, but at least once in every three months. The Supervisory Board convened five times during the 2016 financial year. The Company's operations, development, strategies, targets and budget were discussed. Four resolutions were adopted in writing without convening a meeting.

The members of the Supervisory Board avoid conflicts of interest and observe the prohibition on competition. The Supervisory Board and the Management Board work closely in the best interests of the Company and its shareholders, acting in accordance with the articles of association. Confidentiality rules are followed on exchanging information.

The remuneration of the Supervisory Board was decided at the shareholders' general meeting on 7 June 2012. Accordingly, the remuneration of the chairman is EUR 2 500 per month and the remuneration of other members of the Supervisory Board is EUR 2 000 per month. There are no other benefits for members of the Supervisory Board.

The direct shareholdings of the members of the Supervisory Board at the end of the 2016 financial year were the following:

Name	**Shares**
Enn Pant	3 951 913
Toivo Ninnas	19 200
Eve Pant	603 500
Ain Hanschmidt	1 800 000
Lauri Kustaa Äimä	237 000
Colin Douglas Clark	0
Kalev Järvelill	1 276 800

THE MANAGEMENT BOARD

The Management Board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example on entering into contracts on behalf of the Company. The Management Board is independent in their decisions and follows the best interests of the Company's shareholders.

The Management Board must adhere to the decisions of the general meeting of the shareholders and lawful orders of the Supervisory Board. The Management Board ensures, with its best efforts, that the Company complies with the law and that the Company's internal audit and risk management functions operate effectively.

The Management Board consists of 3 to 7 members. The members and the chairman of the Management Board are elected by the Supervisory Board for periods of three years at a time. For electing a member to the Management Board his or her written consent is needed. The chairman of the Management Board may propose that the Supervisory Board also appoint a vice chairman of the Management Board, who fulfils the chairman's duties in the absence of the chairman. Every member of the Management Board may represent the Company alone in any legal and business matter. According to the law the Supervisory Board may recall any member of the Management Board without a reason. A member of the Management Board may resign without a reason by informing the Supervisory Board about the resignation.

At present, the Management Board has three members. Mr. Janek Stalmeister, Chairman, is responsible for leading the Board and general and strategic management of the Group, additionally he is responsible for IT, hotel operations, retail operations, cargo operations and regional offices. Mr. Andres Hunt, Vice Chairman, is responsible for fulfilling the chairman's duties in his absence, finance, technical management and internal control. Mr. Lembit Kitter is responsible for the Group's sales & marketing, daily operations, customer service, business development and human resources. The Supervisory Board has concluded service agreements with the members of the Management Board. In 2016 the remuneration of the members of the Group's Management Board was in total EUR 1.3 million. The remuneration of the members of the Management Board does not include compensation of the share option programme.

The remuneration of the Management Board is determined by the Supervisory Board according to the CGR. The Supervisory Board has adopted the principles of remuneration of the management of Tallink Grupp AS. According to the document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to six-months' remuneration that are paid when the Group earns a profit and when they meet their individual performance criteria. The pay and benefits of individual Board members are not disclosed as the Group believes that such detailed information is insignificant for investors and is outweighed by the possible harm and discomfort to the members of the Management Board from the disclosure of sensitive personal information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

Members of the Management Board avoid conflicts of interest and observe the prohibition on competition.

The direct shareholdings and granted share options of the members of the Management Board at the end of the 2016 financial year were the following:

Name	**Shares**
Janek Stalmeister	45 000
Andres Hunt	860 000
Lembit Kitter	0

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

According to the resolution of the general meeting of 9 June 2015, the Company was granted the right to acquire its own shares subject to the following conditions:

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

The Management Board has no right to issue the Company’s shares.

DISCLOSURE OF INFORMATION

The Company follows the CGR in its information disclosure procedures and treats all shareholders equally. All the released information is published in Estonian and in English on the websites of the Company and the Tallinn Stock Exchange as well as through the OAM system managed by the EFSA.

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

FINANCIAL REPORTING AND AUDITING

Preparation of financial reports and statements is the responsibility of the Company’s Management Board. The Company’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and relevant Estonian regulations. The Company issues quarterly unaudited interim financial reports and the audited annual report.

The Company’s annual report is audited and then approved by the Supervisory Board. The annual report together with the written report of the Supervisory Board is sent for final approval to the shareholders’ general meeting.

The notice of the shareholders’ general meeting includes information on the auditor candidate. The Company observes the auditors’ rotation requirement. The audit fee and the auditors’ responsibilities are set out in an agreement concluded between the Company and the auditor.

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

For better risk management and control, the Company has established an Audit Committee and an Internal Audit Department. The Internal Audit Department took part in the process of preparing the annual report. Internal audits are conducted to check that the information presented in the annual report is reliable.

The consolidated financial statements for the 2016 financial year were audited by KPMG Baltics OÜ.

AUDIT COMMITTEE

According to the Supervisory Board resolution of 4 October 2016 Mr. Meelis Asi and Mr. Luke Staniczek were elected as members of the Audit Committee in addition to Mr. Ain Hanschmidt and Ms. Mare Puusaag. It was resolved to appoint Mr. Meelis Asi as Chairman of the Audit Committee.

The Audit Committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal control, the process of auditing annual and consolidated accounts, and the independence of the audit firm and the auditor representing the audit firm on the basis of the law. The Audit Committee is responsible for making recommendations and proposals to the Supervisory Board.

SUBSTANTIAL SHAREHOLDERS

Shareholder	Number of shares	% of share capital
Infortar AS	254 776 164	38.03%
Baltic Cruises Holding L.P.	121 693 230	18.17%
Baltic Cruises Investment L.P.	36 931 732	5.51%

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

KEY MANAGEMENT PERSONNEL

SUPERVISORY BOARD

Mr. Enn Pant (born 1965) - Chairman of the Supervisory Board since 2015
- Chairman of the Management Board from 1996 to 2015, Chief Executive Officer
- Member of the Supervisory Board of AS Infortar
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1990
- Direct shareholding of 3 951 913 shares

Mr. Toivo Ninnas (born 1940) - Member of the Supervisory Board since 1997
- Chairman of the Supervisory Board from 1997 to 2015
- Served at ESCO (Estonian Shipping Company) 1973 to 1997 in various positions, Director General since 1987.
- Graduated from the Far Eastern High Engineering Maritime College (FEHEMC), maritime navigation, in 1966.
- Direct shareholding of 19 200 shares

Ms. Eve Pant (born 1968) - Member of the Supervisory Board since 1997
- Graduated from the Tallinn School of Economics, Estonia, in 1992
- Direct shareholding of 603 500 shares

Mr. Ain Hanschmidt (born 1961) - Member of the Supervisory Board since 2005, also from 1997 to 2000
- Chief Executive Officer of AS Infortar
- For years he served as Chairman of the Management Board of AS SEB Eesti Ühispank
- Graduated from the Tallinn Polytechnic Institute (Tallinn University of Technology), Estonia in 1984
- Direct shareholding of 1 800 000 shares

Mr. Lauri Kustaa Äimä (born 1971) - Member of the Supervisory Board since 2002
- Managing Director of KJK Capital Oy
- Chairman of the Management Board, KJK Management SA, KJK Fund SICAV-SIF and Amber Trust II SCA

- Chairman of the Board of directors, KJK Fund II SICAV-SIF
- Vice-chairman of the Management Board, Amber Trust SCA
- Supervisory Board and Board member of several companies including AS Premia Foods, Kovinoplastika Loz d.d., AS Toode, AS Baltika, AS Riga Dzirnavnieks and AB Baltic Mill
- Holds a Master's degree in Economics from the University of Helsinki, Finland, 1997
- Direct shareholding of 237 000 shares

Mr. Colin Douglas Clark (born 1974) - Member of the Supervisory Board since 2013
- Managing Director and Head of Central & Eastern Europe, Middle East and Africa for The Rohatyn Group
- Formerly a Partner of CVCI Private Equity, from 2003 to 2013 until the merger of CVCI with The Rohatyn Group in December 2013
- Director of the Supervisory Board of Prestige
- Worked from year 2000 in Citigroup Inc.'s leading emerging markets projects financing team
- Worked for Bank of Scotland in Edinburgh in various positions
- Holds a Bachelor's degree in Accountancy and Management from University of Dundee (Scotland)
- Member of the Institute of Chartered Accountants of Scotland
- Direct shareholding of nil shares

Mr. Kalev Järvelill (born 1965) - Member of the Supervisory Board since 2007
- Member of the Supervisory Board of AS Infortar
- Member of the Management Board of Tallink Grupp AS from 1998 to 2006
- General Director of the Estonian Tax Board from 1995 to 1998
- Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1993
- Direct shareholding of 1 276 800 shares

MANAGEMENT BOARD

Mr. Janek Stalmeister (born 1974) – Chairman of the Management Board since 2015
- Member of the Management Board since 2009, Chief Financial Officer
- Has been with the Group since 1999 in the positions of Financial Advisor, Treasurer and Financial Director
- Has worked as a stock broker, Deputy CEO and CEO at AS HT Finants
- Head of the External Debt Division at the Estonian Ministry of Finance from 1994 to 1997
- Graduated from the Faculty of Economics, International University "LEX", Estonia, in 1999
- Direct shareholding of 45 000 shares

Mr. Andres Hunt (born 1966) - Member of the Management Board since 2002
- Has been with the Group since 1998 in the positions of Financial Director and Chief Financial Officer
- Director of Tax Policy Department at the Ministry of Finance of Estonia from 1995 to 1998
- Graduated from the Faculty of Economics, Academy of Agriculture, Estonia, in 1992
- Direct shareholding of 860 000 shares

Mr. Lembit Kitter (born 1953) - Member of the Management Board, since 2006
- Worked in the banking sector in Estonia since 1992 at leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank
- Graduated the Faculty of Economics, University of Tartu, Estonia, in 1976
- Direct shareholding of nil shares

SAFETY & SECURITY

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

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

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

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

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

ENVIRONMENTAL & CORPORATE SOCIAL RESPONSIBILITY

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

The Group's vessels are maintained and operated in accordance with the MARPOL convention (the International Convention for the Prevention of Pollution from Ships). This ensures that air and sea pollution is kept at the lowest practicable level.

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

Selection of international certificates held by Group companies:

- ISO 14001:2004 Environmental Certificate by Lloyds Register
- MARPOL Sewage Pollution Prevention Certificate
- MARPOL Air Pollution Prevention Certificate
- IAFS International Anti-Fouling System Certificate
- MARPOL Oil Pollution Prevention Certificate
- Document of Compliance for Anti-fouling System

- MARPOL Garbage Pollution Prevention Attestation
- Document of Compliance by Estonian Maritime Administration
- Document of Compliance by Finnish Maritime Administration
- Document of Compliance by Swedish Maritime Administration
- Document of Compliance by Latvian Maritime Administration

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

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

There are many areas which the Group supports and sponsors. The environment, children and young people, and sports are areas which are considered to be the most important in all the countries in which Tallink has its operations.

A more detailed overview of the environmental and social responsibility policies and activities are provided in the Group's Yearbook 2016.

OUTLOOK

The Group maintains consistent focus on developing the product offering to attract more passengers and increase revenue from retail sales. The ship renovation programme extends over several years and the Group will continue to refurbish the shops, restaurants and cabins in selected ships to develop and improve the total product offering to its customers.

Looking forward to the financial year 2017 the Group has increased capacity on a number of operated routes. The new LNG fast ferry Megastar that replaced fast ferry Superstar in January 2017 added capacity to Tallinn-Helsinki Shuttle service. Following the rerouting of the ships in December 2016, the capacity increased also on the Tallinn-Helsinki route cruise service, the Tallinn-Stockholm route and by bringing cruise ferry Romantika as a second ship to the Riga-Stockholm route, the Group doubled the capacity on the route.

