

# AS TALLINK GRUPP

## CONSOLIDATED ANNUAL REPORT 2014

Beginning of the financial year	1 January 2014
End of the financial year	31 December 2014
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Main activity	maritime transportation (passenger & cargo transport)



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## **COMPANY OVERVIEW**

Tallink Grupp 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 18 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
- 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 2014 financial year the Group's operations were affected by several actions and changes in the operations and market developments. Compared to the previous period an increased number of the Group's vessels were chartered out resulting in higher revenues from charters. The cruise ferries Silja Serenade and Silja Symphony received major upgrades that resulted temporarily in fewer trips. With the goal to optimize operations several re-routings were done. This resulted in lower fuel consumption but added one-off costs. At the same time increased capacity resulted in a changed competitive landscape. These various factors had an effect to the slight decline in the volumes resulting in a somewhat weaker annual result.

The Group had a smooth transition switching to low sulphur fuel. One of the goals was to reduce fuel consumption by optimising current operations, therefore several re-routings were made: the cruise ferry Silja Europa was chartered out, the cruise ferry Baltic Queen changed to the Tallinn-Helsinki route and the cruise ferry Romantika changed to Tallinn-Stockholm route, leaving the Riga-Stockholm route with the cruise ferry Isabelle as the only vessel.

During the 2014 financial year a total of 8.88 million passengers travelled on the Group's vessels. The Group's consolidated revenue for 2014 was EUR 921.5 million (EUR 942.0 million in 2013). Gross profit was EUR 181.7 million (EUR 190.2 million in 2013), EBITDA EUR 150.6 million (EUR 156.2 million in 2013). Net profit for 2014 was EUR 27.3 million (EUR 43.3 million in 2013), representing earnings per share of EUR 0.041 (EUR 0.065 in 2013).

During the 2014 financial year the Group's increased focus continued to be on developing the on-board concept. It is our vision for the long term on-board development of new business concepts for bars, restaurants, shops, boutiques, servicing, technical innovations, customer communication etc, we call this "Newboard". In February 2014 the Group launched the refreshed vessel Silja Serenade on the Stockholm-Helsinki route and in October the refreshed Silja Symphony was launched on the same route. The vessels have a 50% expanded shopping area including a new Superstore, upgraded Grand Buffet concept and a new Italian restaurant. Several of the other public areas received a facelift including the refurbishment of Commodore Class cabins and a refreshed SPA & Sauna area. In 2014 the Group invested around EUR 30 million in upgrading the vessels.

Active development of the on-line sales channels continued throughout the year. The volume and share of on-line bookings continue to increase.

The European Commission has a strategy to reduce atmospheric emissions from seagoing ships. This approach brought the Baltic Sea area new rules. From the start of 2015 the allowed sulphur content was reduced from 1.0% to 0.1%. In order to be in compliance the Group switched to marine gasoil, a more expensive fuel that required minimal investment for the vessels. The Group continues actively to monitor the developments of the alternative solutions such as installing scrubbers on selected vessels, LNG technology and alternative fuels.

The key highlights of the 2014 financial year were the following:

- Operations impacted by an overall weak economic environment in the region
- Increased competition
- Development of the online sales channels
- Development of "Newboard"
- Upgrade of vessels
- Re-routings and additional charters
- Global drop in fuel prices

**KEY FIGURES OF THE FINANCIAL YEAR 2014**

	2014	2013	Change
	EUR	EUR	%
Revenue (million)	921.5	942.0	-2.2%
Gross profit (million)	181.7	190.2	-4.5%
Net profit for the period (million)	27.3	43.3	-37.1%
EBITDA (million)	150.6	156.2	-3.6%
Depreciation and amortisation (million)	79.9	73.2	9.2%
Investments (million)	49.1	43.3	13.5%
Weighted average number of ordinary shares outstanding	669,882,040	669,882,040	0%
Earnings per share	0.041	0.065	-37.1%
Number of passengers	8,881,732	9,114,812	-2.6%
Number of cargo units	310,492	301,660	2.9%
Average number of employees	6,952	6,948	0.1%
	<b>31.12.2014</b>	<b>31.12.2013</b>	
Total assets (million)	1,685.6	1,722.1	-2.1%
Total liabilities (million)	907.3	951.0	-4.6%
Interest-bearing liabilities (million)	743.4	794.3	-6.4%
Net debt (million)	678.1	722.3	-6.1%
Total equity (million)	778.3	771.1	0.9%
Equity ratio (%)	46.2%	44.8%	
Number of ordinary shares outstanding <sup>1</sup>	669,882,040	669,882,040	0%
Shareholders' equity per share	1.16	1.15	1.1%
<b>Ratios</b>			
Gross margin (%)	19.72%	20.19%	
EBITDA margin (%)	16.3%	16.6%	
Net profit margin (%)	3.0%	4.6%	
Return on assets (ROA)	4.1%	4.8%	
Return on equity (ROE)	3.6%	5.7%	
Return on capital employed (ROCE)	5.0%	5.6%	
Net debt to EBITDA	4.5	4.6	-2.6%

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

<sup>1</sup> Share numbers exclude own shares.

## SALES

The Group's consolidated revenue amounted to EUR 921.5 million in 2014 (942.0 million in 2013). Restaurant and shop sales on-board and on mainland of EUR 487.6 million (507.3 million in 2013) contributed more than half of total revenue. Ticket sales amounted to EUR 230.5 million (249.2 million in 2013) and sales of cargo transport to EUR 103.1 million (105.6 million in 2013). The distribution of sales between operational segments remained more or less stable compared to the previous financial year.

Geographically, 35.2% or EUR 324.0 million of revenue came from the Finland-Sweden route and 34.9% or EUR 321.7 million from the Estonia-Finland route. Revenue from the Sweden-Estonia route was EUR 102.4 million or 11.1% and from the Sweden-Latvia route EUR 60.0 million or 6.5%. The share of revenue generated by other geographical segments increased to 12.3% (EUR 113.3 million).

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

<b>Geographical segments</b>	<b>2014</b>	<b>2013</b>	<b>Operational segments</b>	<b>2014</b>	<b>2013</b>
Finland - Sweden	35.2%	36.4%	Restaurant and shop sales on-board and on mainland	52.9%	53.9%
Estonia - Finland	34.9%	33.7%	Ticket sales	25.0%	26.5%
Estonia - Sweden	11.1%	11.2%	Sales of cargo transportation	11.2%	11.2%
Latvia – Sweden	6.5%	7.6%	Accommodation sales	2.1%	1.9%
Other	12.3%	11.1%	Income from charter of vessels	5.1%	3.2%
			Other sales	3.7%	3.3%

## EARNINGS

Gross profit was EUR 181.7 million (EUR 190.2 million in 2013), EBITDA EUR 150.6 million (EUR 156.2 million in 2013). Net profit for 2014 was EUR 27.3 million (EUR 43.3 million in 2013). Basic and diluted earnings per share were EUR 0.041 (EUR 0.065 in 2013).

The cost of goods related to sales at shops and restaurants, which is the largest operating cost item, amounted to EUR 211.2 million (EUR 220.2 million in 2013). Accordingly, the proportion of sales on the tax- paid routes (Finland-Estonia and Latvia-Sweden routes), where the margin is lower, increased, whereas the share of the Finland-Sweden tax-free routes decreased.

Fuel costs for 2014 were EUR 114.0 million (EUR 129.8 million in 2013). Fuel costs were impacted by lower fuel price levels throughout the year. Measured in euros, in 2014 the average market price of the reference fuel (Fuel oil 1% sulphur content) was approximately 10% lower than in the 2013 calendar year.

The Group's personnel expenses amounted to EUR 189.8 million (EUR 182.4 million in 2013). The average number of employees in the 2014 financial year was 6,952 (6,948 in 2013).

Administrative expenses for 2014 amounted to EUR 49.2 million and marketing expenses to EUR 62.7 million (EUR 45.1 million and 63.3 million respectively in 2013).

Depreciation and amortisation of the Group's assets was EUR 79.9 million (EUR 73.2 million in 2013). According to the operational efficiency review of the ships the Group Management changed at the beginning of the financial year 2014 estimated useful lives of the ships. There were no impairment losses related to the Group's property, plant, equipment and intangible assets.

The Group's net finance costs for 2014 amounted to EUR 40.7 million (EUR 36.0 million in 2013).

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 2014 was EUR 150.7 million (EUR 168.4 million in 2013).

Net cash used in investing activities was EUR 48.8 million (EUR 41.9 million in 2013) of which EUR 49.1 million (EUR 43.3 million in 2013) resulted from purchases of property, plant, equipment and intangible assets. The increased expenditure was mainly related to the upgrade works on Silja Serenade and Silja Symphony. Also there were investments related to improvements to ships, scheduled maintenance expenses resulting from dockings and investments in various IT systems.

In the 2014 financial year, the Group's net repayments of existing loans and leases totalled EUR 49.9 million (EUR 40.3 million in 2013). Interest payments were EUR 33.3 million (EUR 32.4 million in 2013).

In order to strengthen the Group's liquidity position the overdraft limit was increased by EUR 15 million to EUR 65 million in 2014 and further to EUR 75 million in February 2015.

As at 31 December 2014, the Group's cash and cash equivalents totalled EUR 65.3 million (EUR 72.0 million as at 31 December 2013). In addition, available unused overdraft credit lines amounted to EUR 2.6 million (EUR 31.6 million in 2013).

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 2014, the Group's interest-bearing liabilities as a percentage of capitalization (interest-bearing liabilities and shareholders' equity) was 48.9% compared to 50.7% at 31 December 2013. The decrease results from a EUR 50.1 million decrease in interest-bearing liabilities and a EUR 7.2 million increase in equity.

### *LOANS AND BORROWINGS*

At the end of the 2014 financial year, interest-bearing liabilities totalled EUR 743.4 million, 6.4% down from the end of the previous financial year. In the reporting period, the Group did not take any new loans.

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

### *SHAREHOLDERS' EQUITY*

Consolidated equity increased by 0.9%, from EUR 771.0 million to EUR 778.3 million, mainly on account of net profit for the financial year. Shareholders' equity per share, excluding own shares, was EUR 1.16. At the end of the 2014 financial year, the Group's share capital amounted to EUR 404,290,000. 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 86% of total assets. At the end of the financial year the Group owned 18 vessels. Their 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
Baltic Queen	Cruise ferry	2009	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-Sweden	cargo transportation
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Baltic Princess	Cruise ferry	2008	Finland-Sweden	overnight cruise
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Romantika	Cruise ferry	2002	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
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"
Silja Festival	Cruise ferry	1986	Chartered out	
Silja Europa	Cruise ferry	1993	Chartered out	
Regina Baltica	Cruise ferry	1980	Chartered out	

As at 31 December 2014 the value of the ships amounted to EUR 1,451.4 million (EUR 1,479.0 million at the end of 2013). The Group's vessels are regularly valued by 2 to 3 independent international shipbrokers who are also approved by mortgagees.

In December 2014 AS Tallink Grupp and Meyer Turku Oy signed a letter of intent for the construction of the LNG powered fast ferry for Tallinn-Helsinki route shuttle operations which was followed by a construction contract signed in February 2015. The dual fuel ship will be about 212 metres in length with a passenger capacity of 2,800. The fast ferry will cost around 230 million euros and will be built at Meyer Turku shipyard for delivery at the beginning of 2017. According to the contract 20 percent of the total cost will be paid during the construction period and the rest after the delivery of the vessel. The Group plans to finance 80 percent of the cost of the new ship in 2017 by long term loan.

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 ongoing research and development projects.

## MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2014 financial year was 8.88 million. The total number of cargo units carried by the Group's vessels was over 310 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2014 and 2013 financial years.