RISKS

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

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

MANAGEMENT BOARD'S CONFIRMATION

The Management Board confirms that to the best of their knowledge the management report of Tallink Grupp AS for the 2016 financial year presents a true and fair view of significant events and their impact on the Group's results and financial position and includes an overview of the main risks and uncertainties.

Janek Stalmeister
Chairman of the Management Board

Andres Hunt
Vice Chairman of the Management Board

Lembit Kitter
Member of the Management Board

Tallinn, 25 April 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December, in thousands of EUR	2016	2015	Notes
Revenue	937 805	945 203	4
Cost of sales	-745 223	-721 780	5
Gross profit	**192 582**	**223 423**	
Sales and marketing expenses	-72 268	-63 578	5
Administrative expenses	-50 973	-47 311	5
Other operating income	2 450	983	
Other operating expenses	-184	-10 254	
Result from operating activities	**71 607**	**103 263**	
Finance income	10 514	12 808	5
Finance costs	-37 289	-46 964	5
Share of profit of equity-accounted investees	13	64	12
Profit before income tax	**44 845**	**69 171**	
Income tax	-741	-10 101	6
Net profit attributable to equity holders of the Parent	**44 104**	**59 070**	
Other comprehensive income			
Exchange differences on translating foreign operations	-469	160	
Other comprehensive income for the year	**-469**	**160**	
Total comprehensive income attributable to equity holders of the Parent	**43 635**	**59 230**	
Basic and diluted earnings per share (in EUR per share)	**0.066**	**0.088**	7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, in thousands of EUR	2016	2015	Notes
ASSETS			
Cash and cash equivalents	78 773	81 976	8
Trade and other receivables	38 674	36 583	9
Prepayments	7 926	5 274	10
Prepaid income tax	91	1 224	
Inventories	38 719	29 197	11
Current assets	**164 183**	**154 254**	
Investments in equity-accounted investees	363	350	12
Other financial assets	348	308	13
Deferred income tax assets	18 791	19 410	6
Investment property	300	300	
Property, plant and equipment	1 304 897	1 311 418	14
Intangible assets	50 127	52 726	15
Non-current assets	**1 374 826**	**1 384 512**	
TOTAL ASSETS	**1 539 009**	**1 538 766**	
LIABILITIES AND EQUITY			
Interest-bearing loans and borrowings	106 112	81 889	16
Trade and other payables	103 280	88 480	17
Dividends payable to shareholders	4	0	
Income tax liability	10	4 567	6
Deferred income	30 895	28 906	18
Current liabilities	**240 301**	**203 842**	
Interest-bearing loans and borrowings	452 793	467 447	16
Derivatives	32 359	42 863	24
Other liabilities	0	192	
Non-current liabilities	**485 152**	**510 502**	
Total liabilities	**725 453**	**714 344**	
Share capital	361 736	404 290	19
Share premium	639	639	19
Reserves	68 774	65 083	19
Retained earnings	382 407	354 410	
Equity attributable to equity holders of the Parent	**813 556**	**824 422**	
Equity	**813 556**	**824 422**	
TOTAL LIABILITIES AND EQUITY	**1 539 009**	**1 538 766**	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, in thousands of EUR	2016	2015	Notes
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period	**44 104**	**59 070**	
Adjustments for:			
Depreciation and amortisation	77 858	78 102	14, 15
Net gain/loss on disposals of property, plant and equipment	-83	9 164	
Net interest expense	27 980	36 099	5
Net income/expense from derivatives	-6 215	4 926	5
Gain on disposal of financial assets	0	-186	
Profit from equity-accounted investees	-13	-64	12
Net unrealised foreign exchange gain	4 889	-5 591	
Share option programme reserve	-910	300	
Income tax	741	10 101	6
Adjustments	**104 247**	**132 851**	
Changes in:			
Receivables and prepayments related to operating activities	-4 969	1 463	
Inventories	-9 522	2 118	
Liabilities related to operating activities	16 785	-4 139	
Changes in assets and liabilities	**2 294**	**-558**	
Cash generated from operating activities	**150 645**	**191 363**	
Income tax paid	-3 265	553	
NET CASH FROM OPERATING ACTIVITIES	**147 380**	**191 916**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment and intangible assets	-68 638	-43 629	
Proceeds from disposals of property, plant, equipment	169	115 370	
Proceeds from other financial assets	0	229	
Interest received	74	74	
NET CASH USED IN/FROM INVESTING ACTIVITIES	**-68 395**	**72 044**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	280 000	0	
Repayment of loans	-313 524	-133 263	
Change in overdraft	36 713	-59 052	16
Payments for settlement of derivatives	-4 289	-4 045	
Payment of finance lease liabilities	-99	-80	
Interest paid	-24 083	-33 210	
Payment of transaction costs related to loans	-2 989	-1 429	
Dividends paid	-13 398	-13 398	19
Reduction of share capital	-40 189	0	19
Income tax on dividends paid	-330	-2 818	19
NET CASH USED IN FINANCING ACTIVITIES	**-82 188**	**-247 295**	
TOTAL NET CASH FLOW	**-3 203**	**16 665**	
Cash and cash equivalents at the beginning of period	81 976	65 311	
Decrease/increase in cash and cash equivalents	-3 203	16 665	8
Cash and cash equivalents at the end of period	**78 773**	**81 976**	

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Date/kuupäev........25.04.2017........
Signature/allkiri.................
KPMG, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of EUR	Share capital[1]	Share premium[1]	Translation reserve[1]	Ships revaluation reserve[2]	Mandatory legal reserve[1]	Reserve for treasury shares[1]	Share option programme reserve[3]	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2014	**404 290**	**639**	**298**	**54 562**	**18 822**	**-4 163**	**610**	**303 232**	**778 290**	**778 290**
Net profit for the year 2015	0	0	0	0	0	0	0	59 070	59 070	**59 070**
Total other comprehensive income for the year 2015	0	0	160	0	0	0	0	0	160	**160**
Total comprehensive income for the year 2015	**0**	**0**	**160**	**0**	**0**	**0**	**0**	**59 070**	**59 230**	**59 230**
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2014	0	0	0	0	1 363	0	0	-1 363	0	**0**
Transfer from revaluation reserve	0	0	0	-6 869	0	0	0	6 869	0	**0**
Dividends	0	0	0	0	0	0	0	-13 398	-13 398	**-13 398**
Share-based payment transactions (Note 20)	0	0	0	0	0	0	300	0	300	**300**
Transactions with owners of the Company, recognised directly in equity	**0**	**0**	**0**	**-6 869**	**1 363**	**0**	**300**	**-7 892**	**-13 098**	**-13 098**
As at 31 December 2015	**404 290**	**639**	**458**	**47 693**	**20 185**	**-4 163**	**910**	**354 410**	**824 422**	**824 422**

In thousands of EUR	Share capital[1]	Share premium[1]	Translation reserve[1]	Ships revaluation reserve[2]	Mandatory legal reserve[1]	Reserve for treasury shares[1]	Share option programme reserve[3]	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As at 31 December 2015	**404 290**	**639**	**458**	**47 693**	**20 185**	**-4 163**	**910**	**354 410**	**824 422**	**824 422**
Net profit for the year 2016	0	0	0	0	0	0	0	44 104	44 104	**44 104**
Total other comprehensive income for the year 2016	0	0	-469	0	0	0	0	0	-469	**-469**
Total comprehensive income for the year 2016	**0**	**0**	**-469**	**0**	**0**	**0**	**0**	**44 104**	**43 635**	**43 635**
Transactions with owners of the Company, recognised directly in equity										
Transfer from profit for 2015	0	0	0	0	2 954	0	0	-2 954	0	**0**
Transfer from revaluation reserve	0	0	0	-2 047	0	0	0	2 047	0	**0**
Dividends	0	0	0	0	0	0	0	-13 398	-13 398	**-13 398**
Share-based payment transactions (Note 20)	0	0	0	0	0	0	-910	0	-910	**-910**
Cancellation of own shares (Note 19)	-2 361	0	0	0	0	4 163	0	-1 802	0	**0**
Reduction of share capital (Note 19)	-40 193	0	0	0	0	0	0	0	-40 193	**-40 193**
Transactions with owners of the Company, recognised directly in equity	**-42 554**	**0**	**0**	**-2 047**	**2 954**	**4 163**	**-910**	**-16 107**	**-54 501**	**-54 501**
As at 31 December 2016	**361 736**	**639**	**-11**	**45 646**	**23 139**	**0**	**0**	**382 407**	**813 556**	**813 556**

[1] For further information see also Note 19 Share Capital and Reserves
[2] For further information see also Note 14 Property, Plant and Equipment and Note 19 Share Capital and Reserves
[3] For further information see also Note 20 Share Option Programme

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The consolidated financial statements of Tallink Grupp AS (the "Parent") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2016 were authorised for issue by the Management Board on 25 April 2017.

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

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

The principal activities of the Group are related to marine transportation in the Baltic Sea (passenger and cargo transportation). Further information on the principal activities of the Group is presented in Note 4 Segment Information. As at 31 December 2016 the Group employed 7 234 people (6 966 as at 31 December 2015).

Note 2 BASIS OF PREPARATION

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

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

- derivative financial instruments are measured at fair value (Note 24)
- available-for-sale financial assets are measured at fair value (Note 13)
- investment property is measured at fair value
- ships are measured at revalued amounts (Note 14)
- deferred income (Club One points) (Note 18)

2.3. Changes in accounting policies

Effect on financial statements of application of new standards and amendments and new interpretations to standards
Except for the changes below, the Group has consistently applied the accounting policies set out in note 3 to all periods presented in these financial statements.
The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

Amendments to IAS 1
Effective for annual periods beginning on or after 1 January 2016.
The amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.
The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.

- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

The first time implementation of these amendments did not influence substantially the financial statements of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Effective for annual periods beginning on or after 1 January 2016.

a) Revenue-based depreciation banned for property, plant and equipment
   The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.
b) New restrictive test for intangible assets
   The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue.

The first time implementation of these amendments did not influence substantially the financial statements of the Group as the Group does not apply revenue-based methods of amortisation/depreciation.

Amendments to IAS 27 Equity Method in the Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2016.

The amendments to IAS 27 allow an Group to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The first time implementation of these amendments did not influence substantially the financial statements of the Group as the Group intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2016 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions.

This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.
The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.
IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.
The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.
Extensive additional disclosures regarding an entity's risk management and hedging activities are required.
The Group does not expect IFRS 9 (2014) to have a material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

IFRS 15 Revenue from Contracts with Customers
Effective for annual periods beginning on or after 1 January 2018.
The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Group's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.
Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 Leases
Effective for annual periods beginning on or after 1 January 2019
IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.
Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.
The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.
It is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since it will require the Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee.
Contractual arrangements disclosed in Note 2.5, Operating lease – the Group as lessee, would be in the scope of the new standard. The Group has not yet prepared an analysis of the expected quantitative impact of the new standard.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.
The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group, because there are currently no intentions to enter into share-based payment transactions.

Amendments to IAS 7
Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively.
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).
The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively.
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group because the Group already measures future taxable profit in a manner consistent with the amendments.

Amendments to IAS 40 Transfers of Investment Property
Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.
The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
The Group does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
Effective for annual periods beginning on or after 1 January 2018.
The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an Group initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
The Group does not expect that the interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

2.4. Functional and presentation currency
The figures reported in the financial statements are presented in euros, which is the Parent company's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise indicated.

2.5. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS (EU) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

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

Operating leases – the Group as lessee

As at 31 December 2016, the Group had entered into lease agreements for five hotel buildings, three office buildings and one warehouse building (31 December 2015: five hotel buildings, two office buildings and one warehouse building). Management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 21 for more detailed information on the minimum lease payments of the lease agreements.

Supplier contracts - whether an arrangement contains embedded derivatives

As at 31 December 2016, the Group had entered into a fixed-price fuel delivery contract. Management has determined that, although the contract contains an embedded derivative, this derivative should not be separated from the host contract as the economic characteristics and risks of the embedded derivative are closely related to those of the host contract.

Assumptions and estimation uncertainty

The following assumptions and estimation uncertainties have a risk of resulting in a material adjustment in the next financial year:

Fair value of ships

For the purpose of revaluation, the Group determined the fair value of its ships as at 31 December 2016. The fair value of ships depends on many factors, including the year of construction, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Management is of the opinion that as at 31 December 2016 the carrying value of ships as a group did not materially differ from their fair value. Therefore, no revaluation was performed as at 31 December 2016. Further details are given in Note 3.4 and Note 14.

Determination of useful life of property, plant and equipment and intangible assets

Management has estimated the useful lives and residual values of property, plant and equipment and intangible assets, taking into consideration the volumes of business activities, historical experience in this area and future outlook. Management's opinion of the useful lives of the Group's property, plant and equipment and the Group's intangible assets is disclosed in Notes 3.4 and 3.5 respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2016 amounted to EUR 11 066 thousand (31 December 2015: EUR 11 066 thousand). Further details are given in Note 15.

Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.
A deferred tax asset is recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. Further details are given in Note 6.

Fair value of derivatives
The fair values of all derivative financial instruments have been determined by using the Bloomberg Professional valuation functions. Valuation methods are Hull White Model, Black76 – Model and Jarrow – Yildirim – Model. Inputs used are EUR interest rates term structure, EUR swaption and cap volatilities, inflation swap rates, EURIBOR and NIBOR FRA rates. Inputs used are mainly unobservable.

Customer loyalty programme
Customer loyalty programme (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group recognises the credits that it awards to customers as a separately identifiable component of revenue, which is deferred at the date of the initial sale. The credits are recognised at fair value based on the actual use and the estimated timing and value of realisation. Further details are given in Note 18.

Note 3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed or has rights to variable returns from its involvements with the investee and it has the ability to affect those returns through its power over the investee and there is a link between power and returns. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements comprise the financial statements of Tallink Grupp AS and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as at the same reporting date. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

3.2. Foreign currency

Foreign currency transactions
The Parent's functional currency and presentation currency is the euro. Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency.
Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange date rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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

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

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

3.3. Financial instruments

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

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

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

Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the financial liability. A financial liability is derecognised when the underlying obligation is discharged or cancelled or expires.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group has the following non-derivative financial assets: cash and cash equivalents, loans and receivables and available-for-sale financial assets.

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

Available-for-sale financial assets
The Group's investments in equity and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses and foreign currency differences on available-for-sale instruments, are recognised in other comprehensive income and presented in equity.

Derivative financial instruments
The Group uses derivative financial instruments such as swaps, options and forwards to manage its risks associated with changes in exchange rates and interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value; changes therein are recognised in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate derivative contracts is determined using generally accepted valuation methods such as Hull White Model, Black76 – Model and Jarrow – Yildirim – Model.

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

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

3.4. Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs (see 3.8). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

Ships are measured at revalued amounts (i.e. fair value less depreciation charged subsequent to the date of the revaluation). Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

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

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

- buildings 5 to 50 years
- plant and equipment 3 to 10 years
- ships 17 to 35 years
- other equipment 2 to 5 years

Land is not depreciated.

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

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

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

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

The residual value is calculated as a percentage of the gross carrying amount of the ship. The residual value for ships is 15%.

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

3.5. Intangible assets

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

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

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

how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure attributable to the asset during development.
Following the initial recognition of development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project. Amortisation of the asset begins when development is completed and the asset is available for use.

Trademark
The cost of a trademark acquired as part of an acquisition of a business is its fair value as at the date of acquisition. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

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

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

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

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

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

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

3.6. Investment property

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

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

3.7. Inventories

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

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

3.8. Borrowing costs

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

3.9. Impairment

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

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

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

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

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

3.10. Employee benefits

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

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

3.11. Share-based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees became unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share purchase plan is measured by independent appraisers. The fair value of the employee share-options and share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the spot price on the measurement date, the exercise price of the instrument, expected volatility, the option maturity date, the risk-free interest rate and expected dividends.

3.12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where discounting is used, the increase in the provision due to the passage of time is recognised in "finance costs".

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

3.13. Leases

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

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

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

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

3.14. Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates and sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods – sales in restaurants and shops
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, i.e. at the time of selling the goods to the customer at the retail stores, bars and restaurants, generally for cash or by card payment.

Ticket sale and sale of cargo transport
Revenue from tickets and cargo transport is recognised as the services are rendered. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to prepaid tickets and cargo shipments.

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

Revenue from travel packages
The Group sells packages, which consist of a ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognises the sales of packages in its revenue in full instead of recognising only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of the package; (2) has discretion in selecting the suppliers for the service; and (3) bears credit risk. Revenue from sales of packages is recognised when the package is used by the client.

Charter income
Charter income arising from operating charters of ships is accounted for on a straight-line basis over the charter terms.
In these financial statements the term 'charter' refers to 'lease' as defined in IFRS (EU).

Customer Loyalty Programme
For the customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (Club One points) and ticket sale. The amount allocated to the loyalty programme is deferred, and recognised as revenue when the Group has fulfilled its obligation to supply the services under the terms of programme or when it is no longer probable that the points under the programme will be redeemed.
For further information, see Note 18.

3.15. Government grants

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

3.16. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on derivative instruments that are recognised in profit or loss.

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

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

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

3.17. Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the distribution of dividends. See below, Group companies in Estonia.

With the exception of Group companies domiciled in Estonia, deferred tax is recognised providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Group companies in Estonia
According to the Estonian Income Tax Act, for Group companies registered in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax (calculated as 20/80 of the net dividends to be paid in 2017; 20/80 in 2016). The potential tax liability from the distribution of retained earnings as dividends is not recorded in the statement of financial position for Estonian group companies. The amount of the potential tax liability from the distribution of dividends depends on the time, amount and sources of the dividend distribution.
Income tax from the payment of dividends is recorded as income tax expense in the period in which the dividends are declared. The maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 21.

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

Other foreign Group companies and permanent establishments
In accordance with the income tax laws of other jurisdictions, the company's net profit and the profit from permanent establishments adjusted for temporary and permanent differences determined by the local income tax acts is subject to current income tax in those countries in which the Group companies and permanent establishments have been registered (see Note 6).

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

3.18. Earnings per share

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

3.19. Segment reporting

The Group determines and presents operating segments based on the information that is provided internally to the Group's Management Board that is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Management Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

Segment information is presented in respect of the Group's geographical segments (by routes).

Inter-segment pricing is determined on an arm's length basis.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of expenses that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include administrative expenses, interest expense, income tax expense and other expenses that arise at the Group level and are related to the Group as a whole. Expenses incurred at the Group level on behalf of a segment are allocated to the segment on a reasonable basis, if these expenses relate to the segment's operating activities and can be directly attributed or allocated to the segment.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Segment liabilities are those liabilities that are incurred by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Expenses, assets and liabilities which are not directly related to a segment or cannot be allocated to a segment are presented as unallocated expenses, assets and liabilities of the Group.

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

3.20. Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.
When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

Ships (Level 3)
The market value of ships is the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The Group uses independent appraisers to determine the fair value of the ships. The frequency of revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required.

Intangible assets (Level 3)
The fair value of patents and trademarks acquired in a business combination is determined using the relief from royalty method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

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

Investment property (Level 3)
Fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.
The Group uses independent appraisers having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Share-based payments (Level 2)
The fair value of the employee share options has been measures using Black-Scholes formula. Services were taken into account in measuring fair value.

Derivatives (Level 3)
The fair value of interest rate swaps is based on independent appraisers' valuations. Fair values reflect the credit risk, interest rate risk and foreign exchange risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Non-derivative financial liabilities (Levels 1 and 2)
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Deferred income (Level 3)
The amount allocated to the Club One points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the Club One points themselves is not directly observable. The fair value of the services for which the Club One points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. Such amount is recognised as deferred income.

3.21. Separate financial statements of the Parent company

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate primary financial statements (i.e. statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, collectively referred to as primary financial statements) of the Parent. The separate primary financial statements of Tallink Grupp AS are disclosed in Note 26 Primary Financial Statements of the Parent. These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries which are stated at cost in the separate primary financial statements of the Parent.

Note 4 SEGMENT INFORMATION

The Group's operations are organized and managed separately according to the nature of the different markets. The Group operates (1) four ships between Estonia and Finland, (2) three ships between Estonia and Sweden, (3) two ships between Latvia and Sweden, (4) four ships between Finland and Sweden, (5) three ships have been chartered out from the Group (Other), (6) four hotels and seven shops in Estonia (Other) and (7) one hotel in Latvia (Other), which represent different business segments.

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 December 2016 and 31 December 2015.

Geographical segments – by the location of assets

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
2016							
Sales to external customers	353 290	110 062	44 576	337 352	92 525	0	**937 805**
Intersegment sales	0	0	0	0	9 944	-9 944	**0**
Revenue	**353 290**	**110 062**	**44 576**	**337 352**	**102 469**	**-9 944**	**937 805**
Segment result	75 444	11 563	6 909	15 317	11 081	0	**120 314**
Unallocated expenses							**-48 707**
Net financial items							**-26 775**
Share of profit of equity-accounted investees							**13**
Profit before income tax							**44 845**
Income tax							**-741**
Net profit for the period							**44 104**
Segment's assets	229 652	282 230	128 642	537 549	221 639	-2 103	**1 397 609**
Unallocated assets							**141 400**
Assets							**1 539 009**
Segment's liabilities	33 706	12 036	6 345	67 143	9 430	-2 103	**126 557**
Unallocated liabilities							**598 896**
Liabilities							**725 453**
Capital expenditures							
segment’s property, plant and equipment	21 680	1 365	292	14 080	852	0	**38 269**
unallocated property, plant and equipment							**27 514**
segment’s intangible assets	91	0	4	25	334	0	**454**
unallocated intangible assets							**2 621**
Depreciation	12 946	9 424	2 502	29 946	14 810	0	**69 628**
Unallocated depreciation							**2 634**
Amortisation	1 059	222	108	614	72	0	**2 075**
Unallocated amortisation							**3 521**

For the year ended 31 December, in thousands of EUR	Estonia-Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland-Sweden route	Other	Intersegment elimination	Total
2015							
Sales to external customers	338 183	104 360	41 964	333 263	127 433	0	**945 203**
Inter-segment sales	0	0	0	0	10 180	-10 180	**0**
Revenue	**338 183**	**104 360**	**41 964**	**333 263**	**137 613**	**-10 180**	**945 203**
Segment result	90 255	6 371	5 319	17 207	40 693	0	**159 845**
Unallocated expenses							**-56 582**
Net financial items							**-34 156**
Share of profit of equity-accounted investees							**64**
Profit before income tax							**69 171**
Income tax							**-10 101**
Net profit for the period							**59 070**
Segment assets	282 949	240 523	28 200	552 353	316 289	-967	**1 419 347**
Unallocated assets							**119 419**
Assets							**1 538 766**
Segment liabilities	24 345	9 632	4 257	62 926	13 581	-967	**113 774**
Unallocated liabilities							**600 570**
Liabilities							**714 344**
Capital expenditures							
segment's property, plant and equipment	2 261	1 712	96	11 501	881	0	**16 451**
unallocated property, plant and equipment							**24 287**
segment's intangible assets	7	2	1	44	26	0	**80**
unallocated intangible assets							**284**
Depreciation	11 107	9 476	2 568	27 184	19 802	0	**70 137**
Unallocated depreciation							**2 613**
Amortisation	774	207	103	533	134	0	**1 751**
Unallocated amortisation							**3 601**