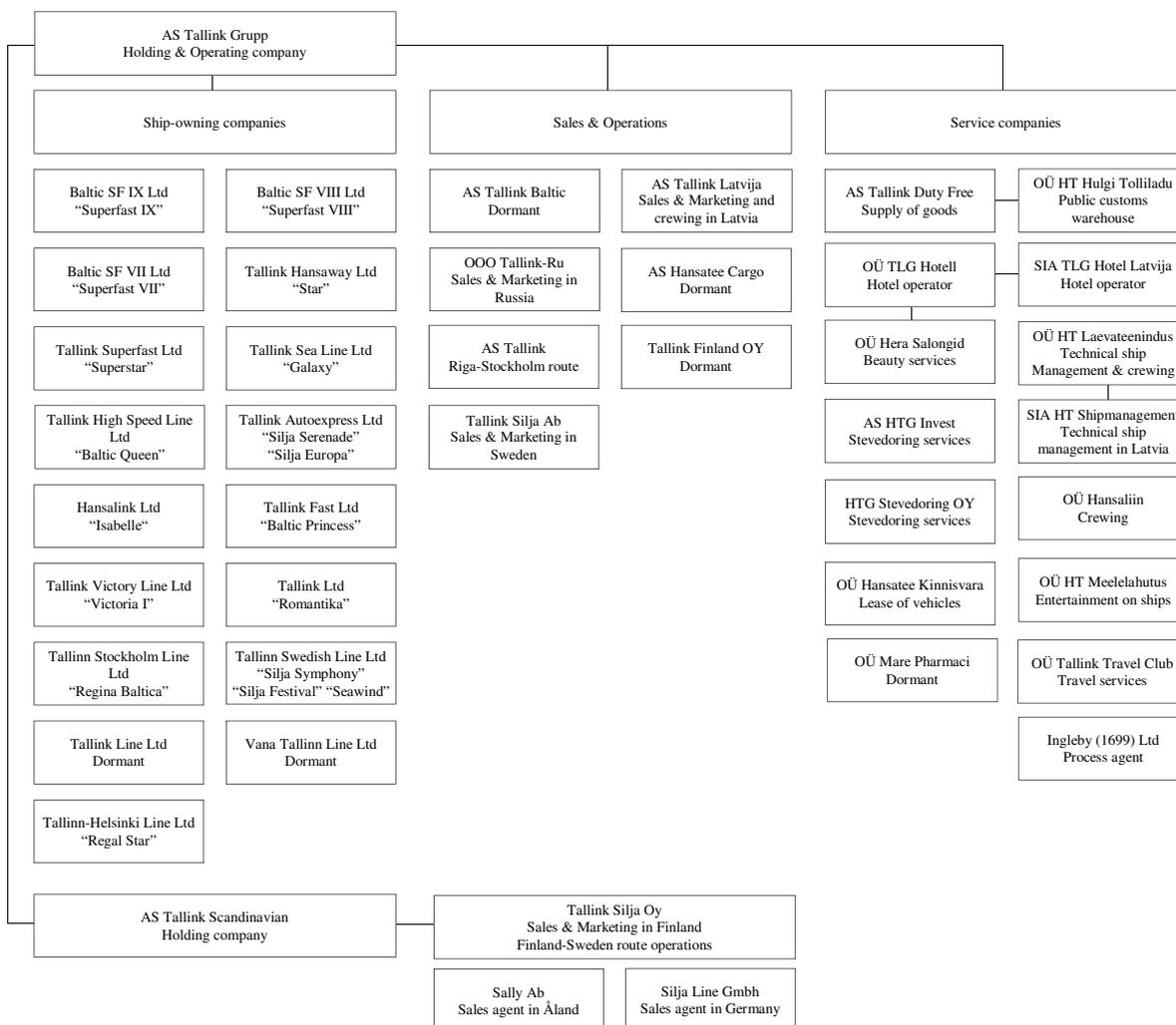
	2014	2013
<b>Passengers</b>		
Finland-Sweden	2,713,789	2,810,290
Estonia-Finland	4,518,013	4,575,993
Estonia-Sweden	973,254	954,974
Latvia-Sweden	676,676	773,555
<b>Total</b>	<b>8,881,732</b>	<b>9,114,812</b>
<b>Cargo units</b>		
Finland-Sweden	87,197	95,599
Estonia-Finland	167,411	147,169
Estonia-Sweden	42,347	40,479
Latvia-Sweden	13,537	18,413
<b>Total</b>	<b>310,492</b>	<b>301,660</b>
<b>Passenger vehicles</b>		
Finland-Sweden	161,197	165,034
Estonia-Finland	789,082	790,255
Estonia-Sweden	73,889	71,398
Latvia-Sweden	79,213	93,202
<b>Total</b>	<b>1,112,381</b>	<b>1,119,889</b>

The Group's market shares on routes operated during the 2014 financial year were as follows:

- The Group carried approximately 55% of passengers and 61% of ro-ro cargo on the route between Tallinn and Helsinki.
- 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.
- The Group carried approximately 51% of passengers and 34% of ro-ro cargo on the routes between Finland and Sweden.

## GROUP STRUCTURE

At the reporting date, the Group consisted of 45 companies. All of the subsidiaries are wholly-owned companies of AS Tallink Grupp. 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 2014, the Group employed 6,654 employees (6,907 on 31 December 2013).

As at 31 December	2014	2013	Change
<b>Onshore total</b>	<b>1,521</b>	<b>1,548</b>	<b>-3.7%</b>
<i>Estonia</i>	770	798	-3.5%
<i>Finland</i>	471	475	-0.8%
<i>Sweden</i>	199	189	5.3%
<i>Latvia</i>	67	72	-6.9%
<i>Germany</i>	4	4	0.0%
<i>Russia</i>	10	10	0.0%
<b>At sea</b>	<b>4,525</b>	<b>4,771</b>	<b>-3.5%</b>
<b>Hotel*</b>	<b>608</b>	<b>588</b>	<b>3.4%</b>
<b>Total</b>	<b>6,654</b>	<b>6,907</b>	<b>2.4%</b>

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

In the 2014 financial year, staff costs in the cost of sales were EUR 138.7 million (EUR 135.1 million in 2013). Staff costs related to administrative staff and sales & marketing staff were EUR 21.3 million and EUR 29.3 million respectively (EUR 18.3 million and EUR 29.1 million respectively in 2013)

## SHARES AND SHAREHOLDERS

As at 31 December 2014 AS Tallink Grupp had a total of 673,817,040 shares issued and fully paid. There were no changes in the amount of shares during the 2014 financial year.

All the shares are of the same kind and each share carries one vote at the shareholders' general meeting. The par value of each share is EUR 0.6. No preference shares or shares with special rights have been issued. According to the articles of association of AS Tallink Grupp, shares can be freely transferred. No authorization needs to be obtained in order to buy or sell AS Tallink Grupp shares.

As a result of share buybacks carried out during the period of December 2007 - January 2008 the Group owns 3,935,000 own shares, which represent 0.584% of shares issued.

On 8 February 2011, the annual general meeting of AS Tallink Grupp set the main terms of a 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 2012 and 2013 financial years. On 30 November 2014 7,317,500 share options expired (issued 2011), because none of the option holders, whom option contracts were issued exercised the right to purchase shares by 30 November 2014. As at 31 December 2014, the Group had outstanding 7,318,638 share options (14,692,768 at the end of 2013) of which 3,850,000 were held by the Management Board and Supervisory Board and 3,486,638 by other Group employees. Each option gives the right to purchase one share in AS Tallink Grupp. The options issued represent around 100% of the total authorized option programme limit and 1.1% of total shares outstanding. The terms and conditions of exercise of the issued share options are as follows: non-transferable; exercisable not earlier than 36 months from issue; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case of existing shares will be purchased from the market; the options are to be settled by physical delivery of shares. The outstanding share options have no diluting effect due to their exercise price being higher than the average price in the stock market during the reporting period. The average price in the stock market in the 2014 financial year was EUR 0.74 (2013: EUR 0.94).

According to the resolution of the general meeting of 26 January 2009, the Company was granted the right to acquire its own shares subject to the following conditions:

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

No share buybacks have been performed since 26 January 2009.

Supervisory Board is authorized within three years as from 1 January 2014 to increase the share capital by EUR 25,000,000 increasing the share capital up to EUR 429,290,224.

The Management Board of AS Tallink Grupp has not been granted the right to issue new shares.

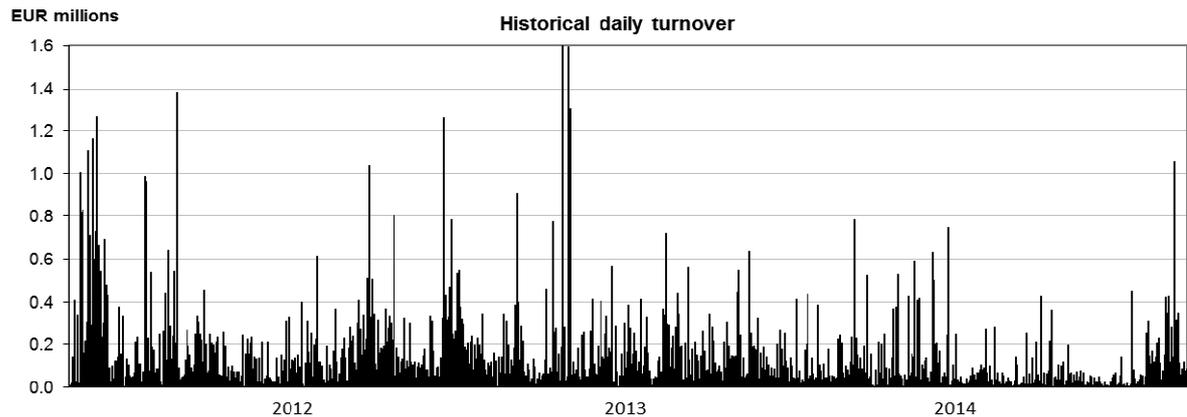
#### TRADING

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

During the 2014 financial year, there were transactions with 34,855,753 AS Tallink Grupp shares on the Tallinn Stock Exchange. The highest daily average share price on the Tallinn Stock Exchange was EUR 0.91 and the lowest daily average share price was EUR 0.60. The average share price in 2014 was EUR 0.74. The average daily turnover of AS Tallink Grupp shares on the Tallinn Stock Exchange was EUR 139 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 2012 to 31 December 2014. The market capitalization in the end of the 2014 financial year period was EUR 454.8 million.





The table below presents the distribution of share capital by size of share ownership as at 31 December 2014:

Ownership size	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 - 99	593	5.35%	24,617	0.00%
100 - 999	3,099	27.96%	1,450,475	0.22%
1,000 - 9,999	6,404	57.77%	14,244,285	2.11%
10,000 – 99,999	832	7.51%	21,212,213	3.15%
100,000 – 999,999	110	0.99%	30,395,781	4.51%
1,000,000 – 9,999,999	41	0.37%	123,432,391	18.32%
10,000,000 +	6	0.05%	483,057,278	71.69%
<b>TOTAL</b>	<b>11,085</b>	<b>100.00%</b>	<b>673,817,040</b>	<b>100.00%</b>

As at 31 December 2014, 6.6% of the Group's shares were held by individuals.

The table below presents the investors of the Group by investor type at 31 December 2014:

Investor type	No. of shareholders	No. of shares	% of share capital
Principal shareholder, Infortar AS	1	241,276,164	35.81%
Institutional investors	1,077	387,782,461	57.55%
Private individuals	10,007	44,758,415	6.64%

The table below presents the 10 largest shareholders of the Group at 31 December 2014:

Shareholder	No. of shares	%
Infortar AS	241,276,164	35.81%
Baltic Cruises Holding, L.P.	117,362,149	17.42%
Nordea Bank Finland PLC/ non-resident legal entities	55,427,307	8.23%
ING Luxembourg S.A.	44,077,066	6.54%
State Sreet Bank and Trust Omnibus account a fund no OM01	14,628,258	2.17%
Skandinaviska Enskilda Banken AB. Swedish clients	10,286,334	1.53%
JP Morgan Chase Bank/Its London Client's account Vanguard Marketing Corporation	9,760,000	1.45%
Firebird Republics fund Ltd	6,721,108	1.00%
Skandinaviska Enskilda Banken S.A.	5,333,117	0.79%
Luksusjaht AS	5,280,169	0.78%

#### *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 the other terms that the parties of the agreement and each shareholder of Tallink shall remain independent in their decisions and shall 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 its own opinion, best complies with its duties under Estonian laws, any Rules of Tallinn Stock Exchange or the Corporate Governance Recommendations.

#### *TAKEOVER BIDS*

The Group has not concluded any agreement with its management or employees that contain the provisions of compensation payment in case of 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. In 2011 management introduced the strategic target to start paying sustainable dividends. Dividend payment is related to the results of the company.

In the 2014 financial year a dividend of EUR 0.03 i.e. EUR 20,096,000 was paid. The rest of the operating cash flow was used to repay the Group's bank loans and to support the Group liquidity.

In management's opinion, the Group's financial position allows the Group to pay dividends. Management will propose to the 2015 shareholders' general meeting a dividend distribution of EUR 0.02 per share, i.e. EUR 13,398,000 in aggregate.

## **CORPORATE GOVERNANCE REPORT**

This report is made in accordance with the Estonian Accounting Act and gives an overview of the governance of AS Tallink Grupp 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 AS Tallink Grupp (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](http://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](mailto: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 for it (CGR 1.3.3).