Revenue by service

For the year ended 31 December, in thousands of EUR	2016	2015
Ticket sales	236 028	227 968
Sales of cargo transport	103 900	104 433
Sales of accommodation	19 592	18 783
Restaurant and shop sales on-board and on mainland	521 456	500 601
Income from charter of vessels	25 507	53 473
Other	31 322	39 945
Total revenue of the Group	**937 805**	**945 203**

Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

Cost of sales

For the year ended 31 December, in thousands of EUR	2016	2015	Note
Cost of goods sold	-225 047	-215 401	
Port & stevedoring costs	-101 010	-92 213	
Fuel costs	-74 250	-94 191	
Staff costs	-152 446	-142 368	
Ships' operating expenses	-89 877	-76 249	
Depreciation and amortisation	-69 510	-70 052	14, 15
Cost of package sales	-9 420	-9 172	
Other costs	-23 663	-22 134	
Total cost of sales	**-745 223**	**-721 780**	

Sales and marketing expenses

For the year ended 31 December, in thousands of EUR	2016	2015	Note
Advertising expenses	-34 821	-30 128	
Staff costs	-33 114	-30 149	
Depreciation and amortisation	-2 193	-1 836	14, 15
Other costs	-2 140	-1 465	
Total sales and marketing expenses	**-72 268**	**-63 578**	

Administrative expenses

For the year ended 31 December, in thousands of EUR	2016	2015	Note
Staff costs	-24 469	-21 320	
Depreciation and amortisation	-6 155	-6 214	14, 15
Other costs	-20 349	-19 777	
Total administrative expenses	**-50 973**	**-47 311**	

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

For the year ended 31 December, in thousands of EUR	2016	2015
Wages and salaries	-183 844	-171 672
Government grants	39 886	37 233
Social security costs	-61 006	-53 981
Staff training costs	-2 246	-2 150
Other staff costs	-2 819	-3 267
Total staff costs	**-210 029**	**-193 837**

During the reporting period EUR 39 886 thousand was deducted from the cost of sales in connection with government grants related to seamen's salaries in Finland and Sweden (2015: EUR 37 233 thousand). The grants are received according to law. The government grants receivable are disclosed in Note 9.

Average number of Group employees and specification according to employment relationship is presented in the table below.

For the year ended 31 December	2016	2015
Employees under employment contract	6 855	6 498
Employees under service contract	305	334
Members of the Management Board	3	3
Total average number of employees	**7 163**	**6 835**

Finance income and finance costs recognised in profit or loss

For the year ended 31 December, in thousands of EUR	2016	2015
Net foreign exchange gains	0	6 683
Income from interest rate swaps	3 336	5 929
Income from foreign exchange derivatives	7 168	0
Income from other financial assets	0	186
Interest income on financial assets not measured at fair value through profit or loss	10	10
Total finance income	**10 514**	**12 808**
Net foreign exchange losses	-5 010	0
Interest on financial liabilities measured at amortised cost	-27 990	-36 109
Expenses from foreign exchange derivatives	0	-6 810
Expenses from interest rate swaps	-4 289	-4 045
Total finance costs	**-37 289**	**-46 964**
Net finance costs	**-26 775**	**-34 156**

Note 6 INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, Latvian and Russian subsidiaries and Canadian and Australian permanent establishments
In accordance with the Swedish, Finnish, Latvian, Russian, Canadian and Australian tax laws, the company's net profit adjusted for temporary and permanent differences determined in the income tax acts is subject to income tax in Finland, Sweden, Latvia, Russia, Canada and Australia. In Finland the tax rate as at 31 December 2016 was 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% and in Australia 30% (as at 31 December 2015 in Finland 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% and in Australia 30%).

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

For the year ended 31 December, in thousands of EUR	2016	2015
Latvian subsidiaries	-17	-26
Finnish subsidiaries	-53	-27
German subsidiary	-7	-7
Estonian parent company	-330	-2 818
Permanent establishments[1]	285	-5 295
Current period tax expense	**-122**	**-8 173**
Swedish subsidiaries	-477	-123
Finnish subsidiaries	-160	-1 820
German subsidiaries	11	0
Latvian subsidiaries	7	15
Deferred tax income/expense	**-619**	**-1 928**
Total tax income/ expense	**-741**	**-10 101**

[1] During 2015 Tallink Grupp AS had chartered out two ships providing accommodation services in Canada and Australia that gave raise to permanent establishments for taxation purposes. Therefore Tallink Grupp AS was subject to Canadian and Australian corporate income tax on its activity in these countries. In April 2015 in Canada and in December 2015 in Australia the permanent establishments ceased to exist. The fiscal year in Australia is from 1 July to 30 June. In 2016 the corporate income tax returns to the Canadian and Australian Tax Authorities were finalized giving rise to corporate income tax income as provisions had been made using conservative principles.

Reconciliation of the effective tax rate

For the year ended 31 December, in thousands of EUR	2016	%	2015	%
Profit before tax	**44 845**		**69 171**	
Tax using the Company's domestic rate	0	0.00	0	0.00
Tax arising on dividends declared in Estonia[1]	-330	-0.74	-2 818	-4.07
Current income tax expense in foreign jurisdiction	208	0.46	-5 355	-7.74
Change in recognised tax losses	-1 220	-2.72	-2 526	-3.65
Change in temporary differences	601	1.34	598	0.86
Income tax expense	**-741**	**-1.66**	**-10 101**	**-14.60**

[1] Corporate income tax paid in Australia decreased tax arising on dividends declared in Estonia in 2016 by EUR 3 019 thousand.

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following

As at 31 December, in thousands of EUR	Assets 2016	Liabilities 2016	Assets 2015	Liabilities 2015
Tax loss carry-forward[1]	24 257	0	25 477	0
Property, plant and equipment	68	0	50	0
Intangible assets	0	-5 534	0	-6 117
Tax assets / liabilities	**24 325**	**-5 534**	**25 527**	**-6 117**
Offset of assets and liabilities	-5 534	5 534	-6 117	6 117
Tax assets/ liabilities	**18 791**	**0**	**19 410**	**0**

[1] Deferred tax assets of EUR 22 269 thousand (2015: EUR 23 012 thousand) in Finland and of 1 988 thousand (2015: EUR 2 464 thousand) in Sweden have been recognised in respect of the losses carried forward. The recognised Finnish tax losses will expire from 2023 to 2026 (2015: 2023-2025) and the Swedish tax losses have no expiration date. Tax losses of the Finnish subsidiary that will expire before 2023 have not been recognised due to estimation uncertainty. Such unrecognised tax losses amounted to EUR 101 447 thousand as at 31 December 2016 (EUR 89 352 thousand as at 31 December 2015).

The Group has recognised deferred tax assets to the extent that the losses carried forward will be offset against projected future taxable profits. According to the Group management's estimations, the Finnish subsidiary will be profitable from 2018 onwards. The estimations are based on the business plan of the Finnish operations and the reduction of intragroup charter fees. The revenue growth rate for the years 2017-2026 of the Finnish operations used in the calculations is 2% and the growth rate used for the cost increase is 0-2% (as at 31 December 2015, the revenue growth rate for the years 2016-2025 of the Finnish operations used in the calculations was 2-4% and the growth rate used for the cost increase was 1-3%).

The sensitivity of the value of recognized deferred tax assets to the main assumptions of the projected future taxable profits is as follows: 1) +/- 1% change in average revenue growth rate for the years 2017-2026 would change the value of recognized tax assets by EUR +6 236 thousand / EUR -16 869 thousand respectively; 2) +/- 1% change in average costs' growth rate for the years 2017-2026 would change the value of recognized tax assets by EUR -11 731 thousand / EUR +6 236 thousand respectively.

Movements in deferred tax balances

As at 31 December, in thousands of EUR	Balance As at 31 December 2016	Recognised profit/loss in 2016	Balance As at 31 December 2015
Tax loss carry-forward	24 257	-1 220	25 477
Property, plant and equipment	68	18	50
Intangible assets	-5 534	583	-6 117
Net deferred tax (asset)/liability	**18 791**	**-619**	**19 410**

Note 7 EARNINGS PER SHARE (EPS)

Basic EPS are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

As at 31 December, in thousands

	2016	2015
Shares issued	669 882	673 817
Treasury shares	0	3 935
Shares outstanding	**669 882**	**669 882**

For the year ended 31 December, in thousands of EUR	2016	2015
Weighted average number of ordinary shares outstanding (in thousands, basic)	669 882	669 882
Net profit/loss attributable to equity holders of the Parent	44 104	59 070
Basic EPS (EUR per share)	0.066	0.088
Diluted EPS (EUR per share)	0.066	0.088

Note 8 CASH AND CASH EQUIVALENTS

As at 31 December, in thousands of EUR

	2016	2015
Cash at bank and in hand	77 012	80 156
Short-term deposits	1 761	1 820
Total cash and cash equivalents	**78 773**	**81 976**

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2016 the rates were in the range of 0.00-0.07% and in 2015 in the range of 0.00-0.05%).

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the statement of financial position as at 31 December 2016 range up to 10 January 2017. As at 31 December 2016 and 31 December 2015 short-term deposits of EUR 1 761 thousand and EUR 1 820 thousand respectively could only be used for repayment of bank loans.

The Group´s exposure to currency risk is disclosed in Note 24.

Note 9 TRADE AND OTHER RECEIVABLES

As at 31 December, in thousands of EUR	2016	2015
Trade receivables	25 060	24 259
Allowance for doubtful trade receivables	-685	-804
Government grants receivable	11 410	10 452
Other receivables	2 889	2 676
Total trade and other receivables	**38 674**	**36 583**

During the reporting period EUR 468 thousand of the trade receivables was expensed as doubtful and uncollectible (2015: EUR 516 thousand).

The Group’s exposure to the credit and currency risks of receivables (excluding government grants receivable) is disclosed in Note 24. Additional information about government grants is disclosed in Note 5.

Note 10 PREPAYMENTS

As at 31 December in thousands of EUR	2016	2015
Prepaid expenses	5 663	4 467
Tax prepayments	2 263	807
Total prepayments	**7 926**	**5 274**

As at 31 December in thousands of EUR	2016	2015
Tax prepayments		
VAT	1 405	740
Other prepayments	858	67
Total tax prepayments	**2 263**	**807**

The balance of prepaid expenses includes mostly prepayments for insurance.

Note 11 INVENTORIES

As at 31 December, in thousands of EUR	2016	2015
Raw materials (mostly fuel)	2 790	2 220
Goods for sale	35 926	26 961
Prepayments to suppliers	3	16
Total inventories	**38 719**	**29 197**

In 2016 the write-down of inventories to net realisable value amounted to EUR 281 thousand (2015: EUR 133 thousand). The write-downs are included in cost of sales.

Fuel price risk
The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of fuel price increases. At 31 December 2016 (as well as at 31 December 2015) there were no derivative contracts for fuel outstanding. For more information, see Note 24.

Note 12 INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2016 the Group had a 34% interest in the equity-accounted investee Tallink Takso AS, incorporated in Estonia (as at 31 December 2015 - 34%).

In thousands of EUR	2016	2015
Investments at the beginning of financial year	350	286
Share of profit of equity-accounted investee	13	64
Investments at the end of financial year	**363**	**350**

The key figures of the equity-accounted investee Tallink Takso AS are below. The figures as at 31 December 2016 and for the year ended 31 December 2016 are unaudited. The figures reflect 100% of the assets, liabilities and result of the associate.

In thousands of EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2016	1 086	707	1 793	388	336	724
			Revenues	**Expenses**	**Profit**	**Equity**
For the year ended 31 December 2016			3 998	3 958	40	1 069

In thousands of EUR	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
As at 31 December 2015	1 276	106	1 382	312	41	353
			Revenues	**Expenses**	**Profit**	**Equity**
For the year ended 31 December 2015			3 822	3 635	187	1 029

Note 13 OTHER FINANCIAL ASSETS

As at 31 December, in thousands of EUR

	2016	2015
Available-for-sale financial assets	168	168
Other receivables (Note 24)	180	140
Total other financial assets	**348**	**308**

Note 14 PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total
Book value as at 31 December 2014	**3 729**	**1 451 400**	**10 000**	**2 835**	**1 467 964**
Additions	334	10 498	4 527	25 379	40 738
Reclassification	41	0	-41	0	0
Disposals	0	-124 090	-444	0	-124 534
Depreciation for the year	-1 162	-67 706	-3 882	0	-72 750
Book value as at 31 December 2015	**2 942**	**1 270 102**	**10 160**	**28 214**	**1 311 418**
Additions	527	25 960	18 638	20 658	65 783
Disposals	0	0	-42	0	-42
Depreciation for the year	-944	-65 625	-5 693	0	-72 262
Book value as at 31 December 2016	**2 525**	**1 230 437**	**23 063**	**48 872**	**1 304 897**
As at 31 December 2015					
Gross carrying amount	13 120	1 559 457	33 896	28 214	1 634 687
Accumulated depreciation	-10 178	-289 355	-23 736	0	-323 269
As at 31 December 2016					
Gross carrying amount	13 661	1 577 886	50 705	48 872	1 691 124
Accumulated depreciation	-11 136	-347 449	-27 642	0	-386 227

Revaluation of ships

The Group used the valuations of two independent appraisers to determine the fair value of the ships. Fair value was determined by reference to market-based inputs, which are mainly unobservable (level 3 under the fair value hierarchy). The Group's management also take into consideration expected cash flows for the chartered ships if needed. The following table shows the valuation techniques used in measuring the ships' fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Market comparison technique, cost approach: The independent appraisers consider both approaches. They scan the market and look at second-hand sales of similar ships taking place, as well as analyse the general demand for the particular ship in various parts of the world. Also they look at the construction cost of the ship less reasonable depreciation and at the new construction prices of similar ships today.	Sales prices of similar ships Level of the demand for particular ships Construction prices of ships Maintenance and repair programme of ships

The frequency of revaluations depends on changes in fair values which are assessed at each year-end. When fair value differs materially from the carrying amount, further revaluation is performed. As at 31 December 2016 there were no material differences between the carrying amounts and fair values (as well as at 31 December 2015).

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

As at 31 December 2016	**In thousands of EUR**
Cost	1 728 405
Accumulated depreciation	-543 614
Net carrying amount	**1 184 791**

As at 31 December 2015	**In thousands of EUR**
Cost	1 709 976
Accumulated depreciation	-487 567
Net carrying amount	**1 222 409**

Due to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as at 31 December 2016 by EUR 2 047 thousand (2015: EUR 6 869 thousand) and retained earnings were increased by the same amount.
As at 31 December 2016 the Group's ships with a book value of EUR 911 713 thousand (2015: EUR 1 044 632 thousand) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 16).

Contractual commitments
As at 31 December 2016 the Group had a contractual commitment to pay for the new passenger ferry Megastar EUR 187 202 thousand. Megastar was delivered to the Group in January 2017.

Note 15 INTANGIBLE ASSETS

In thousands of EUR	**Goodwill[1]**	**Trademark[2]**	**Other[3]**	**Total**
Book value as at 31 December 2014	**11 066**	**33 502**	**10 606**	**55 174**
Additions	0	0	2 920	2 920
Disposals	0	0	-16	-16
Amortisation for the year	0	-2 916	-2 436	-5 352
Book value as at 31 December 2015	**11 066**	**30 586**	**11 074**	**52 726**
Additions	0	0	3 075	3 075
Disposals	0	0	-78	-78
Amortisation for the year	0	-2 916	-2 680	-5 596
Book value as at 31 December 2016	**11 066**	**27 670**	**11 391**	**50 127**

As at 31 December 2015				
Cost	11 066	58 288	29 707	99 061
Accumulated amortisation	0	-27 702	-18 633	-46 335
As at 31 December 2016				
Cost	11 066	58 288	32 540	101 894
Accumulated amortisation	0	-30 618	-21 149	-51 767

Intangible assets classes

[1] Goodwill in the amount of EUR 11 066 thousand is related to the Estonia-Finland route segment. In the impairment test of goodwill related to the Estonia-Finland routes, the recoverable amount was identified based on value in use. Management calculated value in use using the results and margins achieved in the 2016 financial year, a revenue growth rate of 0% p.a. (2015: 0%) and a discount rate of 6% (2015: 6%). Five-year cash flow to perpetuity value was used. There was no need to recognise an impairment loss.

[2] A trademark of EUR 58 288 thousand was recognised in connection with the acquisition of Silja OY Ab in 2006. The fair value of the trademark at the acquisition date was determined using the relief from royalty method. As at 31 December 2016, the book value of the trademark was tested for impairment. For testing purposes the average revenue growth rate of 2% (2015: 1%), a royalty rate of 2.25% (2015: 2.25%) and a discount rate of 6% (2015: 6%) were used. There was no need to recognise an impairment loss.

[3] Other intangible assets include mostly the licences and development costs of IT programs of EUR 10 366 thousand. The licenses have finite lives and are amortised over 5 to 10 years. Amortisation of intangible assets is recorded in profit or loss under cost of sales, sales and marketing expenses and administrative expenses.

Note 16 INTEREST-BEARING LOANS AND BORROWINGS

As at 31 December 2016, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2019	92	281	373
Unsecured bonds[1]	2018	0	98 627	98 627
Overdraft	2017	40 110	0	40 110
Long-term bank loans	2016-2022	65 910	353 885	419 795
Total borrowings		**106 112**	**452 793**	**558 905**

As at 31 December 2015, in thousands of EUR	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance leases	2018	82	216	298
Unsecured bonds[1]	2018	0	93 097	93 097
Overdraft	2016	3 397	0	3 397
Long-term bank loans	2016-2021	78 410	374 134	452 544
Total borrowings		**81 889**	**467 447**	**549 336**

[1] The change in the bond balance is attributable to movements in the exchange rate of NOK. A senior unsecured bond of NOK 900 million has a floating interest rate of 3-month NIBOR +5% and a maturity date of 18 October 2018.

As at 31 December 2016 the Group had the right to use bank overdrafts of up to EUR 75 000 thousand (2015: EUR 75 000 thousand). Bank overdrafts are secured with a commercial pledge of EUR 20 204 thousand (2015: EUR 20 204 thousand) and mortgages on ships (see Note 14). In the year ended 31 December 2016 the average effective interest rate of bank overdrafts was EURIBOR + 2.23% (2015: EURIBOR + 2.23%). As at 31 December 2016 the balance of overdrafts in use was EUR 40 110 thousand (2015: EUR 3 397 thousand).
In the year ended 31 December 2016 the weighted average interest rate of the Group’s variable rate bank loans was EURIBOR + 2.96% (2015: EURIBOR + 3.02%).

As at 31 December 2016 Tallink Grupp AS had given guarantees to HSH Nordbank AG, Nordea Bank Plc and Danske Bank A/S for loans of EUR 130 849 thousand (2015: EUR 158 894 thousand) granted to overseas subsidiaries by the abovementioned banks. Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc and Swedbank AS for the loans granted to Tallink Grupp AS. As at 31 December 2016 the book value of the loans was EUR 288 946 thousand (31 December 2015: EUR 293 650 thousand). Primary securities for the loans are the ships belonging to the overseas subsidiaries and a pledge of the shares in these subsidiaries.

The Group has issued counter guarantees to the commercial banks that have issued guarantees to several governmental authorities in favour of Group entities, required to perform the Group's daily operations. As at 31 December 2016 the total amount of the guarantees was EUR 7 694 thousand (2015: EUR 7 694 thousand). The guarantees issued are not recognised in the statement of financial position as, according to historical experience and the Group management's estimations, none of them is expected to turn into an actual liability.

In the loan agreements signed with banks, the Group has agreed to comply with financial covenants related to ensuring certain equity, liquidity and other ratios. During the financial year 2016 (as well as in 2015) the Group complied with all financial covenants.

Note 17 TRADE AND OTHER PAYABLES

As at 31 December, in thousands of EUR

	2016	**2015**
Trade payables	53 514	41 694
Other payables	2 822	2 459
Payables to employees	24 487	22 015
Interest payable	2 071	2 259
Tax liabilities	18 725	17 079
Other accruals	1 661	2 974
Total trade and other payables	**103 280**	**88 480**

The Group´s exposure to currency and liquidity risks (excluding tax liabilities and other accruals) is disclosed in Note 24. Additional information about tax liabilities is disclosed below.

As at 31 December, in thousands of EUR

	2016	**2015**
Salary-related taxes	14 063	12 949
Excise duties	1 902	2 217
VAT	2 759	1 912
Other taxes	1	1
Total tax liabilities	**18 725**	**17 079**

Note 18 DEFERRED INCOME

The Group measures the liability for outstanding Club One points in combination of the value of its services and the averages of the Club One points used to redeem the services, taking into account the pattern of use of the points by the customers and the expiry rates of the points. The calculations are performed for each segment.

As at 31 December, in thousands of EUR	2016	2015
Club One points	12 013	12 150
Prepaid revenue	18 882	16 756
Total deferred income	**30 895**	**28 906**

Note 19 SHARE CAPITAL AND RESERVES

As at 31 December, in thousands	2016	2015
The number of shares issued and fully paid	669 882	673 817
Total number of shares	669 882	673 817

As at 31 December, in thousands of EUR	2016	2015
Share capital (authorised and registered)	361 736	404 290
Total share capital	**361 736**	**404 290**
Share premium	639	639
Total share premium	**639**	**639**

According to the articles of association of the Parent the maximum number of ordinary shares is 2 400 000 000. Each share grants one vote at the shareholders' general meeting. Shares acquired by the transfer of ownership are eligible for participating in and voting at a general meeting only if the ownership change is recorded in the Estonian Central Registry of Securities at the time used to determine the list of shareholders for the given shareholders' general meeting.

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

The annual general meeting of 14 June 2016 decided to introduce shares without nominal value. Tallink Grupp AS has 669 882 040 registered shares (31 December 2015: 673 817 000) without nominal value (31 December 2015: 0.60 EUR).

Reduction of share capital
The annual general meeting of 14 June 2016 decided to reduce the share capital and the reduction was registered in Commercial Register on 22 September 2016. The share capital was reduced to EUR 361 736 thousand by:
a) cancelling 3 935 000 own shares held by the company, as a result of which share capital was decreased by EUR 2 361 thousand to EUR 401 929 thousand.
b) reducing the book value of the shares, as a result of which the book value of one share was reduced from 0.60 EUR to 0.54 EUR and share capital was decreased by EUR 40 193 thousand. Share capital reduction payments were made on 23 December 2016.