In the reporting period AS Tallink Grupp held the annual general meeting on 9 June 2014. The meeting was attended by the Management Board members Enn Pant, Andres Hunt, Janek Stalmeister, Lembit Kitter, Peter Roose and Kadri Land. The Supervisory Board members present were Toivo Ninnas, Kustaa Äimä, Ain Hanschmidt, Colin Douglas Clark, Eve Pant and Kalev Järvelill. The meeting was also attended by the Company's auditor Andres Root. The chairman of the meeting was Raino Paron. The meeting was held in Estonian. The attending shareholders represented 519,001,872 votes, i.e. 77.48% of all votes. The resolutions adopted were: distribution of profits, nomination of an auditor and determination of the procedure of remuneration of an auditor.

There was a special general meeting on 5 December 2014. The meeting was attended by the Management Board members Enn Pant, Andres Hunt, Janek Stalmeister, Lembit Kitter, Peter Roose and Kadri Land. The Supervisory Board members present were Toivo Ninnas, Kustaa Äimä, Ain Hanschmidt, Colin Douglas Clark, Eve Pant and Kalev Järvelill. The chairman of the meeting was Raino Paron. The attending shareholders represented 522,071,028 votes, i.e. 77.93% of all votes. The resolutions adopted were: election of the new member of the Supervisory Board Enn Pant, remuneration for work of the member of the Supervisory Board.

### *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 six times during the 2014 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' special general meeting on 17 September 2013. 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 and granted share options of the members of the Supervisory Board at the end of the 2014 financial year were the following:

	Shares	Share options
Toivo Ninnas	19,200	350,000
Eve Pant	603,500	350,000
Ain Hanschmidt	1,800,000	350,000
Lauri Kustaa Äimä	237,000	350,000
Colin Douglas Clark	0	0
Kalev Järvelill	1,276,800	350,000

#### *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 five 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 and retail operations. 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 daily operations, customer service, development and human resources. Mr. Peter Roose is responsible for the Group's sales & marketing and Ms. Kadri Land is responsible for cargo operations and regional offices. The Supervisory Board has concluded service agreements with the members of the Management Board.

In 2014 the remuneration of the members of the Group's Management Board was in total EUR 1.9 million. In December 2014 one Member of the Management Board received termination benefits EUR 900,000.

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 AS Tallink Grupp. 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 three-months' remuneration that are paid when the Group's results are profitable. 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 2014 financial year were the following:

	Shares	Share options
Enn Pant	3,951,913	350,000
Andres Hunt	860,000	350,000
Lembit Kitter	0	350,000
Janeke Stalmeister	45,000	350,000
Peter Roose	39,588	350,000
Kadri Land	39,792	350,000

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

According to the resolution of the general meeting of 26 January 2009, the Company was granted the right to acquire its own shares subject to the following conditions:

- 1) The Company may acquire own shares within five years as from the adoption of the resolution.
- 2) The total nominal value of the shares owned by the Company may not exceed 10 % of share capital.
- 3) The price payable for one share may not be more than the highest price paid on the Tallinn Stock Exchange for a share of AS Tallink Grupp at the day when the share is acquired.
- 4) Own shares are to be paid for using the assets exceeding share capital, the mandatory legal reserve and share 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 annual audited 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 information presented in the annual report is reliable.

The consolidated financial statements for the 2014 financial year were audited by KPMG Baltics OÜ.

#### *AUDIT COMMITTEE*

The Supervisory Board has elected two persons to the Audit Committee: Mr. Ain Hanschmidt and Ms. Mare Puusaag. 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*

INFORTAR AS	241,276,164	35.81%
BALTIC CRUISES HOLDING, L.P.	117,362,149	17.42%

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 Infotar
- 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 and 350,000 share options

**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 and 350,000 share options

**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 530,000 shares and 350,000 share options

**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 and 350,000 share options

**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 member of several companies including AS Premia Foods, AS Toode, AS Baltika, AS Riga Dzirnavnieks and UAB Malsena Plius
- Holds a Master's degree in Economics from the University of Helsinki, Finland, 1997
- Direct shareholding of 237,000 shares and 350,000 share options

**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 and nil share options

**Mr. Kalev Järvelill (born 1965)** - Member of the Supervisory Board since 2007

- Member of the Supervisory Board of AS Infortar
- He was a member of the Management Board of AS Tallink Grupp 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 and 350,000 share options

## 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 and 350,000 share options

**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 822,000 shares and 350,000 share options

**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 and 350,000 share options

**Mr. Peter Roose (born 1969)** - Member of the Management Board since 2012, Group Sales and Marketing Director

- Has been with the Group since 2005 in the positions of Sales and Marketing Director
- Has worked as CEO at OÜ TLG Meedia and CEO at AS DDB Brand Sellers Estonia
- Graduated with a BA in Economics from Wilfrid Laurier University, Canada, in 1999
- Direct shareholding of 39,588 shares and 350,000 share options

**Mrs. Kadri Land (born 1964)** - Member of the Management Board since 2012, Managing Director of Tallink Silja AB

- Has been with the Group since 2005 in the position of Managing Director at Tallink Silja AB
- Has worked as editor and broadcaster in Sveriges Radio and Voice of America
- Graduated from the Faculty of Chemistry and Physics, University of Tartu, Estonia, in 1987
- Direct shareholding of 39,792 shares and 350,000 share options

## 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 damages 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 Lloyds Register
- 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 Environmental and Corporate Social Responsibility Report.

## **OUTLOOK**

During the financial year several steps have been taken including charters, upgrades and re-routings with the goal to optimise operations. A positive effect to the profitability could be seen from the 2014 fourth quarter result. The management expects an improvement in the results for the 2015 financial year. The uncertainties in the overall economic environment will continue to exist and fuel prices will remain volatile.

With an aim to increase revenue generation improvements in product development continue, emphasis is on retail sales and upgrades to the public areas on selected vessels. Cost reductions in some areas are processed in order to adapt with the changed economic environment.

In management's opinion, the Group's financial position allows the Group to pay dividends. Management will propose to the 2015 shareholders' general meeting a dividend distribution of EUR 0.02 per share, i.e. EUR 13,397,641 in aggregate.

## **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 AS Tallink Grupp for the 2014 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.

A long, horizontal, cursive signature in blue ink, written over a horizontal line.

Chairman of the Management Board  
Janek Stalmeister

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Vice Chairman of the Management Board  
Andres Hunt

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Member of the Management Board  
Lembit Kitter

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Member of the Management Board  
Peter Roose

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Member of the Management Board  
Kadri Land

Tallinn, 24.04.2015

**STATEMENT BY THE MANAGEMENT BOARD**

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

  
\_\_\_\_\_  
Chairman of the Management Board  
Janek Stalmeister  
\_\_\_\_\_  
Member of the Management Board  
Lembit Kitter  
\_\_\_\_\_  
Member of the Management Board  
Kadri Land  
\_\_\_\_\_  
Vice Chairman of the Management Board  
Andres Hunt  
\_\_\_\_\_  
Member of the Management Board  
Peter Roose

Tallinn, 24.04.2015

**CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December

	In thousands of EUR		Notes
	2014	2013	
Revenue	921,466	941,983	4
Cost of sales	-739,789	-751,827	5
<b>Gross profit</b>	<b>181,677</b>	<b>190,156</b>	
Marketing expenses	-62,654	-63,292	5
Administrative expenses	-49,211	-45,148	5
Other operating income	1,696	2,120	
Other operating expenses	-854	-805	
<b>Result from operating activities</b>	<b>70,654</b>	<b>83,031</b>	
Finance income	11,760	21,547	5
Finance costs	-52,443	-57,503	5
Share of profit of equity-accounted investees	24	17	12
<b>Profit before income tax</b>	<b>29,995</b>	<b>47,092</b>	
Income tax	-2,734	-3,786	6
<b>Net profit for the year</b>	<b>27,261</b>	<b>43,306</b>	
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	286	114	
<b>Other comprehensive income for the year</b>	<b>286</b>	<b>114</b>	
<b>Total comprehensive income for the year</b>	<b>27,547</b>	<b>43,420</b>	
<b>Basic and diluted earnings per share</b>			
(in EUR per share)	0.041	0.065	7

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Signature/allkiri..... 26 .....

KPMG, Tallinn

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December	In thousands of EUR		Notes
	2014	2013	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	65,311	72,012	8
Trade and other receivables	38,210	40,544	9
Prepayments	5,448	3,185	10
Derivatives	0	679	25
Inventories	31,315	33,457	11
	<b>140,284</b>	<b>149,877</b>	
<b>Non-current assets</b>			
Investments in equity-accounted investees	286	262	12
Other financial assets	252	385	13
Deferred income tax assets	21,338	17,413	6
Investment property	300	300	14
Property, plant and equipment	1,467,964	1,495,895	15
Intangible assets	55,174	57,925	16
	<b>1,545,314</b>	<b>1,572,180</b>	
<b>TOTAL ASSETS</b>	<b>1,685,598</b>	<b>1,722,057</b>	
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	149,850	106,014	17
Trade and other payables	91,236	97,387	18
Income tax liability	1,300	0	6
Deferred income	29,408	28,315	19
Derivatives	41,982	30,888	25
	<b>313,776</b>	<b>262,604</b>	
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	593,532	688,327	17
Other liabilities	0	63	
	<b>593,532</b>	<b>688,390</b>	
<b>Total liabilities</b>	<b>907,308</b>	<b>950,994</b>	
<b>Equity</b>			
<b>Equity attributable to equity holders of the Parent</b>			
Share capital	404,290	404,290	20
Share premium	639	639	20
Reserves	70,129	70,111	20
Retained earnings	303,232	296,023	
<b>Total equity attributable to equity holders of the Parent</b>	<b>778,290</b>	<b>771,063</b>	
<b>Total equity</b>	<b>778,290</b>	<b>771,063</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,685,598</b>	<b>1,722,057</b>	

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 Signature/allkiri.....  
 KPMG, Tallinn

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December

	In thousands of EUR		Notes
	2014	2013	
<b>Cash flows from operating activities</b>			
Net profit for the period	27,261	43,306	
Adjustments:	125,629	118,619	
Depreciation and amortisation	79,908	73,176	15, 16
Net gain/loss on disposals of property, plant and equipment	-76	1,300	
Net interest expense	35,336	36,687	5
Net expense from derivatives	15,758	12,558	5
Profit from equity-accounted investees	-24	-17	12
Net unrealised foreign exchange gain	-7,783	-9,178	
Share option programme reserve	-224	307	
Income tax	2,734	3,786	6
Changes in receivables and prepayments related to operating activities	-2,291	4,229	
Changes in inventories	2,142	-4,031	
Changes in liabilities related to operating activities	-2,103	6,649	
Income tax paid	71	-378	
	<b>150,709</b>	<b>168,394</b>	
<b>Cash flows used in investing activities</b>			
Purchase of property, plant, equipment and intangible assets	-49,148	-43,291	15, 16
Proceeds from disposals of property, plant, equipment	215	1,318	
Interest received	140	114	
	<b>-48,793</b>	<b>-41,859</b>	
<b>Cash flows used in financing activities</b>			
Proceeds from loans	0	24,000	
Repayment of loans	-89,842	-198,126	
Change in overdraft	43,993	18,456	
Proceeds from bonds	0	115,487	
Payments for settlement of derivatives	-3,985	-4,451	
Payment of finance lease liabilities	-75	-96	
Interest paid	-33,270	-32,439	
Payment of transaction costs related to loans	0	-557	
Dividends paid	-20,096	-33,494	
Income tax on dividends paid	-5,342	-8,903	
	<b>-108,617</b>	<b>-120,123</b>	
<b>TOTAL NET CASH FLOW</b>	<b>-6,701</b>	<b>6,412</b>	
<b>Cash and cash equivalents:</b>			
- at the beginning of period	72,012	65,600	
- increase / decrease	-6,701	6,412	
- at the end of period	<b>65,311</b>	<b>72,012</b>	8

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 for the year ended 31 December, in thousands of EUR

	Share capital <sup>1</sup>	Share premium <sup>1</sup>	Trans-lation reserve <sup>1</sup>	Ships' revaluation reserve <sup>2</sup>	Mandatory legal reserve <sup>1</sup>	Reserve for treasury shares <sup>1</sup>	Share option programme reserve <sup>3</sup>	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
<b>As at 31 December 2012</b>	<b>404,290</b>	<b>639</b>	<b>-102</b>	<b>58,993</b>	<b>13,836</b>	<b>-4,163</b>	<b>527</b>	<b>286,810</b>	<b>760,830</b>	<b>760,830</b>
Net profit for the year 2013	0	0	0	0	0	0	0	43,306	43,306	43,306
Total other comprehensive income for the year 2013	0	0	114	0	0	0	0	0	114	114
Total comprehensive income for the year 2013	0	0	114	0	0	0	0	43,306	43,420	43,420
<b>Transactions with owners of the company</b>										
Transfer from profit for 2012	0	0	0	0	2,815	0	0	-2,815	0	0
Transfer from revaluation reserve	0	0	0	-2,216	0	0	0	2,216	0	0
Dividends	0	0	0	0	0	0	0	-33,494	-33,494	-33,494
Share-based payment transactions (Note 21)	0	0	0	0	0	0	307	0	307	307
<b>Transactions with owners, recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,216</b>	<b>2,815</b>	<b>0</b>	<b>307</b>	<b>-34,093</b>	<b>-33,187</b>	<b>-33,187</b>
<b>As at 31 December 2013</b>	<b>404,290</b>	<b>639</b>	<b>12</b>	<b>56,777</b>	<b>16,651</b>	<b>-4,163</b>	<b>834</b>	<b>296,023</b>	<b>771,063</b>	<b>771,063</b>
Net profit for the year 2014	0	0	0	0	0	0	0	27,261	27,261	27,261
Total other comprehensive income for the year 2014	0	0	286	0	0	0	0	0	286	286
Total comprehensive income for the year 2014	0	0	286	0	0	0	0	27,261	27,547	27,547
<b>Transactions with owners of the company</b>										
Transfer from profit for 2013	0	0	0	0	2,171	0	0	-2,171	0	0