Reserves

As at 31 December, in thousands of EUR	2016	2015
Translation reserve	-11	458
Ships' revaluation reserve	45 646	47 693
Mandatory legal reserve	23 139	20 185
Reserve for treasury shares	0	-4 163
Share option programme reserve (Note 20)	0	910
Total reserves	**68 774**	**65 083**

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

Ships' revaluation reserve
The revaluation reserve relates to the revaluation of ships. The ships' revaluation reserve may be transferred directly to retained earnings when the ship is disposed of. However, some of the revaluation surplus may be transferred when the ship is used by the Group. In such a case, the amount of surplus transferred is the difference between depreciation based on the revalued carrying amount of the ship and depreciation based on the original cost of the ship. The Group uses the latter alternative.

Mandatory legal reserve
The mandatory legal reserve has been formed in accordance with the Estonian Commercial Code. The mandatory legal reserve is formed by means of yearly net profit transfers. At least 1/20 of net profit must be transferred to the mandatory legal reserve, until the reserve amounts to 1/10 of share capital. The mandatory legal reserve may be used to cover losses and to increase share capital but it may not be used for making distributions to owners.

Reserve for treasury shares
The reserve for treasury shares comprises the cost of the Tallink Grupp AS shares held by the Group. At 31 December 2016 the Group did not hold Tallink Grupp AS shares (2015: 3 935 000 shares).

Share option programme reserve
At 31 December 2016 there was no share option programme reserve outstanding (see Note 20). At 31 December 2015 the share option programme reserve comprised the fair value of the share option programme measured at the grant date.

Dividends
Dividends were declared and paid by the Company for the year in the amount of EUR 13 398 thousand (2015: EUR 13 398 thousand), i.e. 0.02 EUR per ordinary share (2015: 0.02 EUR). This led to payment of income tax of EUR 330 thousand by the Group (2015: EUR 2 818 thousand). About income tax on dividends see also Note 6.

Note 20 SHARE OPTION PROGRAMME

In December 2012 the Group issued 7 610 000 share options of which 3 850 000 to the Management Board and Supervisory Board and 3 760 000 to certain other Group employees. Each option gave the right to purchase one share in Tallink Grupp AS. The terms and conditions of the issued share options were the following: exercisable not earlier than 36 months from issue or 21 December 2015 and not later than 21 June 2016; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case of existing shares purchased from the market; the options were to be settled by physical delivery of shares.

Share option programme

On 2 June 2016 the Supervisory Board of Tallink Grupp AS decided not to fulfil the option agreements. The Supervisory Board has authorized the Management Board to pay the option holders compensation of EUR 0.15 per share option, i.e. EUR 1 092 thousand in total.

Description	Number of options	Weighted average exercise price
Outstanding at 1 January 2015	7 318 638	0.858
Forfeited during the year 2015	-41 735	0.858
Exercisable at 31 December 2015	**7 276 903**	**0.858**
Outstanding at 1 January 2016	7 276 903	0.858
Forfeited during the year 2016	-7 276 903	0.858
Exercisable at 31 December 2016	**0**	**0.000**

At 31 December 2016 0 (2015: 7 276 903) share options were valid and outstanding.

The change in option reserve

In thousands of EUR	2016	2015
Options issued 2012[1]	0	305
Forfeited during the year	-910	-5
Expired during the year	0	0
Total change in option reserve	**-910**	**300**

[1] The value of options issued at the end of 2012 of EUR 910 thousand was recorded as an expense during the vesting period of 36 months from the beginning of 2013. In 2016 EUR 910 thousand was recorded as the reduction of share option programme reserve and EUR 692 thousand was expensed (2015: EUR 300 thousand was recorded as an expense).

Note 21 CONTINGENCIES AND COMMITMENTS

Legal claims

Recovery of harbour fees

Tallink Grupp AS, Hansatee Cargo AS and Tallink Silja OY filed a complaint with Helsinki District Court for recovery of harbour fees for the years 2001 until 2004. The total amount claimed is more than EUR 34 million (of which Tallink Grupp AS claims more than EUR 13 million, Hansatee Cargo AS claims more than EUR 400 thousand and Tallink Silja OY claims approximately EUR 21 million). The basis for the claim is that the Finnish state applied and demanded from the ships of EU member states incorrect harbour fees. On 28 February 2015 the Court held that the Finnish state is liable to return the fairway dues collected illegally and the accrued interest. The Finnish State contested this decision in a higher court instance in December 2015. On 9 August 2016 Helsinki Court of Appeal overruled the first instance judgement, rejected the claims and decided that claims were time barred. On 7 October 2016 Group entities filed applications with the Finnish Supreme Court and leave to appeal was granted on 12 January 2017 for one application - Tallink Grupp AS and Hansatee Cargo AS joint application.

Disputes with former seafarers of Superfast vessels

During the years 2006-2011 proceedings were held in German courts and during the years 2012-2017 proceedings were held in Finnish courts regarding the claims of the former German seafarers of the Superfast VII, VIII and IX vessels. On 15 March 2017 the Finnish Supreme Court validated Helsinki Court of Appeal judgement that the maritime labour contracts of the German seafarers have been transferred to the purchasers of the vessels, Baltic Superfast companies. According to the final judgment Baltic Superfast companies undertake to pay to the German seafarers compensation in the amount of EUR 2 447 thousand. According to the sales agreement, the vessels were bought without a crew and therefore the former shipowners are responsible for all the claims that the seafarers might have regarding their employment relations. Tallink Grupp AS expects the sellers of the vessels to indemnify to the subsidiaries of Tallink Grupp AS all costs that may arise in connection with the litigation.

Key Management Personnel's termination benefits

Some members of the Management Board are entitled to termination benefits if their service agreement is terminated by the Group's Supervisory Board. At 31 December 2016 the maximum amount of such benefits was EUR 2 268 thousand (EUR 2 268 thousand in 2015) (see Note 22). The Group has no formal plan for termination of service agreements with the Key Management Personnel.

Income tax on dividends

The Group's retained earnings as at 31 December 2016 were EUR 382 407 thousand (2015: EUR 354 410 thousand). As at 31 December 2016, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 76 481 thousand (2015: EUR 70 882 thousand). The maximum income tax liability has been calculated using the income tax rate effective for dividends on the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as at 31 December 2016 (2015: 31 December 2015).

Non-cancellable operating leases

The Group as the lessee

The Group leases five hotel buildings under operating leases. The leases typically run for a period of ten years, with the Group's option to renew the lease for further 5 years. Some lease payments are increased every year and some leases provide for additional rental payments that are based on the result of hotel operations. The lease expenses from 1 January 2016 to 31 December 2016 were EUR 13 211 thousand (2015: EUR 13 255 thousand) including contingent lease expense EUR 1 211 thousand (2015: EUR 1 215 thousand). See also Note 22.

The Group also leases three office buildings and one warehouse. The lease expenses from 1 January 2016 to 31 December 2016 were EUR 3 086 thousand (2015: EUR 1 993 thousand). The lessor has the right to increase lease payments by up to 6% per year. See also Note 22.

On 1 December 2015 the Group sold fast ferry Superstar and chartered it back until the beginning of 2017. The charter payment from 1 January 2016 to 31 December 2016 was EUR 10 248 thousand (2015: EUR 868 thousand).

Minimum non-cancellable operating lease payments are as follows:

As at 31 December, in thousands of EUR	**2016**	**2015**
< 1 year	17 025	25 068
1-5 years	43 512	50 528
> 5 years	28 617	34 426
Total minimum lease payments	**89 154**	**110 022**

The Group as the lessor
The Group's charter income from 1 January to 31 December 2016 was EUR 25 507 thousand (2015: EUR 53 473 thousand).

Minimum non-cancellable charter payments are as follows:

As at 31 December, in thousands of EUR	**2016**	**2015**
< 1 year	18 311	19 398
1-5 years	18 569	36 880
Total minimum charter payments	**36 880**	**56 278**

All charter agreements used by the Group are based on BIMCO Standard Bareboat Charter and BIMCO Time Charter Agreement.

Note 22 RELATED PARTY DISCLOSURES

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

The companies controlled by the Key Management Personnel
The Key Management Personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

Associated companies
The Key Management Personnel are members of the Group's Supervisory Board and Management Board.

The Group has entered into the following transactions with related parties and has the following balances with related parties.

For the year ended 31 December 2016, in thousands of EUR	**Sales to related parties**	**Purchases from related parties**	**Receivables from related parties**	**Payables to related parties**
The companies controlled by the Key Management Personnel	450	18 414	17	1 736
Associated companies	5	150	5	14
Total	**455**	**18 564**	**22**	**1 750**

For the year ended 31 December 2015, in thousands of EUR	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
The companies controlled by the Key Management Personnel	197	17 064	4	2 008
Associated companies	1	107	0	12
Total	**198**	**17 171**	**4**	**2 020**

Key Management Personnel's compensation

Tallink Grupp AS's members of the Management Board and members of the Supervisory Board are defined as the Key Management Personnel.

The Key Management Personnel's compensation was as follows:

For the year ended 31 December, in thousands of EUR	2016	2015
Short-term benefits	1 412	1 375
Termination benefits	0	36

Key Management Personnel's compensation does not include compensation of the share option programme.

Some members of the Key Management Personnel are entitled to termination benefits (refer to note 21). At 31 December 2016 the maximum amount of such benefits was EUR 2 268 thousand (31 December 2015: EUR 2 268 thousand).

The Key Management personnel's benefits are presented without social tax.

Note 23 GROUP ENTITIES

Group entities	Interest as at 31 December 2016	Interest as at 31 December 2015	Country of incorporation	Parent company
Baan Thai OÜ	100%	-	Estonia	Tallink Grupp AS
Hansaliin OÜ	100%	100%	Estonia	Tallink Grupp AS
Hansatee Cargo AS	100%	100%	Estonia	Tallink Grupp AS
Hansatee Kinnisvara OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Laevateenindus OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Meelelahutus OÜ	100%	100%	Estonia	Tallink Grupp AS
HTG Invest AS	100%	100%	Estonia	Tallink Grupp AS
Mare Catering OÜ	100%	100%	Estonia	Tallink Grupp AS
Tallink AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Baltic AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Duty Free AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Scandinavian AS	100%	100%	Estonia	Tallink Grupp AS
Tallink Travel Club OÜ	100%	100%	Estonia	Tallink Grupp AS
TLG Hotell OÜ	100%	100%	Estonia	Tallink Grupp AS
HT Hulgi Tolliladu OÜ	100%	100%	Estonia	Tallink Duty Free AS
Hera Salongid OÜ	100%	100%	Estonia	TLG Hotell OÜ
Baltic SF IX Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VII Ltd	100%	100%	Cyprus	Tallink Grupp AS
Baltic SF VIII Ltd	100%	100%	Cyprus	Tallink Grupp AS

Hansalink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Autoexpress Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Fast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Hansaway Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink High Speed Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Sea Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Superfast Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallink Victory Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn - Helsinki Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Tallinn Swedish Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
Vana Tallinn Line Ltd	100%	100%	Cyprus	Tallink Grupp AS
HTG Stevedoring OY	100%	100%	Finland	Tallink Grupp AS
Tallink Finland OY	100%	100%	Finland	Tallink Grupp AS
Tallink Silja OY	100%	100%	Finland	Tallink Scandinavian AS
Sally AB	100%	100%	Finland	Tallink Silja OY
Tallink Silja GMBH	100%	100%	Germany	Tallink Silja OY
Tallink Latvija AS	100%	100%	Latvia	Tallink Grupp AS
HT Shipmanagement SIA	100%	100%	Latvia	HT Laevateenindus OÜ
TLG Hotell Latvija SIA	100%	100%	Latvia	TLG Hotell OÜ
Tallink-Ru OOO	100%	100%	Russia	Tallink Grupp AS
Tallink Silja AB	100%	100%	Sweden	Tallink Grupp AS
Ingebly (1699) Ltd.	100%	100%	UK	Tallink Grupp AS

Note 24 FINANCIAL RISK MANAGEMENT

Overview

Through use of financial instruments the Group is exposed to the following risks:

- credit risk
- liquidity risk
- market risk

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

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

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

Credit risk
Credit risk is the risk of financial loss that the Group would suffer if the counterparty failed to perform its financial obligations, and arises principally from the Group´s receivables from customers and cash. The credit risk concentration related to accounts receivable is reduced due to the high number of customers.