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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Transfer from revaluation reserve	0	0	0	-2,215	0	0	0	2,215	0	0
Dividends	0	0	0	0	0	0	0	-20,096	-20,096	-20,096
Share-based payment transactions (Note 21)	0	0	0	0	0	0	-224	0	-224	-224
<b>Transactions with owners, recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,215</b>	<b>2,171</b>	<b>0</b>	<b>-224</b>	<b>-20,052</b>	<b>-20,320</b>	<b>-20,320</b>
<b>As at 31 December 2014</b>	<b>404,290</b>	<b>639</b>	<b>298</b>	<b>54,562</b>	<b>18,822</b>	<b>-4,163</b>	<b>610</b>	<b>303,232</b>	<b>778,290</b>	<b>778,290</b>

<sup>1</sup> For further information see also Note 20 Share Capital and Reserves

<sup>2</sup> For further information see also Note 15 Property, Plant and Equipment and Note 20 Share Capital and Reserves

<sup>3</sup> For further information see also Note 21 Share Option Programme

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****Note 1 CORPORATE INFORMATION**

The consolidated financial statements of AS Tallink Grupp (the "Parent") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2014 were authorised for issue by the Management Board on 24 April 2015.

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 Council, 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.

AS Tallink Grupp is a public limited company incorporated and domiciled in Estonia, with a registered office at Sadama 5/7 Tallinn. AS Tallink Grupp's 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 2014 the Group employed 6,654 people (6,907 as at 31 December 2013).

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**Note 2 BASIS OF PREPARATION****2.1. Statement of compliance**

The consolidated financial statements of AS Tallink Grupp 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 25)
- available-for-sale financial assets are measured at fair value (Note 13)
- investment property is measured at fair value (Note 14)
- ships are measured at revalued amounts (Note 15)

**2.3. Changes in accounting policies**

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 2014.

**IFRS 10 Consolidated Financial Statements**

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when it 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 that investee and there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

**IAS 27 (2011) Separate Financial Statements**

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*.

**IFRS 12 Disclosure of Interest in Other Entities**

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

**Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets**

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generating units has been recognised or reversed in the period *and* recoverable amount is based on fair value less costs of disposal:

- the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

#### Amendments to IAS 39 – Novation of derivatives and Continuation of Hedge Accounting

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

- the novation is made as a consequence of laws or regulations;
- a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument;
- changes to the terms of the derivative are limited to those necessary to replace the counterparty.

The adoption of amendments to IAS 39 had no impact to 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 except when 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:

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Financial instruments – whether derivatives qualify for hedge accounting

As at 31 December 2014, the Group had entered into four derivative agreements (31 December 2013: five agreements). The Group has determined that interest rate derivatives do not qualify for cash flow hedge accounting. See Notes 25 and 3.3. for more detailed information on the interest rate swap agreements and related accounting policies.

Operating leases – the Group as lessee

As at 31 December 2014, the Group had entered into lease agreements for five hotel buildings and two office buildings (31 December 2013: five hotel buildings and two office buildings). 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 22 for more detailed information on the minimum lease payments of the lease agreements.

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.

**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 2014. 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 2014 carrying value of ships as a group did not materially differ from their fair value. Therefore, no revaluation was performed as at 31 December 2014. Further details are given in Note 3.4 and Note 15.

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 2014 amounted to EUR 11,066,000 (31 December 2013: EUR 11,066,000). Further details are given in Note 16.

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 tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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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.

#### 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 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 19.

### **Note 3 SIGNIFICANT ACCOUNTING POLICIES**

Except for the changes explained in note 2.3, 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. The Group controls an investee when it 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.

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 AS Tallink Grupp 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 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.

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### ***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 and fuel price fluctuations. 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 amount (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

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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.

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### 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.

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**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 includes 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.

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**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.

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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 risk 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,

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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. Income arising from finance charters (when the Group is a lessor) is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the charter.

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 19.

### 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.

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### 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

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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 2015; 21/79 in 2014). 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 22.

#### 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 internally is provided 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 (operational segment), which is subject to risks and returns that are different from those of other segments.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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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. New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the annual financial reporting period ended 31 December 2014 and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

Those which may be relevant to the Group are set out below.

#### Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendments to have any impact on the financial statements.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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#### IFRIC 21 *Levies*

Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.

The interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by a government.

In accordance with the interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The impact of the initial application of the interpretation will depend on the specific levies imposed by governments, applicable at the date of initial application. The Group does not intend to adopt the interpretation early; therefore it is not possible to estimate the impact the adoption of the interpretation will have on the Group's financial statements.

#### Annual improvements to IFRS

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

The Group does not expect the improvements to have any impact on the financial statements.

### 3.21. 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

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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 2)**

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 appraiser, 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 employees share options has been measured 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.

**3.22. 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 only. The separate primary financial statements of AS Tallink Grupp are disclosed in Note 27 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.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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**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) three ships between Estonia and Finland, (2) three ships between Estonia and Sweden, (3) one ship between Latvia and Sweden, (4) five ships between Finland and Sweden, (5) six ships were 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 2014 and 31 December 2013.

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**Geographical segments – by the location of assets**

For the year ended 31 December

In thousands of EUR

2014	Estonia- Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland- Sweden route	Other	Elimination of inter- segment sales	Total
<b>Revenue</b>							
Sales to external customers	321,738	102,442	60,023	323,969	113,294	0	921,466
Inter-segment sales	0	0	0	0	10,553	-10,553	0
	<b>321,738</b>	<b>102,442</b>	<b>60,023</b>	<b>323,969</b>	<b>123,847</b>	<b>-10,553</b>	<b>921,466</b>
<b>Result</b>							
Segment result	82,937	4,648	1,297	2,964	27,177	0	119,023
Unallocated expenses							-48,369
Net financial items							-40,683
Share of profit of equity-accounted investees							24
<b>Profit before income tax</b>							<b>29,995</b>
Income tax							-2,734
<b>Net profit for the period</b>							<b>27,261</b>
<b>Assets and liabilities</b>							
Segment assets	391,011	247,529	31,294	578,736	362,112	-784	1,609,898
Unallocated assets							75,700
							<b>1,685,598</b>
Segment liabilities	23,930	9,887	5,109	63,127	12,499	-784	113,768
Unallocated liabilities							793,540
							<b>907,308</b>

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2014 (continued)

Other segment information

Capital expenditures:

- segment's property, plant and equipment ("PP&E")	1,309	1,533	1,128	39,002	2,414	0	45,386
- unallocated PP&E							1,224
- segment's intangible assets ("IA")	18	6	2	7	27	0	60
- unallocated IA							2,742
Depreciation	12,748	9,470	4,819	24,512	20,256	0	71,805
Unallocated depreciation							2,550
Amortisation	773	155	104	475	168	0	1,675
Unallocated amortisation							3,878

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2013	Estonia- Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland- Sweden route	Other	Elimination of inter- segment sales	Total
<b>Revenue</b>							
Sales to external customers	317,408	104,922	71,917	343,200	104,536	0	941,983
Inter-segment sales	0	0	0	0	10,295	-10,295	0
	<b>317,408</b>	<b>104,922</b>	<b>71,917</b>	<b>343,200</b>	<b>114,831</b>	<b>-10,295</b>	<b>941,983</b>
<b>Result</b>							
Segment result	82,948	7,584	1,116	15,325	19,891	0	126,864
Unallocated expenses							-43,833
Net financial items							-35,956
Profit from subsidiaries							
Share of profit of equity-accounted investees							17
<b>Profit before income tax</b>							<b>47,092</b>
Income tax							-3,786
<b>Net profit for the period</b>							<b>43,306</b>
<b>Assets and liabilities</b>							
Segment assets	332,894	306,304	146,820	566,224	288,660	-779	1,640,123
Unallocated assets							81,934
							<b>1,722,057</b>
Segment liabilities	26,257	11,149	8,621	60,673	11,240	-779	117,161
Unallocated liabilities							833,833
							<b>950,994</b>

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2013 (continued)

Other segment information

Capital expenditures:

- segment's property, plant and equipment ("PP&E")	1,088	536	30,278	5,674	1,080	0	38,656
- unallocated PP&E							941
- segment's intangible assets ("IA")	0	0	5	0	0	0	5
- unallocated IA							4,018
Depreciation	12,633	9,299	6,484	21,546	15,146	0	65,108
Unallocated depreciation							2,971
Amortisation	559	124	99	286	218	0	1,286
Unallocated amortisation							3,811

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### Revenue by service

For the year ended 31 December

In thousands of EUR

	2014	2013
Ticket sales	230,459	249,210
Sales of cargo transport	103,060	105,568
Sales of accommodation	18,967	17,976
Restaurant and shop sales on-board and on mainland	487,546	507,307
Income from charter of vessels	47,072	30,755
Other	34,362	31,167
<b>Total revenue of the Group</b>	<b>921,466</b>	<b>941,983</b>

### Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

For the year ended 31 December

Cost of sales	In thousands of EUR		Note
	2014	2013	
Cost of goods sold	-211,211	-220,222	
Port & stevedoring costs	-95,830	-96,295	
Fuel costs	-114,008	-129,826	
Staff costs	-138,660	-135,053	
Ships' operating expenses	-77,930	-74,017	
Depreciation and amortisation	-71,733	-65,052	15, 16
Cost of package sales	-9,185	-10,079	
Other costs	-21,232	-21,283	
<b>Total cost of sales</b>	<b>-739,789</b>	<b>-751,827</b>	

For the year ended 31 December

Marketing expenses	In thousands of EUR		Note
	2014	2013	
Advertising expenses	-29,322	-31,244	
Staff costs	-29,869	-29,061	
Depreciation and amortisation	-1,747	-1,342	15, 16
Other costs	-1,716	-1,645	
<b>Total marketing expenses</b>	<b>-62,654</b>	<b>-63,282</b>	

For the year ended 31 December

Administrative expenses	In thousands of EUR		Note
	2014	2013	
Staff costs	-21,285	-18,308	
Depreciation and amortisation	-6,428	-6,782	15, 16
Other costs	-21,498	-20,058	
<b>Total administrative expenses</b>	<b>-49,211</b>	<b>-45,148</b>	

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

For the year ended 31 December

	In thousands of EUR	
	2014	2013
Wages and salaries	-170,513	-191,630
Government subsidies	37,196	37,065
Social security costs	-51,352	-23,992
Staff training costs	-1,372	-1,406
Other staff costs	-3,735	-2,459
<b>Total staff costs</b>	<b>-189,776</b>	<b>-182,422</b>

During the reporting period EUR 37,196,000 was deducted from the cost of sales in connection with government subsidies related to seamen's salaries in Finland and Sweden (2013: EUR 37,065,000). The government subsidies receivable is disclosed in Note 9.

#### Finance income and finance costs recognised in profit or loss

For the year ended 31 December

	In thousands of EUR	
	2014	2013
<b>Finance income</b>		
Net foreign exchange gains	10,411	13,289
Income from interest rate swaps	1,274	8,143
Interest income arising from financial assets not measured at fair value through profit or loss	75	115
	<b>11,760</b>	<b>21,547</b>
<b>Finance costs</b>		
Interest expense arising from financial liabilities measured at amortised cost	-35,411	-36,802
Expenses from foreign exchange derivatives	-7,168	-16,250
Expenses from interest rate swaps	-9,864	-4,451
	<b>-52,443</b>	<b>-57,503</b>
<b>Net finance costs</b>	<b>-40,683</b>	<b>-35,956</b>

#### 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 2014 was 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% and in Australia 30% (as at 31 December 2013 in Finland 20%, in Sweden 22%, in Latvia 15%, in Russia 20%, in Canada 26% and in Australia 30%).