Maximum credit risk was as follows:

As at 31 December, in thousands of EUR	2016	2015
Cash and cash equivalents (Note 8)	78 773	81 976
Trade and other receivables (Notes 9, 13)	27 444	26 271
Total	**106 217**	**108 247**

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

The Group´s management has established a credit policy under which each new customer with a credit request is analysed individually for creditworthiness before the Group´s payment terms and conditions are offered. Some customers are obliged to present a bank guarantee to meet the credit sale criteria. Customers are assigned credit limits, which represent the maximum exposure that does not require approval from the Group´s management. Customers that fail to meet the Group´s benchmark creditworthiness may transact with the Group on a prepayment basis only. Charterers hiring Group's vessels have provided bank guarantees to cover their payment risk.

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

The aging of receivables at the reporting date was:

As at 31 December 2016, in thousands of EUR	Gross	Impair-ment	Net
Not past due	23 220	0	23 220
Past due 0-30 days	3 649	0	3 649
Past due 31-90 days	372	-33	339
Past due 91 days - one year	190	-127	63
Past due over one year	698	-525	173
Total	**28 129**	**-685**	**27 444**

As at 31 December 2015, in thousands of EUR	Gross	Impair-ment	Net
Not past due	21 928	-209	21 719
Past due 0-30 days	3 420	-10	3 410
Past due 31-90 days	763	-54	709
Past due 91 days - one year	513	-165	348
Past due over one year	451	-366	85
Total	**27 075**	**-804**	**26 271**

Movements in the impairment allowance for trade receivables:

In thousands of EUR	2016	2015
Balance at 1 January	804	734
Amounts written off	-152	-183
Impairment loss recognised	468	516
Reversal of prior period impairment loss	-435	-263
Balance at 31 December	**685**	**804**

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

The Group holds cash and cash equivalents with banking groups that have investment grade credit ratings (BBB or higher).

Liquidity risk

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

The Group's low current ratio represents the normal course of business. The majority of sales are conducted by prepayment, bank card or cash payment, therefore the cash conversion cycle is negative and in general the Group receives the cash from sales before it has to pay to its vendors.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and bonds. The Group has established Group account systems (the Group's cash pools) in Estonia, Finland, Sweden and Latvia to manage the cash flows in the Group as efficiently as possible. Excess liquidity is invested in short-term money market instruments. Tallink Grupp AS maintains three committed bank overdraft facilities to minimize the Group's liquidity risk (see Note 16 for details).

The following tables illustrate liquidity risk by periods when financial liabilities as at 31 December will fall due or may fall due based on contractual cash flows.

In thousands of EUR, 2016	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Overdraft	-40 110	0	0	0	-40 110
Finance lease liabilities	-92	-281	0	0	-373
Trade and other payables	-82 894	0	0	0	-82 894
Secured bank loan repayments	-74 762	-129 238	-184 667	-220 000	-608 667
Bond repayment	0	-98 627	0	0	-98 627
Interest payments(1)	-16 366	-16 388	-25 586	-16 342	-74 682
Derivative financial liabilities					
Interest rate swaps (2)	-3 755	-3 786	-792	0	-8 333
Foreign exchange derivative inflow	0	98 627	0	0	98 627
Foreign exchange derivative outflow	0	-120 000	0	0	-120 000
Total	**-217 979**	**-269 693**	**-211 045**	**-236 342**	**-935 059**

In thousands of EUR, 2015	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Overdraft	-3 397	0	0	0	-3 397
Finance lease liabilities	-82	-14	-96	0	-192
Trade and other payables	-68 427	0	0	0	-68 427
Secured bank loan repayments	-80 617	-265 000	-106 571	-6 000	-458 188
Bond repayment	0	0	-93 097	0	-93 097
Interest payments(1)	-19 171	-16 676	-9 208	-94	-45 149
Derivative financial liabilities					
Interest rate swaps (2)	-4 306	-4 570	-5 346	0	-14 222
Foreign exchange derivative inflow	0	0	93 097	0	93 097
Foreign exchange derivative outflow	0	0	-120 000	0	-120 000
Total	**-176 000**	**-286 260**	**-241 221**	**-6 094**	**-709 575**

(1) – expected, based on the interest rates and interest rate forward curves
(2) – net cash flow, expected, based on the interest rates and interest rate forward curves
Guarantees issued are not recognised in the statement of financial position as, according to historical experience and the Group's management estimations, none of them has turned into an actual liability.

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

Foreign exchange rate risk
The Group is exposed to exchange rate risk arising from revenues, operating expenses and liabilities in foreign currencies, mainly in the US dollar (USD), the Swedish krona (SEK) and the Norwegian krone (NOK). Exposure to USD results from the purchase of ship fuel and insurance, exposure to NOK derives from the bond issued in that currency and exposure to SEK arises from the fact that it is the operational currency on some routes.
The Group seeks to minimize currency risk by matching foreign currency inflows with outflows. Currency risk from the NOK nominated bond is hedged with a cross currency swap.
The following tables present the Group's financial instruments by currency denomination:

In thousands of EUR, 2016	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	52 107	455	25 909	5	297	78 773
Trade receivables, net of allowance	23 038	0	1 335	0	2	24 375
Other financial assets	1 395	0	1 674	0	0	3 069
Total	**76 540**	**455**	**28 918**	**5**	**299**	**106 217**
Current portion of borrowings	-106 033	0	-79	0	0	-106 112
Trade payables	-46 760	-247	-6 172	-1	-334	-53 514
Other current payables	-21 705	0	-8 079	-1 261	0	-31 045
Interest rate swaps	-9 299	0	0	0	0	-9 299
Foreign exchange derivatives	-131 832	0	0	108 772	0	-23 060
Non-current portion of borrowings and other liabilities	-353 885	0	-281	-98 627	0	-452 793

Total	**-669 514**	**-247**	**-14 611**	**8 883**	**-334**	**-675 823**
Net, EUR	**-592 974**	**208**	**14 307**	**8 888**	**-35**	**-569 606**

In thousands of EUR, 2015	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	64 599	4 704	12 320	0	353	81 976
Trade receivables, net of allowance	22 052	0	1 281	0	122	23 455
Other financial assets	1 182	0	1 634	0	0	2 816
Total	**87 833**	**4 704**	**15 235**	**0**	**475**	**108 247**
Current portion of borrowings	-81 807	0	-82	0	0	-81 889
Trade payables	-35 731	-917	-4 822	-1	-211	-41 682
Other current payables	-19 343	0	-9 389	-1 179	0	-29 911
Interest rate swaps	-12 635	0	0	0	0	-12 635
Foreign exchange derivatives	-137 837	0	0	107 609	0	-30 228
Non-current portion of borrowings and other liabilities	-374 134	0	-216	-93 097	0	-467 447
Total	**-661 487**	**-917**	**-14 509**	**13 332**	**-211**	**-663 792**
Net, EUR	**-573 654**	**3 787**	**726**	**13 332**	**264**	**-555 545**

A 10 percent strengthening of the euro against the following currencies at the end of the financial year would have increased (decreased) profit or loss and equity by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2015.

As at 31 December, in thousands of EUR	2016 Profit or loss	2015 Profit or loss
USD	-21	-379
SEK	-1 431	-442
NOK	-889	-1 333
Other	4	-26

Interest rate risk

The Group is exposed to interest rate risk through funding and cash management activities. The interest rate risk – the possibility that the future cash flows from a financial instrument (cash flow risk) will change due to movements in market interest rates – applies mainly to bank loans and the bond. There are no material interest rate risks related to the assets of the Group.

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

As at 31 December, in thousands of EUR	2016	2015
Fixed rate financial liabilities	373	298
Variable rate financial liabilities	590 891	591 901
Total	**591 264**	**592 199**

A change of 10 basis points in the interest rates of interest bearing financial instruments at the reporting date would have increased (decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2015.

In thousands of EUR	2016	2015
10 basis point increase	-370	-228
10 basis point decrease	370	228

Fair values of financial instruments

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

Hedge activities

All derivative financial instruments are recognised as assets or liabilities. They are stated at fair value regardless of their purpose. Many transactions constitute economic hedges but do not qualify for hedge accounting under IAS 39. Changes in the fair value of these derivative financial instruments are recognised directly in profit or loss: fair value changes on forward exchange contracts and currency options are recorded in exchange gains and losses and those on interest rate swaps and interest rate options in interest income and expense.

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

As at 31 December, in thousands of EUR	Hierarchy	Maturity	2016 Notional amount	Fair value	2015 Notional amount	Fair value
Interest rate swap	Level 3	2 019	100 000	-9 256	100 000	-12 046
Interest rate swap	Level 3	2 018	70 000	-43	70 000	-589
Foreign exchange derivative[1]	Level 3	2 018	60 000	-11 530	60 000	-15 114
Foreign exchange derivative[1]	Level 3	2 018	60 000	-11 530	60 000	-15 114
Total derivatives with negative value				**-32 359**		**-42 863**

[1] *Foreign exchange derivatives*

At the effective date the Group exchanged the NOK notional amount (NOK 450 000 thousand) against the EUR notional amount (EUR 60 000 thousand) and at the termination date there is an exchange back. During the life of the derivative the Group pays EURIBOR based EUR and receives NIBOR based NOK in every three months.

The fair values of all derivative financial instruments have been determined by using the Bloomberg Professional valuation functions. Valuation methods are Hull White Model, Black76 – Model and Jarrow – Yildirim – Model. Inputs used are EUR interest rates' term structure, EUR swaption and cap volatilities, inflation swap rates, EURIBOR and NIBOR FRA rates. Inputs are mainly unobservable (level 3 under fair value hierarchy). The following table shows the valuation techniques used in measuring derivatives' fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
- Hull White Model	- EUR interest rates' term structure	The estimated fair value would increase (decrease) if:
- Black76 Model	- EUR swaption and cap volatilities	- EUR interest rates were higher (lower)
- Jarrow – Yildirim Model	- inflation swap rates	- inflation swap rates increase (decrease)

Capital Management

The Group considers total shareholders' equity as capital. As at 31 December 2016 the shareholders' equity was EUR 813 556 thousand (2015: EUR 824 422 thousand). The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group has made significant investments in the recent past where strong shareholders' equity has been a major supporting factor for the investments. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

At the annual general meeting held on 8 February 2011, management introduced the strategic target of reaching the optimal debt level which would allow the Group to start paying dividends. In management's opinion, a comfortable level for the Group's equity ratio is between 40% and 50% and for the net debt to EBITDA ratio an indicator below 5. As at 31 December 2016 the Group's equity ratio was 52.9% and the net debt to EBITDA ratio was 3.2 (2015: 53.6% and 2.6 respectively).

The Group may purchase its own shares on the market; the timing of these purchases may depend on the market prices, the Group's liquidity position and business outlook. Additionally, legal factors may limit the timing of such decisions. Repurchased shares are intended to be cancelled. Currently the Group does not have a defined share buyback plan.

Note 25 SUBSEQUENT EVENTS

On 24 January 2017 Tallink Grupp AS's subsidiary Tallink Line Ltd. took delivery of the new LNG fast passenger ferry Megastar from Meyer Turku Oy shipyard in Turku, Finland. The cost of the Megastar is over EUR 230 million and the purchase is financed with a loan of EUR 184 million from Finnish Export Credit Ltd., the credit is guaranteed by Finnish Export Credit Agency "Finnvera" and arranged by Nordea Bank Finland Plc. The long-term loan was drawn down on 24 January 2017 at the delivery, the maturity of the loan is twelve years and bears OECD Commercial Interest Reference Rate (CIRR) based fixed interest.