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### Income tax expense

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

	In thousands of EUR	
	2014	2013
<b>Current period tax expense</b>		
Latvian subsidiary	-17	-32
Estonian parent company	-5,342	-8,903
Permanent establishments <sup>1</sup>	-1,300	0
<b>Total current tax expense</b>	<b>-6,659</b>	<b>-8,935</b>
<b>Change in deferred tax</b>		
Swedish subsidiaries	-599	-383
Finnish subsidiaries	4,538	5,523
Latvian subsidiaries	-14	9
<b>Total deferred tax income/expense</b>	<b>3,925</b>	<b>5,149</b>
<b>Total tax income/ expense</b>	<b>-2,734</b>	<b>-3,786</b>

<sup>1</sup> AS Tallink Grupp had chartered out two ships providing accommodation services in Canada and Australia that gave raise to permanent establishments for taxation purposes. Therefore AS Tallink Grupp is subject to Canadian and Australian corporate income tax on the activity in these countries. Estimated income tax expense for these permanent establishments is calculated and recognised in the Group's financial statements.

### Reconciliation of the effective tax rate

For the year ended 31 December

In thousands of EUR	2014		2013	
		%		%
Profit before tax	29,995		47,092	
Tax using the Company's domestic rate	0	0	0	0
Tax arising on dividends	5,342	17.81	8,903	18.91
Effect of tax rates in foreign jurisdiction	1,317	4.39	32	0.07
Effect of reduction of tax rate	0	0	1,997	4.24
Current year recognised tax losses	-10,591	-35.31	-11,226	-23.84
Derecognition of previously recognised tax losses	7,236	24.12	4,673	9.92
Change in temporary differences	-570	-1.90	-593	-1.26
<b>Income tax (expense)/ benefit</b>	<b>2,734</b>	<b>9.11</b>	<b>3,786</b>	<b>8.04</b>

### Deferred tax assets and liabilities

According to Russian, Latvian, Finnish and Swedish legislation it is permissible for taxation purposes to use higher depreciation and amortisation rates and thereby accomplish a postponement of tax payments. These postponements 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.

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**Deferred tax assets and liabilities are attributable to the following**

As at 31 December

In thousands of EUR

	Assets		Liabilities	
	2014	2013	2014	2013
Tax loss carry-forward <sup>1</sup>	28,003	24,648	0	0
Property, plant and equipment	35	49	0	0
Intangible assets	0	0	-6,700	-7,284
<b>Tax assets / liabilities</b>	<b>28,038</b>	<b>24,697</b>	<b>-6,700</b>	<b>-7,284</b>
Offset of assets and liabilities	-6,700	-7,284	6,700	7,284
<b>Tax assets/ liabilities</b>	<b>21,338</b>	<b>17,413</b>	<b>0</b>	<b>0</b>

<sup>1</sup> Deferred tax assets of EUR 25,415,000 (2013: EUR 21,461,000) in Finland and of EUR 2,588,000 (2013: EUR 3,187,000) in Sweden have been recognised in respect of the losses carried forward. The recognised Finnish tax losses will expire from 2022-2024 and the Swedish tax losses have no expiration date. Tax losses of Finnish subsidiary that will expire before 2022 have not been recognised due to estimation uncertainty. Such unrecognised tax losses amounted to EUR 86,110,000 as at 31 December 2014 (EUR 54,595,000 as at 31 December 2013). 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 estimations, the Finnish subsidiary will be profitable from 2019 onwards. The estimations are based on the business plan of Finnish operations and planned reduction of intragroup charter fees. The revenue growth rate for the years 2015-2024 of Finnish operations used in calculations is 2-3% and the growth rate used for cost increase is 1-2%.

**Movements in deferred tax balances**

	Balance 31 December 2013	Recognised in profit or loss	Balance 31 December 2014
Tax loss carry-forward	-24,648	-3,355	-28,003
Property, plant and equipment	-49	14	-35
Intangible assets	7,284	-584	6,700
Net deferred tax (asset)/liability	<b>-17,413</b>	<b>-3,925</b>	<b>-21,338</b>

**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. The Group has issued 14,927,500 share options.

At 31 December 2014 the Group held 3,935,000 of the AS Tallink Grupp shares as treasury shares.

In thousands	Shares issued	Treasury shares	Shares outstanding
As at 31 December 2013	673,817	3,935	669,882
As at 31 December 2014	673,817	3,935	669,882

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For the year ended 31 December

	In thousands of EUR	
	2014	2013
Weighted average number of ordinary shares outstanding (in thousands, basic)	669,882	669,882
Effect of share option on issue	0	1,349
Weighted average number of ordinary shares outstanding (in thousands, diluted)	669,882	671,231
Net profit/loss attributable to equity holders of the Parent	27,261	43,306
Basic EPS (EUR per share)	0.041	0.065
Diluted EPS (EUR per share)	0.041	0.065

**Note 8 CASH AND CASH EQUIVALENTS**

As at 31 December

	In thousands of EUR	
	2014	2013
Cash at bank and in hand	63,428	69,920
Short-term deposits	1,883	2,092
<b>Total cash and cash equivalents</b>	<b>65,311</b>	<b>72,012</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2014 the rates were in the range of 0.00-0.25% and in 2013 in the range of 0.08-0.8%).

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 2014 range up to 12 January 2015. As at 31 December 2014 and 31 December 2013 short-term deposits of EUR 1,883,000 and EUR 1,939,000 respectively could only be used for repayment of bank loans.

The Group's exposure to currency risk and analysis is disclosed in Note 25.

**Note 9 TRADE AND OTHER RECEIVABLES**

As at 31 December

	In thousands of EUR	
	2014	2013
Trade receivables	24,115	25,853
Allowance for doubtful trade receivables	-734	-762
Government grants receivable	10,221	6,535
Other receivables	4,608	8,918
<b>Total trade and other receivables (Note 25)</b>	<b>38,210</b>	<b>40,544</b>

During the reporting period EUR 310,000 of the trade receivables was expensed as doubtful and uncollectible (2013: EUR 305,000).

The Group's exposure to the credit and currency risks of receivables is disclosed in Note 25.

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**Note 10 PREPAYMENTS**

As at 31 December

	In thousands of EUR	
	2014	2013
Prepaid expenses	2,794	2,136
Tax prepayments	2,654	1,049
<b>Total prepayments</b>	<b>5,448</b>	<b>3,185</b>

The balance of prepaid expenses includes mostly prepayments for insurance.

As at 31 December

	In thousands of EUR	
	2014	2013
<b>Tax prepayments</b>		
VAT	838	627
Income tax	1,650	354
Prepaid excise duties	22	64
Other prepayments	144	4
<b>Total tax prepayments</b>	<b>2,654</b>	<b>1,049</b>

**Note 11 INVENTORIES**

As at 31 December

	In thousands of EUR	
	2014	2013
Raw materials (mostly fuel)	2,406	4,695
Goods for sale	28,909	28,762
<b>Total inventories</b>	<b>31,315</b>	<b>33,457</b>

In 2014 the write-down of inventories amounted to EUR 97,000 (2013: EUR 84,000). 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 2014 (as well as at 31 December 2013) there were no derivative contracts for fuel outstanding. For more information see Note 25.

**Note 12 INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES**

The Group has investments in the following equity-accounted investees:

As at 31 December 2014

Name of equity-accounted investee	Country of incorporation	Interest
AS Tallink Takso	Estonia	34%

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	In thousands of EUR	
	2014	2013
<b>Investments at the beginning of financial year</b>	<b>262</b>	<b>245</b>
Share of profit/loss of equity-accounted investee	24	17
<b>Investments at the end of financial year</b>	<b>286</b>	<b>262</b>

Key figures of equity-accounted investees

As at 31 December 2014, in thousands of EUR

Name of equity-accounted investee	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/loss	Equity
AS Tallink Takso	1,096	152	1,248	323	83	406	3,388	3,317	71	842

AS Tallink Takso's figures as at 31 December 2014 are unaudited. The figures above reflect 100% of the assets, liabilities and result of the associate.

As at 31 December 2013, in thousands of EUR

Name of equity-accounted investee	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/loss	Equity
AS Tallink Takso	990	205	1,195	286	138	424	2,316	2,265	51	771

### Note 13 OTHER FINANCIAL ASSETS

As at 31 December

	In thousands of EUR	
	2014	2013
Available-for-sale financial assets	211	211
Other receivables (Note 25)	41	174
<b>Total other financial assets</b>	<b>252</b>	<b>385</b>

### Note 14 INVESTMENT PROPERTY

	In thousands of EUR	
	2014	2013
<b>Fair value at 31 December 2013</b>		<b>300</b>
<b>Fair value at 31 December 2014</b>		<b>300</b>

The property belongs to Tallink Silja Oy. The Group acquired the property on the purchase of Silja Oy. The Group used the valuation of an independent valuer with relevant professional qualification and with recent experience in the location and category of the investment property being valued. The investment property does not give rise to any rental income or direct expenses.

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**Note 15 PROPERTY, PLANT AND EQUIPMENT**

In thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total
<b>Book value as at 31 December 2012</b>	<b>5,653</b>	<b>1,509,889</b>	<b>11,007</b>	<b>446</b>	<b>1,526,995</b>
Additions	723	31,786	5,082	2,006	39,597
Reclassification	0	2,135	-2,135	0	0
Disposals	-214	-1,538	-866	0	-2,618
Depreciation for the year	-1,321	-63,242	-3,516	0	-68,079
<b>Book value as at 31 December 2013</b>	<b>4,841</b>	<b>1,479,030</b>	<b>9,572</b>	<b>2,452</b>	<b>1,495,895</b>
Additions	4	41,480	4,743	383	46,610
Exchange rate differences	0	0	3	0	3
Disposals	0	0	-189	0	-189
Depreciation for the year	-1,116	-69,110	-4,129	0	-74,355
<b>Book value as at 31 December 2014</b>	<b>3,729</b>	<b>1,451,400</b>	<b>10,000</b>	<b>2,835</b>	<b>1,467,964</b>
<b>As at 31 December 2013</b>					
-gross carrying amount	12,782	1,678,733	27,692	2,452	1,721,659
- accumulated depreciation	-7,941	-199,703	-18,120	0	-225,764
<b>As at 31 December 2014</b>					
-gross carrying amount	12,786	1,714,237	30,838	2,835	1,760,696
- accumulated depreciation	-9,057	-262,837	-20,838	0	-292,732

**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 fair value hierarchy). The following table shows the valuation techniques used in measuring ships fair values, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
<p><i>Market comparison technique and cost approach:</i> 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 of the particular ship in various parts of the world. Also they look at how much the ship did cost to construct less reasonable depreciation and at the new constructing prices of similar ships today.</p> <p>For chartered ships they also take into consideration expected net cash flows.</p>	<ul style="list-style-type: none"> <li>• Sale prices of similar ships</li> <li>• Level of the demand of particular ships</li> <li>• Construction prices of ships</li> <li>• Maintenance and repair programme of ships</li> </ul>

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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. The latest revaluation of ships was performed as at 31 August 2010. As a result of the revaluations, the carrying amount of the Group's certain ships was increased by EUR 21,967,000, which was taken directly to the Group's equity and the carrying amount of the Group's other ships was decreased by EUR 21,494,000 of which EUR 20,237,000 was taken directly from equity and the remaining EUR 1,257,000 was expensed as an impairment loss.

At the beginning of the 2014 financial year the Group conducted an operational efficiency review of the ships. As a result, the expected useful lives of several ships decreased. The effect of these changes on actual and expected depreciation expense, included in cost of sales (Note 5), was as follows (in thousands of EUR):

	2014	2015	2016	2017	Later
Increase in depreciation expense	2,976	2,976	2,976	2,976	-11,904

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

<b>31 December 2014</b>	In thousands of EUR
Cost	1,886,347
Accumulated depreciation	-489,509
<b>Net carrying amount</b>	<b>1,396,838</b>
<b>31 December 2013</b>	In thousands of EUR
Cost	1,850,843
Accumulated depreciation	-428,590
<b>Net carrying amount</b>	<b>1,422,253</b>

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 2014 by EUR 2,215,000 (2013: EUR 2,216,000) and retained earnings were increased by the same amount.

As at 31 December 2014 the Group's ships with a book value of EUR 1,214,794,000 (2013: EUR 1,232,319,000) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 17).