Note 26 PRIMARY FINANCIAL STATEMENTS OF THE PARENT

Statement of comprehensive income

For the year ended 31 December, in thousands of EUR	2016	2015
Revenue	455 667	471 380
Cost of sales	-379 728	-371 049
Gross profit	**75 939**	**100 331**
Sales and marketing expenses	-40 909	-35 292
Administrative expenses	-22 835	-19 273
Other operating income	612	9 442
Other operating expenses	-37	-56
Result from operating activities	**12 770**	**55 152**
Finance income	10 504	12 577
Finance costs	-56 235	-59 645
Share of profit of equity-accounted investees	13	64
Profit before income tax	**-32 948**	**8 148**
Income tax	-45	-8 046
Net profit for the year	**-32 993**	**102**

Statement of financial position

As at 31 December, in thousands of EUR	2016	2015
ASSETS		
Cash and cash equivalents	3 106	18 573
Receivables from subsidiaries	112 297	105 329
Receivables and prepayments	19 917	19 103
Tax assets	62	1 209
Inventories	9 411	9 304
Current assets	**144 793**	**153 518**
Investments in subsidiaries	405 104	405 371
Receivables from subsidiaries	281 330	272 077
Investments in equity-accounted investees	363	350
Other financial assets and prepayments	54	52
Property, plant and equipment	312 894	330 182
Intangible assets	10 995	10 930
Non-current assets	**1 010 740**	**1 018 962**
TOTAL ASSETS	**1 155 533**	**1 172 480**
LIABILITIES AND EQUITY		
Interest-bearing loans and borrowings	181 241	103 367
Payables and deferred income	291 141	247 560
Dividend payables to shareholders	4	0
Tax liabilities	3 385	8 355
Current liabilities	**475 771**	**359 282**
Interest-bearing loans and borrowings	596 931	632 177
Other liabilities	0	192
Derivatives	32 359	42 863
Non-current liabilities	**629 290**	**675 232**
Total liabilities	**1 105 061**	**1 034 514**
Share capital	361 736	404 290
Share premium	639	639
Reserves	23 139	16 932
Retained earnings	-335 042	-283 895
Equity attributable to equity holders of the Parent	**50 472**	**137 966**
Equity	**50 472**	**137 966**
TOTAL LIABILITIES AND EQUITY	**1 155 533**	**1 172 480**

Statement of cash flows

For the year ended 31 December, in thousands of EUR	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	**-32 993**	**102**
Depreciation and amortisation	52 216	56 087
Net gain/loss on disposals of tangible and intangible assets	-1	-7 999
Net interest expense	40 161	53 710
Net unrealised foreign exchange gain	5 321	-5 758
Income tax	45	8 046
Other adjustments	-2 574	3 539
Adjustments	**95 168**	**107 625**
Income tax paid/repaid	-2 875	405
Receivables and prepayments related to operating activities	-60 380	8 059
Inventories	-107	566
Liabilities related to operating activities	18 759	56 466
Changes in assets and liabilities	**-44 603**	**65 496**
NET CASH FROM OPERATING ACTIVITIES	**17 572**	**173 223**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment and intangible assets	-34 993	-27 810
Proceeds from disposals of property, plant, equipment	1	9
Increase in share capital of subsidiaries	-3	0
Proceeds from other financial assets	0	225
Interest received	0	6
NET CASH USED IN INVESTING ACTIVITIES	**-34 995**	**-27 570**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	280 000	0
Redemption of loans	-284 858	-62 005
Change in overdraft	87 066	-60 901
Payments for settlement of derivatives	-4 289	-4 045
Interest paid	-19 058	-20 402
Payment of transaction costs related to loans	-2 988	0
Dividends paid	-13 398	-13 398
Reduction of share capital	-40 189	0
Income tax on dividends paid	-330	-2 818
NET CASH FROM/USED IN FINANCING ACTIVITIES	**1 956**	**-163 569**
NET CASH FLOW	**-15 467**	**-17 916**
Cash and cash equivalents at the beginning of period	18 573	36 489
Decrease	-15 467	-17 916
Cash and cash equivalents at the end of period	**3 106**	**18 573**

Statement of changes in equity

In thousands of EUR	Share capital	Share premium	Manda-tory legal reserve	Reserve for treasury shares	Share option programme reserve	Retained earnings	Total equity
As at 31 December 2014	**404 290**	**639**	**18 822**	**-4 163**	**610**	**-269 236**	**150 962**
Net profit for financial year 2015	0	0	0	0	0	102	**102**
Allocation of profit for 2014	0	0	1 363	0	0	-1 363	**0**
Dividends	0	0	0	0	0	-13 398	**-13 398**
Contributions and distributions	0	0	0	0	300	0	**300**
As at 31 December 2015	**404 290**	**639**	**20 185**	**-4 163**	**910**	**-283 895**	**137 966**
Net loss for financial year 2016	0	0	0	0	0	-32 993	**-32 993**
Allocation of profit for 2015	0	0	2 954	0	0	-2 954	**0**
Dividends	0	0	0	0	0	-13 398	**-13 398**
Contributions and distributions	0	0	0	0	-910	0	**-910**
Cancellation of own shares	-2 361	0	0	4 163	0	-1 802	**0**
Reduction of share capital	-40 193	0	0	0	0	0	**-40 193**
As at 31 December 2016	**361 736**	**639**	**23 139**	**0**	**0**	**-335 042**	**50 472**

In thousands of EUR	**2016**	**2015**
Unconsolidated equity at 31 December	**50 472**	**137 966**
Interests under control and significant influence:		
carrying amount	-405 467	-405 721
carrying amount under the equity method	1 168 551	1 092 177
Adjusted unconsolidated equity at 31 December	**813 556**	**824 422**

STATEMENT BY THE MANAGEMENT BOARD

We hereby take responsibility for the preparation of the consolidated financial statements of Tallink Grupp AS (in these consolidated financial statements referred to as "the Parent") and its subsidiaries (together referred to as "the Group").

The Management Board confirms that:

- The consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

- The consolidated 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 going concerns for at least one year of the date of approval of these consolidated financial statements.

Janek Stalmeister
Chairman of the Management Board

Andres Hunt
Vice Chairman of the Management Board

Lembit Kitter
Member of the Management Board

Tallinn, 25 April 2017

Independent Auditors' Report

To the Shareholders of Tallink Grupp AS

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallink Grupp AS and its subsidiaries (collectively, the Group) as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the consolidated financial statements of the Group, as set out on pages 25 to 78 of Tallink Grupp AS Annual Report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements of the Auditor's Activities Act of the Republic of Estonia and with the ethical requirements of the ethics standards for professional accountants as set in the same act, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of work to be performed on the financial information of the entities (components) within the Group based on their financial significance and/or the other risk characteristics.

We, as group auditors, determined 19 of the Group's 45 entities to be significant Group components and we subjected those components to a full scope audit. These components include Tallink Grupp AS, Tallink Silja Oy, Tallink Silja AB, Tallink AS, Tallink Duty Free AS, Tallink Ltd, Tallink Fast Ltd, Tallink Victory Line Ltd, Tallink Autoexpress Ltd, Tallink High Speed Line Ltd, Tallink Sea Line Ltd, Tallink Hansaway Ltd, Baltic SF VII Ltd, Baltic SF VIII Ltd, Baltic SF IX Ltd, Tallinn – Helsinki Line Ltd, Tallink Line Ltd, Hansalink Ltd, Tallinn Swedish Line Ltd.

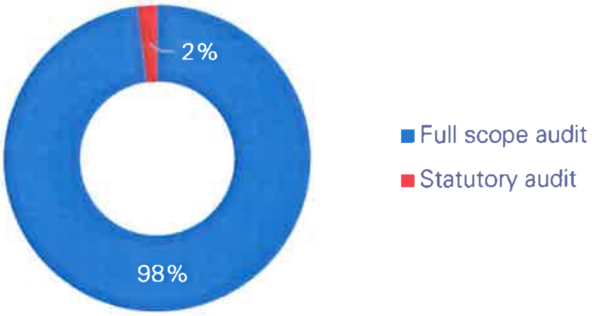
We have used the results of statutory audits of financial statements of HT Laevateenindus OÜ, Hansaliin OÜ and TLG Hotell OÜ to provide audit evidence for the Group audit.

For the remaining 23 non-significant components, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

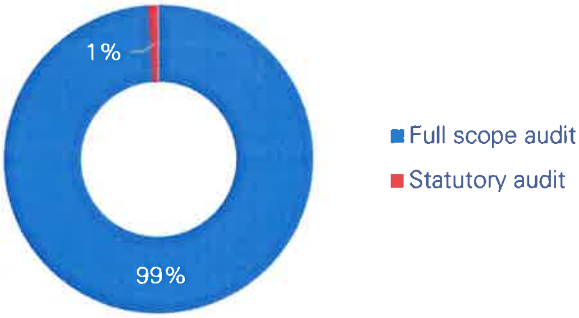
We also performed procedures over the consolidation process at Group level.

Coverage of the Group's consolidated revenue and consolidated total assets with procedures performed:

Consolidated revenue



Consolidated assets



The audit work on the financial information of the significant Group components was performed by the Group audit team in Estonia, except for the audit work of Tallink Silja Oy and Tallink Silja AB, which was performed by KPMG component auditors in Finland and Sweden. The Group audit team instructed component auditors as to the areas to be covered and determined the information required to be reported to the Group audit team. We had regular communications with component auditors and executed audit file reviews, where necessary.

By performing the procedures mentioned above over the Group entities, together with additional procedures at the Group level, we have been able to obtain sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of ships

Refer to Note 14 to the consolidated financial statements for further information.

The key audit matter	How the matter was addressed in our audit
The Group's property, plant and equipment include ships, which are measured at revalued amounts (i.e. fair value less depreciation charged subsequent to the date of the revaluation). The carrying value of the Group's ships as at 31 December 2016 was EUR 1 230 million. The fair value of ships depends on many factors, including changes in the fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. In order to assess the fair value of the ships, the Group's management used independent appraisers. We have identified the carrying value of ships as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's ships as well the depreciation charge for the current year and future years.	Our audit procedures in this area included, among others: • assessing the methodologies used by the external appraisers to estimate the fair values of the ships; • evaluating the independent external appraisers' competence, capabilities and objectivity; • evaluating the historical accuracy of the Group's assessment of the fair values of the ships by comparing them to transaction prices in prior years; • testing the adequacy of the capitalized expenditures of the ships; • analysing the estimates of useful lives and residual values and comparing them to published estimates of other international ship operators; and • assessing the adequacy of the consolidated financial statement disclosures.

Recognition of deferred tax assets	
Refer to Note 6 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
The Group has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable. The recoverability of recognised deferred tax assets is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses (before the latter expire). We have determined this to be a key audit matter, due to the inherent uncertainty of forecasting the amount and timing of future taxable profits and the reversal of temporary differences.	Our audit procedures in this area included, among others: • evaluating the Group's process to prepare the deferred tax calculation, including the Group's budgeting procedures upon which the forecasts are based; • using our own tax specialists to evaluate the tax strategies the Group expects will enable the successful recovery of the recognised deferred tax assets; • assessing the accuracy of forecast future taxable profits by evaluating the historical forecasting accuracy and comparing the assumptions, such as projected growth rates, with our own expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during our audit, including where applicable their consistency with business plans; and • evaluating the adequacy of the consolidated financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

Management is responsible for the other information. The other information comprises the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tallinn, 25 April 2017

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
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