#### Note 16 INTANGIBLE ASSETS

In thousands of EUR	Goodwill <sup>1</sup>	Trademark <sup>2</sup>	Other <sup>3</sup>	Total
<b>Book value as at 31 December 2012</b>	<b>11,066</b>	<b>39,334</b>	<b>8,599</b>	<b>58,999</b>
Additions	0	0	4,023	4,023
Amortisation for the year	0	-2,916	-2,181	-5,097
<b>Book value as at 31 December 2013</b>	<b>11,066</b>	<b>36,418</b>	<b>10,441</b>	<b>57,925</b>
Additions	0	0	2,802	2,802
Amortisation for the year	0	-2,916	-2,637	-5,553
<b>Book value as at 31 December 2014</b>	<b>11,066</b>	<b>33,502</b>	<b>10,606</b>	<b>55,174</b>

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**As at 31 December 2013**

- cost	11,066	58,288	25,802	95,156
- accumulated amortisation	0	-21,870	-15,361	-37,231

**As at 31 December 2014**

- cost	11,066	58,288	27,562	96,916
- accumulated amortisation	0	-24,786	-16,956	-41,742

<sup>1</sup> Goodwill in the amount of EUR 11,066,000 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 2014 financial year, a revenue growth rate of 0% p.a. (2013: 0%) and a discount rate of 6% (2013: 6%) . Five-year cash flow to perpetuity value was used. There was no need to recognise an impairment loss.

<sup>2</sup> A trademark of EUR 58,288,000 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. For testing purposes the average revenue growth rate of 1% (2013: 1%), royalty rate of 2.25% (2013: 2.25%) and discount rate of 6% (2013: 6%) were used. There was no need to recognise an impairment loss.

<sup>3</sup> Other intangible assets include mostly the licences and development costs of IT programs of EUR 9,226,000. 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, marketing expenses and administrative expenses.

**Note 17 INTEREST-BEARING LOANS AND BORROWINGS**

As at 31 December

In thousands of EUR

<b>2014</b>	<b>Maturity</b>	<b>Current portion</b>	<b>Non-current portion</b>	<b>Total borrowings</b>
Liabilities under finance lease	2018	80	278	358
Unsecured bonds <sup>1</sup>	2018	0	98,636	98,636
Overdraft	2015	62,449	0	62,449
Long-term bank loans	2015-2021	87,321	494,618	581,939
<b>Total borrowings</b>		<b>149,850</b>	<b>593,532</b>	<b>743,382</b>

As at 31 December

In thousands of EUR

<b>2013</b>	<b>Maturity</b>	<b>Current portion</b>	<b>Non-current portion</b>	<b>Total borrowings</b>
Liabilities under finance lease	2014	237	0	237
Unsecured bonds <sup>1</sup>	2018	0	106,389	106,389
Overdraft	2014	18,456	0	18,456
Long-term bank loans	2014-2021	87,321	581,938	669,259
<b>Total borrowings</b>		<b>106,014</b>	<b>688,327</b>	<b>794,341</b>

<sup>1</sup> The change in the bond balance come up from the foreign exchange rate differences of NOK.

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As at 31 December 2014 the Group had the right to use bank overdrafts of up to EUR 65,000,000 (2013: EUR 50,000,000). Bank overdrafts are secured with a commercial pledge of EUR 20,204,000 (2013: EUR 20,204,000) and mortgages on ships (see Note 15). In the year ended 31 December 2014 the average effective interest rate of bank overdrafts was EURIBOR + 2.12% (2013: EURIBOR + 2.15%). As at 31 December 2014 the balance of overdrafts in use was EUR 62,449,000 (2013: EUR 18,456,000).

In the year ended 31 December 2014 the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 3.02% (2013: EURIBOR + 3.20%).

As at 31 December 2014 AS Tallink Grupp had given guarantees to HSH Nordbank AG, Nordea Bank Plc, Danske Bank A/S and HSBC Bank Plc. for loans of EUR 227,873,000 (2013: 263,350,000) granted to overseas subsidiaries.

Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc and Swedbank AS for the loans granted to AS Tallink Grupp. As at 31 December 2014 the book value of the loans was EUR 354,066,000 (31 December 2013: EUR 405,909,000). 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 2014 the total amount of the guarantees was EUR 2,618,000 (2013: EUR 3,138,000). The guarantees issued are not recognised in the statement of financial position as, according to historical experience and the Group management 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 2014 (as well as in 2013) the Group complied with all financial covenants.

#### Note 18 TRADE AND OTHER PAYABLES

As at 31 December	In thousands of EUR	
	2014	2013
Trade payables	39,962	50,760
Other payables	2,508	795
Payables to employees	21,452	20,631
Interest payable	3,175	3,787
Tax liabilities	16,709	16,083
Other accruals	7,430	5,331
<b>Total trade and other payables</b>	<b>91,236</b>	<b>97,387</b>

The Group's exposure to currency and liquidity risks is disclosed in Note 25.

As at 31 December	In thousands of EUR	
	2014	2013
<b>Tax liabilities</b>		
Salary-related taxes	11,153	11,966
Excise duties	2,622	2,689
VAT	2,884	1,428
Other taxes	50	0
<b>Total tax liabilities</b>	<b>16,709</b>	<b>16,083</b>

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**Note 19 DEFERRED INCOME**

As at 31 December

	In thousands of EUR	
	2014	2013
Club One points	11,291	12,458
Prepaid revenue	18,117	15,857
<b>Total deferred income</b>	<b>29,408</b>	<b>28,315</b>

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.

**Note 20 SHARE CAPITAL AND RESERVES**

As at 31 December

	2014	2013
The number of shares issued and fully paid (in thousands)	673,817	673,817
<b>Total number of shares of EUR 0.60 each (in thousands)</b>	<b>673,817</b>	<b>673,817</b>

As at 31 December

	In thousands of EUR	
	2014	2013
Share capital (authorised and registered)	404,290	404,290
<b>Total share capital</b>	<b>404,290</b>	<b>404,290</b>
Share premium	639	639
<b>Total share premium</b>	<b>639</b>	<b>639</b>

According to the articles of association of the Parent effective as from 17 September 2013, the maximum number of common shares is 2,133,333,333. 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.

Common 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 registered share capital of AS Tallink Grupp amounts to EUR 404,290,000, the number of shares is 673,817,000 and the nominal value of a share is EUR 0.60.

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## Reserves

As at 31 December

	In thousands of EUR	
	2014	2013
Translation reserve	298	12
Ships' revaluation reserve	54,562	56,777
Mandatory legal reserve	18,822	16,651
Reserve for treasury shares	-4,163	-4,163
Share option programme reserve (Note 21)	610	834
<b>Total reserves</b>	<b>70,129</b>	<b>70,111</b>

### 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

Reserve for treasury shares comprises the cost of the AS Tallink Grupp's shares held by the Group. At 31 December 2014 the Group held 3,935,000 of the AS Tallink Grupp's shares (2013: 3,935,000 shares).

### Share option programme reserve

The share option programme reserve comprises 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 20,096,000 (2013: EUR 33,494,000), i.e. EUR 0.03 per qualifying ordinary share (2013: EUR 0.05). This led to a payment of income tax of EUR 5,342,000 by the Group (2013: EUR 8,903,000).

The Group's management will propose to pay dividends EUR 0.02 per share, i.e. EUR 13,397,641 in aggregate. The proposed dividends and the income tax have not been recognised as liabilities.

**Note 21 SHARE OPTION PROGRAMME**

On 8 February 2011 the shareholders' general meeting established the Share Option Programme that entitle employees including key management personnel to purchase shares in the Group.

In December 2012 the Group issued 7,610,000 share options (in June 2011: 7,317,500), totalling 14,927,500 of which 7,360,000 to the Management Board and Supervisory Council and 7,567,500 to certain other Group employees. Each option gives right to purchase one share of AS Tallink Grupp. The terms and conditions of the issued share options are 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 are to be settled by physical delivery of shares (2011: exercisable not earlier than 36 months from issue or 31 May 2014 and not later than 30 November 2014; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case existing shares purchased from the market; the options are to be settled by physical delivery of shares).

On 30 November 2014 7,317,500 share options expired (issued 2011), because none of the option holders, whom option contracts were issued, exercised the right to purchase shares by 30 November 2014.

The fair value of the services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model as at the grant date. The Group used an independent external advisor for the valuation of the share options. In addition to the terms and conditions of the share options the following inputs were used: spot price of 0.848 at 20 December 2012; expected volatility of 30% based on historical analysis; the options' average time to maturity which was 42 months; effective dividend yield of 3.5% (based on the equity analysts' consensus) and a risk-free interest rate of 0.336%.

**Share option programme**

Option issued	Key Management Personnel	Senior Employees
	2012	2012
Fair value at grant date (EUR)	0.125	0.125
Share price at grant date (EUR)	0.848	0.848
Exercise price (EUR)	0.858	0.858
Expected volatility (%)	30	30
Expected life (months)	42	42
Expected dividend yield (%)	3.5	3.5
Risk-free interest rate (%)	0.336	0.336

	Number of options	Weighted average exercise price
	Outstanding at 1 January 2013	14,927,500
Forfeited during the year 2013	234,732	0.858
Outstanding at 31 December 2013	14,692,768	0.858
Exercisable at 31 December 2013	14,692,768	0.858
Outstanding at 1 January 2014	14,692,768	0.858
Forfeited during the year 2014	56,630	0.858
Expired during the year 2014	7,317,500	0.858
Outstanding at 31 December 2014	7,318,638	0.858
Exercisable at 31 December 2014	7,318,638	0.858

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At 31 December 2014 7,318,638 (2013: 14,692,768) share options were valid and outstanding. The average remaining time to maturity of the outstanding share options is 12-18 months. The following table summarises information about options outstanding at 31 December 2014:

	Outstanding options	Average remaining time to maturity (months)	Exercise price
Options issued 2012	7,318,638	12-18	0.858

#### The change in option reserve

	In thousands of EUR	
	2014	2013
Options issued 2012 <sup>1</sup>	317	329
Forfeited during the year	-14	-22
Expired during the year	-527	0
<b>Total change in option reserve</b>	<b>-224</b>	<b>307</b>

<sup>1</sup> The value of options issued at the end of 2012 of EUR 951,000 will be recorded as an expense during the vesting period of 36 months from the beginning of 2013. In 2014 EUR 317,000 (2013: EUR 329,000) was recorded as an expense.

The outstanding share options have no diluting effect due to their average price in the stock market being lower than the exercise price during the reporting period (see Note 7). The average price in the stock market in the 2014 financial year was EUR 0.74 (2013: EUR 0.94).

## Note 22 CONTINGENCIES AND COMMITMENTS

### Legal claims

AS Tallink Grupp, AS Hansatee Cargo 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 AS Tallink Grupp's claims more than EUR 13 million, AS Hansatee Cargo's claim more than EUR 400 000 and Tallink Silja Oy's 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 27 February 2015 the Court held that the Finnish state is liable to return the fairway dues collected illegally and the accrued interests. The Finnish State is entitled to appeal this decision in a higher court instance.

The amount is not recognised as a contingent asset as at 31 December 2014 (as well as at 31 December 2013).

### Key Management Personnel's termination benefits

Some members of the Management Board are entitled to termination benefits if agreement will be terminated by The Group's Supervisory Council. At 31 December 2014 the maximum amount of such benefits was EUR 2,426,000 (EUR 3,064,000 in 2013) (see Note 23). 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 2014 were EUR 303,232,000 (2013: EUR 296,023,000). At 31 December 2014, the maximum income tax liability which would arise if retained earnings were fully distributed is EUR 60,646,000 (2013: EUR 62,165,000). 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 2014 (2013: 31 December 2013).

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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## 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 non-cancellable lease payments from 1 January 2014 to 31 December 2014 were EUR 13,451,000 (2013: EUR 13,124,000).

In January 2008 the Group concluded a non-cancellable lease agreement with OÜ Fastinvest on an office building in Tallinn. The lease period of 10 years started in March 2009. The annual non-cancellable lease payment from 1 January 2014 to 31 December 2014 was EUR 995,000 (2013: EUR 968,000). The lessor has the right to increase lease payments by up to 6% per year.

In April 2012 the Group concluded a non-cancellable lease agreement with OY Hartela regarding an office building in Helsinki. The lease period of 10 years started in September 2011. The annual non-cancellable lease payment from 1 January 2014 to 31 December 2014 was EUR 978,000 (2013: EUR 956,000).

Minimum non-cancellable operating lease payments are as follows:

As at 31 December

In thousands of EUR

	2014	2013
< 1 year	14,344	14,106
1-5 years	43,230	50,131
>5 years	6,106	13,443
<b>Total</b>	<b>63,680</b>	<b>77,680</b>

### *The Group as the lessor*

The Group's charter income from 1 January to 31 December 2014 was EUR 47,072,000 (2013: EUR 30,755,000).

Minimum non-cancellable charter payments are as follows:

As at 31 December

In thousands of EUR

	2014	2013
< 1 year	46,136	17,098
1-5 years	56,278	0
<b>Total</b>	<b>102,414</b>	<b>17,098</b>

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

**Note 23 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 Group has transactions and balances with the following related parties:

*a) 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.

*b) Associated companies*

The Key Management Personnel are members of the Group's Supervisory Council 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  
 In thousands of EUR

	Relation- ship	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
<b>2014</b>					
AS Infortar - services	a	176	47	1	5
AS HT Valuuta - services	a	113	0	1	0
AS Vara HTG - leases	a	0	2,775	0	857
OÜ Sunbeam - leases	a	0	3,709	0	257
OÜ Topspa Kinnisvara - leases	a	0	2,634	0	0
OÜ Mersok - leases	a	0	9	0	1
OÜ Hansa Hotell - leases	a	0	1,033	0	178
OÜ Fastinvest - leases	a	0	1,234	0	0
SIA Happy Trails - leases	a	1	3,305	0	337
AS Vaba Maa - services	a	13	673	1	85
AS Gastrolink - goods	a	4	1,163	1	76
Eesti Laevaomanike Liit (Estonian Ship-owners' Association) - membership fee	a	0	14	0	0
AS Tallink Takso - services	b	1	83	1	14
MTÜ SEB Tallink Tennis Team – services	a	0	50	0	0
OÜ Inf Maja - services	a	3	0	0	0
MTÜ Eesti Tennise Liit - services	a	24	165	1	0
<b>2013</b>					
AS Infortar - services	a	84	50	10	5
AS HT Valuuta - services	a	118	0	1	0
AS Vara HTG - leases	a	0	2,693	0	775
OÜ Sunbeam - leases	a	0	3,648	0	280
OÜ Topspa Kinnisvara - leases	a	0	2,570	0	0
OÜ Mersok - leases	a	0	9	0	1
OÜ Hansa Hotell - leases	a	0	914	0	98
OÜ Fastinvest - leases	a	0	1,186	0	0
SIA Happy Trails - leases	a	5	3,314	1	495

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AS Vaba Maa - services	a	20	681	2	60
AS Gastrolink - goods	a	2	1,057	0	92
Eesti Laevaomanike Liit (Estonian Ship-owners' Association) - membership fee	a	0	13	0	0
AS Tallink Takso - services	b	0	77	0	14
SEB Tallink Tennis Team - services	a	6	50	0	0

### Key Management Personnel's compensation

AS Tallink Grupp's members of the Management Board and members of the Supervisory Council 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

	2014	2013
Short-term benefits	1,896	1,660
Termination benefits	900	0

Some members of the Key Management Personnel are entitled to termination benefits (refer note 22). At 31 December 2014 the maximum amount of such benefits was EUR 2,426,000 (31 December 2013: EUR 3,064,000). The Key Management personnel benefits are presented without social tax. In December 2014 one Member of the Management Board received termination benefits EUR 900,000.

### Note 24 GROUP ENTITIES

Group entities	Interest as at 31 December 2014	Interest as at 31 December 2013	Country of incorporation	Parent company
OÜ Hansaliin	100%	100%	Estonia	AS Tallink Grupp
OÜ Hansatee Kinnisvara	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Duty Free	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Laevateenindus	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Meelelahutus	100%	100%	Estonia	AS Tallink Grupp
AS Tallink	100%	100%	Estonia	AS Tallink Grupp
AS Hansatee Cargo	100%	100%	Estonia	AS Tallink Grupp
OÜ TLG Hotell	100%	100%	Estonia	AS Tallink Grupp
OÜ Tallink Travel Club	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Baltic	100%	100%	Estonia	AS Tallink Grupp
OÜ Mare Pharmaci	100%	100%	Estonia	AS Tallink Grupp
AS HTG Invest	100%	100%	Estonia	AS Tallink Grupp
Tallink Finland OY	100%	100%	Finland	AS Tallink Grupp
Tallink Latvija AS	100%	100%	Latvia	AS Tallink Grupp

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Tallink Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn-Helsinki Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Vana Tallinn Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Fast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Swedish Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Victory Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Hansalink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Autoexpress Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink High Speed Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Sea Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Superfast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VIII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF IX Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Hansaway Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink-Ru OOO	100%	100%	Russia	AS Tallink Grupp
HTG Stevedoring Oy	100%	100%	Finland	AS Tallink Grupp
Ingleby (1699) Ltd.	100%	100%	UK	AS Tallink Grupp
OÜ HT Hulgi Tolliladu	100%	100%	Estonia	AS Tallink Duty Free
AS Tallink Scandinavian	100%	100%	Estonia	AS Tallink Grupp
Tallink Silja Oy	100%	100%	Finland	AS Tallink Scandinavian
Sally AB	100%	100%	Finland	Tallink Silja Oy
Tallink Silja AB	100%	100%	Sweden	AS Tallink Grupp
Silja Line Gmbh	100%	100%	Germany	Tallink Silja Oy Ab
OÜ Hera Salongid	100%	100%	Estonia	OÜ TLG Hotell
SIA HT Shipmanagement	100%	100%	Latvia	OÜ HT Laevateenindus
SIA TLG Hotel Latvija	100%	100%	Latvia	OÜ TLG Hotell

## Note 25 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.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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**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. At the reporting date, the maximum credit risk was as follows:

As at 31 December

	In thousands of EUR	
	2014	2013
Cash and cash equivalents	65,311	72,012
Trade and other receivables (Notes 9, 13)	38,251	40,718
Derivative assets	0	679
<b>Total</b>	<b>103,562</b>	<b>113,409</b>

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, maturity 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.

The Group establishes an allowance for impairment that represents its estimate of losses incurred on trade and other receivables and investments. 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

	In thousands of EUR		
	2014 Gross	2014 Impairment	2014 Net
Not past due	33,458	0	33,458
Past due 0-30 days	3,884	0	3,884
Past due 31-90 days	529	-7	522
Past due 91 days - one year	529	-259	270
Past due over one year	585	-468	117
<b>Total</b>	<b>38,985</b>	<b>-734</b>	<b>38,251</b>

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As at 31 December

	In thousands of EUR		
	2013 Gross	2013 Impairment	2013 Net
Not past due	34,954	0	34,954
Past due 0-30 days	3,723	-356	3,367
Past due 31-90 days	460	-18	442
Past due 91 days - one year	277	-108	169
Past due over one year	2,066	-280	1,786
<b>Total</b>	<b>41,480</b>	<b>-762</b>	<b>40,718</b>

Movements in the impairment allowance for trade receivables:

	In thousands of EUR	
	2014	2013
<b>Balance at 31 December</b>	<b>762</b>	<b>679</b>
Amounts written off	-88	-222
Impairment loss recognised	310	305
Reversal of prior period impairment loss	-250	0
<b>Balance at 31 December</b>	<b>734</b>	<b>762</b>

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 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. AS Tallink Grupp maintains three committed bank overdraft facilities to minimize the Group's liquidity risk (see Note 17 for details).

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

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In thousands of EUR

<b>2014</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>Non-derivative financial liabilities</b>					
Overdraft	-62,449				-62,449
Finance lease liabilities	-80	-77	-201	0	-358
Trade and other payables	-67,097				-67,097
Secured bank loan repayments	-89,839	-89,839	-389,899	-21,872	-591,449
Bond repayment			-98,636		-98,636
Foreign exchange derivative inflow			98,636		98,636
Foreign exchange derivative outflow			-120,000		-120,000
Interest payments <sup>(1)</sup>	-24,473	-21,906	-30,653	-702	-77,734
<b>Derivative financial liabilities</b>					
Interest rate swaps <sup>(2)</sup>	-4,930	-4,756	-9,730	0	-19,416
<b>Total</b>	<b>-248,868</b>	<b>-116,578</b>	<b>-550,483</b>	<b>-22,574</b>	<b>-938,503</b>
<b>2013</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>Non-derivative financial liabilities</b>					
Overdraft	-18,456				-18,456
Finance lease liabilities	-237	0	0	0	-237
Trade and other payables	-75,973	0	0	0	-75,973
Secured bank loan repayments	-89,839	-89,839	-479,738	-21,872	-681,288
Bond repayment	0	0	-106,389	0	-106,389
Foreign exchange derivative inflow	0	0	106,389	0	106,389
Foreign exchange derivative outflow	0	0	-120,000	0	-120,000
Interest payments <sup>(1)</sup>	-29,118	-26,356	-59,428	-2,541	-117,443
<b>Derivative financial liabilities</b>					
Interest rate swaps <sup>(2)</sup>	-3,765	-2,510	-7,849	-641	-14,765
<b>Total</b>	<b>-217,388</b>	<b>-118,705</b>	<b>-667,015</b>	<b>-25,054</b>	<b>-1,028,162</b>

<sup>(1)</sup> – expected, based on the interest rates and interest rate forward curves

<sup>(2)</sup> – 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.

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 impact of the fluctuation of the Swedish krona is considered immaterial to the financial statements.

The Group seeks to minimize currency risk by matching foreign currency inflows with outflows. Currency risk from NOK nominated bond is hedged with cross currency swap.

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The following tables present the Group's financial instruments by currency denomination:

As at 31 December

In thousands of EUR

2014	EUR	USD	SEK	NOK	Other	Total
Cash and cash equivalents	55,016	601	9,359	0	335	65,311
Trade receivables, net of allowance	22,143	0	1,147	0	91	23,381
Other financial assets	9,118	0	5,751	0	1	14,870
<b>Total</b>	<b>86,277</b>	<b>601</b>	<b>16,257</b>	<b>0</b>	<b>427</b>	<b>103,562</b>
Current portion of borrowings	-149,770	0	-80	0	0	-149,850
Trade payables	-32,825	-2,013	-4,703	0	-421	-39,962
Other current payables	-23,727	0	-9,502	-1,336	0	-34,565
Interest rate swaps	-18,564	0	0	0	0	-18,564
Foreign exchange derivatives	-143,707	0	0	120,289	0	-23,418
Non-current portion of borrowings and other liabilities	-494,618	0	-278	-98,636	0	-593,532
<b>Total</b>	<b>-863,211</b>	<b>-2,013</b>	<b>-14,563</b>	<b>20,317</b>	<b>-421</b>	<b>-859,891</b>
<b>Net, EUR</b>	<b>-776,934</b>	<b>-1,412</b>	<b>1,694</b>	<b>20,317</b>	<b>6</b>	<b>-756,329</b>

As at 31 December

In thousands of EUR

2013	EUR	USD	SEK	LVL	NOK	Other	Total
Cash and cash equivalents	57,023	9	12,741	1,872	1	366	72,012
Trade receivables, net of allowance	22,825	0	1,602	162	0	502	25,091
Other financial assets	12,679	0	2,779	14	0	155	15,627
Interest rate swaps	679	0	0	0	0	0	679
<b>Total</b>	<b>93,206</b>	<b>9</b>	<b>17,122</b>	<b>2,048</b>	<b>1</b>	<b>1,023</b>	<b>113,409</b>
Current portion of borrowings	-105,777	0	-237	0	0	0	-106,014
Trade payables	-39,510	-487	-9,738	-922	0	-103	-50,760
Other current payables	-21,261	0	-6,780	-986	-1,502	-15	-30,544
Interest rate swaps	-14,638	0	0	0	0	0	-14,638
Foreign exchange derivatives	-124,141	0	0	0	107,891		-16,250
Non-current portion of borrowings and other liabilities	-581,938	0	-63	0	-106,389	0	-688,390
<b>Total</b>	<b>-887,265</b>	<b>-487</b>	<b>-16,818</b>	<b>-1,908</b>	<b>0</b>	<b>-118</b>	<b>-906,596</b>
<b>Net, EUR</b>	<b>-794,059</b>	<b>-478</b>	<b>304</b>	<b>140</b>	<b>1</b>	<b>905</b>	<b>-793,187</b>

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 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	
	2014	2013
Fixed rate financial liabilities	41,291	48,603
Variable rate financial liabilities	702,091	745,738
<b>Total</b>	<b>743,382</b>	<b>794,341</b>

A change of 10 basis points in 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 2013.

As at 31 December

	In thousands of EUR	
	2014	2013
10 basis point increase	-702	-746
10 basis point decrease	702	746

The objective for the Group's interest rate risk management is to minimize interest expense and at the same time to optimize the volatility of future interest payments.

The Group uses interest rate derivatives to manage the interest rate risk of the debt portfolio. This typically involves swapping the variable interest rate for the fixed interest rate. Derivatives used include mainly interest rate swaps and interest rate options or their combinations.

The tables below show the expected cash flow from interest rate derivatives and their sensitivity to the change of 10 basis points in interest rates as an increase or a decrease in profit and equity.

As at 31 December

In thousands of EUR

2014	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-4,930	-4,756	-9,730	0	-19,416
10 basis point increase	170	170	304	0	644
10 basis point decrease	-170	-170	-304	0	-644

As at 31 December

In thousands of EUR

2013	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-3,765	-2,510	-7,849	-641	-14,765
10 basis point increase	175	100	300	25	600
10 basis point decrease	-175	-100	-300	-25	-600

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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 2013.

As at 31 December

In thousand EUR

	2014 Profit or loss	2013 Profit or loss
USD	141	48
SEK	-169	-30
LVL	0	-14
NOK	-2,032	0
Other	-1	-91

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	2014		2013	
			Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 3	2014	0	0	100,000	-1,274
Interest rate swap	Level 3	2019	100,000	-16,364	100,000	-13,364
Interest rate swap	Level 3	2018	70,000	-2,200	70,000	679
Foreign exchange derivative <sup>(1)</sup>	Level 3	2018	60,000	-11,709	60,000	-8,393
Foreign exchange derivative <sup>(1)</sup>	Level3	2018	60,000	-11,709	60,000	-7,857
Total derivatives with positive value				0		679
Total derivatives with negative value				-41,982		-30,888

<sup>(1)</sup> Foreign exchange derivatives

At effective date the Group exchanged the NOK notional amount (NOK 450,000,000) against EUR notional amount (EUR 60,000,000) and at the termination date there is 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 an independent valuer with relevant professional qualifications and experience. 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

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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 Black76 Model Jarrow – Yildirim Model	<ul style="list-style-type: none"> <li>• EUR interest rates term structure</li> <li>• EUR swaption and cap volatilities</li> <li>• inflation swap rates</li> </ul>	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> <li>• EUR interest rates were higher (lower)</li> <li>• inflation swap rates increase (decrease)</li> </ul>

### Capital Management

The Group considers total shareholders' equity as capital. As at 31 December 2014 the shareholders' equity was EUR 778,290,000 (2013: EUR 771,063,000). 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 2014 the Group's equity ratio was 46.2% and the net debt to EBITDA ratio was 4.5 (2013: 44.8% and 4.6 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. Primarily the repurchased shares are intended to be cancelled or they may be used for issuing shares under the Group's share option programme. Currently the Group does not have a defined share buyback plan.

### Note 26 SUBSEQUENT EVENTS

On 27 February 2015 AS Tallink Grupp and Meyer Turku Oy (incorporated in Finland) shipyard signed a contract for construction of the LNG powered fast ferry for the Tallinn-Helsinki route shuttle operations. The ship will cost around EUR 230 million and will be built at Meyer Turku shipyard for delivery at the beginning of 2017.

On 27 February 2015 the Helsinki District Court compelled Finland to refund to the shipowners the fairway dues, charged in excessive extent in the years 2001-2004, with interest. According to the verdict AS Tallink Grupp and subsidiaries AS Hansatee Cargo and Tallink Silja OY are entitled to receive EUR 34.1 million. Finnish State gave the notice to appeal against judgement.

On 7 April 2015 AS Tallink Grupp 100% subsidiary Tallinn Stockholm Line Ltd. completed the sale of the vessel Regina Baltica.

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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**Note 27 PRIMARY FINANCIAL STATEMENTS OF THE PARENT  
STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December

	In thousands of EUR	
	2014	2013
Revenue	435,862	414,731
Cost of sales	-363,577	-345,293
<b>Gross profit</b>	<b>72,285</b>	<b>69,438</b>
Marketing expenses	-35,224	-25,192
Administrative expenses	-18,602	-15,682
Other operating income	1,185	15,643
Other operating expenses	-311	-33
<b>Results from operating activities</b>	<b>19,333</b>	<b>44,174</b>
Finance income	9,983	20,531
Finance costs	-64,293	-67,745
Share of profit of equity-accounted investees	24	17
<b>Net profit/loss before income tax</b>	<b>-34,953</b>	<b>-3,023</b>
Income tax	-6,642	-8,903
<b>Net profit/loss for the year</b>	<b>-41,595</b>	<b>-11,926</b>

STATEMENT OF FINANCIAL POSITION

As at 31 December

In thousands of EUR

2014

2013

**ASSETS**

**Current assets**

Cash and cash equivalents	36,489	31,974
Receivables from subsidiaries	125,621	63,877
Receivables and prepayments	18,913	18,166
Derivatives	0	679
Tax assets	1,398	7
Inventories	9,870	10,646
	<b>192,291</b>	<b>125,349</b>

**Non-current assets**

Investments in subsidiaries	405,283	265,360
Receivables from subsidiaries	310,557	522,625
Investments in equity-accounted investees	286	262
Other financial assets and prepayments	58	58
Property, plant and equipment	285,015	328,797
Intangible assets	10,485	10,328
	<b>1,011,684</b>	<b>1,127,430</b>

**TOTAL ASSETS**

**1,203,975**      **1,252,779**

**LIABILITIES AND EQUITY**

**Current liabilities**

Interest-bearing loans and borrowings	164,100	117,973
Payables and deferred income	160,588	103,597
Derivatives	41,982	30,888
Tax liabilities	5,032	2,919
	<b>371,702</b>	<b>255,377</b>

**Non-current liabilities**

Interest-bearing loans and borrowings	681,311	784,525
	<b>681,311</b>	<b>784,525</b>

**Total liabilities**

**1,053,013**      **1,039,902**

**Equity**

Share capital	404,290	404,290
Share premium	639	639
Reserves	15,269	13,322
Retained earnings	-269,236	-205,374
	<b>150,962</b>	<b>212,877</b>

**TOTAL LIABILITIES AND EQUITY**

**1,203,975**      **1,252,779**

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**STATEMENT OF CASH FLOWS**

For the year ended 31 December

	In thousands of EUR	
	<b>2014</b>	<b>2013</b>
<b>Cash flows used in/from operating activities</b>		
Net profit/loss for the financial year	-41,595	-11,926
Adjustments	112,041	95,274
Depreciation	47,548	46,274
Net interest expense	62,993	59,583
Net gain/loss on disposals of tangible and intangible assets	-6	-15,505
Net unrealised foreign exchange gain	-7,972	-9,292
Income tax	6,642	8,903
Other adjustments	2,836	5,311
Changes in receivables related to operating activities	82,491	20,213
Change in inventories	776	-714
Changes in liabilities related to operating activities	58,108	-78,729
	<b>211,821</b>	<b>24,118</b>
<b>Cash flows used in investing activities</b>		
Purchase of property, plant, equipment and intangible assets	-3,923	-5,691
Proceeds from disposals of property, plant, equipment	6	3
Increase in share capital of subsidiaries	-140,001	-49,500
Interest received	26	19
	<b>-143,892</b>	<b>-55,169</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans	0	24,000
Redemption of loans	-53,432	-51,716
Change in overdraft	43,425	25,214
Proceeds from bonds	0	115,487
Payments for settlement of derivatives	-3,985	-4,451
Interest paid	-23,984	-20,140
Payment of transactions costs related to loans	0	-557
Dividends paid	-20,096	-33,494
Income tax on dividends paid	-5,342	-8,903
	<b>-63,414</b>	<b>45,440</b>
<b>TOTAL NET CASH FLOW</b>	<b>4,515</b>	<b>14,389</b>
<b>Cash and cash equivalents:</b>		
- at the beginning of period	31,974	17,585
- increase / decrease	4,515	14,389
<b>- at the end of period</b>	<b>36,489</b>	<b>31,974</b>

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December

In thousands of EUR

	Share capital	Share premium	Mandatory legal reserve	Reserve for treasury shares	Share option programme reserve	Retained earnings	Total equity
<b>As at 31 December 2012</b>	<b>404,290</b>	<b>639</b>	<b>13,836</b>	<b>-4,163</b>	<b>527</b>	<b>-157,139</b>	<b>257,990</b>
Net loss for financial year 2013	0	0	0	0	0	-11,926	-11,926
Allocation of profit for 2012	0	0	2,815	0	0	-2,815	0
Dividends	0	0	0	0	0	-33,494	-33,494
Contributions by and distributions to owners of the Company	0	0	0	0	307	0	307
<b>As at 31 December 2013</b>	<b>404,290</b>	<b>639</b>	<b>16,651</b>	<b>-4,163</b>	<b>834</b>	<b>-205,374</b>	<b>212,877</b>
Net loss for financial year 2014	0	0	0	0	0	-41,595	-41,595
Allocation of profit for 2013	0	0	2,171	0	0	-2,171	0
Dividends	0	0	0	0	0	-20,096	-20,096
Contributions by and distributions to owners of the Company	0	0	0	0	-224	0	-224
<b>As at 31 December 2014</b>	<b>404,290</b>	<b>639</b>	<b>18,822</b>	<b>-4,163</b>	<b>610</b>	<b>-269,236</b>	<b>150,962</b>
	<b>2014</b>	<b>2013</b>					
<b>Unconsolidated equity at 31 December</b>	<b>150,962</b>	<b>212,642</b>					
Interests under control and significant influence:							
-carrying amount	-405,569	-265,622					
-carrying amount under the equity method	1,032,897	824,043					
<b>Adjusted unconsolidated equity at 31 December</b>	<b>778,290</b>	<b>771,063</b>					

The notes on pages 31 to 84 are an integral part of these consolidated financial statements.

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Tallinn 10117  
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## Independent Auditors' Report

To the shareholders of AS Tallink Grupp

We have audited the accompanying consolidated financial statements of AS Tallink Grupp ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 26 to 84.

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

Management is responsible for the preparation and fair presentation of these 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.

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of AS Tallink Grupp as at 31 December 2014, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 24 April 2015

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17  
Narva mnt 5  
Tallinn 10117

**PROFIT ALLOCATION PROPOSAL**

The Management Board of AS Tallink Grupp proposes that the net profit for the financial year 1 January 2014 – 31 December 2014 of EUR 27,261,000 be allocated as follows:

- A transfer of EUR 1,363,000 to the mandatory legal reserve
- A dividend distribution of EUR 0.02 per share, i.e. EUR 13,398,000 in aggregate
- A transfer of EUR 12,500,000 to retained earnings



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Chairman of the Management Board  
Janek Stalmeister



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Member of the Management Board  
Lembit Kitter



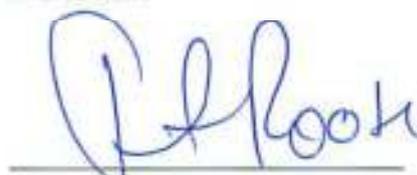
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Member of the Management Board  
Kadri Land



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Vice Chairman of the Management Board  
Andres Hunt



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Member of the Management Board  
Peter Roose

Tallinn, 24.04.2015

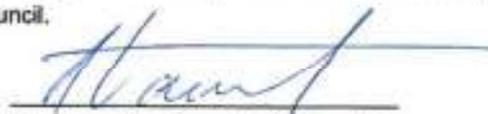
**SIGNATURES TO THE ANNUAL REPORT**

The Management Board of AS Tallink Grupp has prepared the consolidated financial statements for the year 2014. The Supervisory Council of AS Tallink Grupp has reviewed the annual report of AS Tallink Grupp for the financial year 2014 and has approved it for presentation to the shareholders' general meeting. This annual report is signed by all members of the Management Board and Supervisory Council.



Chairman of the Supervisory Council

Enn Pant

Date: 29.04.2015

Member of the Supervisory Council

Ain Hanschmidt

Date: 29.04.2015

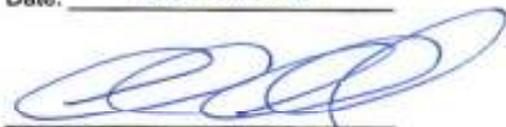
Member of the Supervisory Council

Eve Pant

Date: 29.04.2015

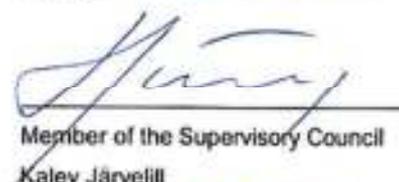
Member of the Supervisory Council

Lauri Kustaa Äimä

Date: 29.04.2015

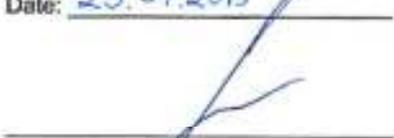
Member of the Supervisory Council

Colin Clark

Date: 29.04.2015

Member of the Supervisory Council

Kalev Järvelill

Date: 29.04.2015

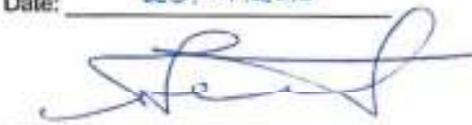
Member of the Supervisory Council

Toivo Ninnas

Date: 29.04.2015

Chairman of the Management Board

Janek Stalmeister

Date: 24.04.2015

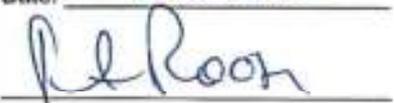
Vice Chairman of the Management Board

Andres Hunt

Date: 24.04.2015

Member of the Management Board

Lembit Kitter

Date: 24.04.2015

Member of the Management Board

Peter Roose

Date: 24.04.2015

Member of the Management Board

Kadri Land

Date: 24.04.2015