TALLINNA SADAM

Consolidated annual report for the financial year ended on 31 December 2016

AS TALLINNA SADAM

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CONSOLIDATED ANNUAL REPORT 2016

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Beginning of financial year	**1 January**
End of financial year	**31 December**
Legal form	**Limited company (AS)**
Auditor	**AS Deloitte Audit Eesti**

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MANAGEMENT REPORT

The management report of AS Tallinna Sadam (Port of Tallinn) has been prepared based on consolidated financial data.

1. ABOUT THE COMPANY

Through ages, Estonia has been closely connected with seafaring and maritime trade and the development of the city of Tallinn has depended on the development of its ports and harbours, and vice versa. Although the history of the ports and harbours of Tallinn dates back thousands of years, the company AS Tallinna Sadam is a young entity. The state-owned enterprise Tallinna Sadam was founded in April 1992; in 1996 it was reorganised into a limited company defined as *aktsiaselts* (AS) under Estonian law.

AS Tallinna Sadam is the largest complex of cargo and passenger ports and harbours in Estonia. Its ports are navigable and easily accessible throughout the year and deep enough to receive all vessels passing through the Danish Straits. Thanks to Estonia's geographical position which provides favourable conditions for servicing cargo flows between the East and the West, transit cargo flows of Russia and other CIS countries continue to account for a significant part of the cargo flows of AS Tallinna Sadam. Thus, AS Tallinna Sadam's key competitors are other Baltic Sea ports servicing east–west transit cargo flows. In addition to the competition between ports, various transit corridors also compete with each other (e.g. the Baltic Sea corridor competes with the Caspian–Black Sea corridor, etc.). The faster, the more effective and the more customer-friendly the operation of the whole logistics chain, the more successful the corridor. In view of the downward trend of east–west transit cargo flows outside the ports of Russia itself, development of the opportunities to service north–south cargo flows has become more promising based on the geographical location of Estonia, taking also into account the planned Rail Baltic railway connection with the starting point in Muuga Harbour. Competition between Estonian ports on servicing Estonian imports and exports has grown over the last years, however, AS Tallinna Sadam has been outperformed by other Estonian ports mostly in timber and gravel.

The volume and role in adding value to the cargo flows passing through the ports is increasing from year to year through which operators and companies involved in logistics that are operating in the port's premises can offer more specific services to a broader customer basis. To foster the above tendencies, AS Tallinna Sadam has created necessary infrastructure for the territories adjacent to its main cargo ports – established industrial park areas in Muuga and Paldiski South Harbour.

The Tallinn–Helsinki route is one of the busiest passenger ferry routes in the world. In addition to the passenger ferry route to Finland, AS Tallinna Sadam also services regular passenger ferries on the routes to Sweden and Russia (St. Petersburg). The number of cruise liners and passengers calling at AS Tallinna Sadam is growing year by year. Nearly 300 ship calls per cruise season is a remarkable achievement for any cruise port in Europe. In addition, passenger walking areas in the centre of Tallinn which are owned by AS Tallinna Sadam (i.e. a harbour-city combination) provide a unique possibility for real estate development.

At the end of 2012, AS Tallinna Sadam entered a new business sector – a multi-functional ice-breaking vessel was purchased at a secondary market. Since the beginning of 2013 ice-breaker Botnica has been used under a 10-year contract for rendering ice-breaking services to the state of Estonia for Estonian ports in the Gulf of Finland. Off icebreaking season the multi-functional icebreaker is leased out for various maritime support operations.

In October 2016, rendering a ferry service with passenger ferries between the mainland and major islands of Estonia was commenced as a new business line in accordance with the passenger transport public service contract signed, subsequent to winning the tender, with the state of Estonia at the end of 2014 for a ten-year period (from 1 October 2016 to 30 September 2026). Of four new passenger ferries constructed under contracts made with Remontowa shipyard in Poland and Sefine shipyard in Turkey at the end of 2014 – two ferries for the Kuivastu–Virtsu and two for the Rohuküla–Heltermaa route – two got ready by the end of 2016, and the other two are expected to be ready by the end of the first quarter of 2017. Until all new passenger ferries are completed, the ferry service is rendered with temporarily rented replacement ferries.

The core business line of AS Tallinna Sadam, the parent of the group, is rendering port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure as well as organising the traffic of vessels in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour, currently a harbour servicing mostly ship repair companies, in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo harbour in Paldiski (Paldiski South Harbour); and the harbour in Saaremaa meant mostly for receiving cruise liners. Cargo flows in the harbours are handled by cargo operators who also own the buildings, structures and equipment necessary for cargo handling. However, the buildings and structures necessary for servicing passengers belong to AS Tallinna Sadam.

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia. Like any other *aktsiaselts*, AS Tallinna Sadam operates pursuant to its articles of association, the Commercial Code and other laws and regulations of the Republic of Estonia. The company has a budget which is covered from the funds generated by its business operations; however, loans may be taken or debt securities issued when appropriate for investing activities. AS Tallinna Sadam contributes to the state budget by paying state taxes and dividends.

As at year-end 2016, the consolidation group of AS Tallinna Sadam comprised of the parent and the following companies:

Name of the company	**Ownership interest**	**Core business line**
OÜ TS Energia	100%	Rendering of electricity, water and heat distribution and transmission services in the group's ports and harbours
OÜ TS Shipping	100%	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	100%	Rendering a ferry service with passenger ferries

2. ECONOMIC ENVIRONMENT

Global economic growth in 2016 is predicted to be 3.1%, which is again slightly less than expected a year before (3.4%), and also less than growth of 3.2% in the year before. In 2017 growth is projected at 3.4%, i.e. like in previous years, gradual improvement of growth rates is expected this year, supported primarily by emerging market and developing economies. Impacts arising from potential changes under the new administration of the United States are considered to cause main uncertainty in the growth outlook. The assumption underpinning growth forecast is persistence in the limited supply of oil agreed among OPEC members together with stable oil prices. Although economic growth could turn out to be larger than currently projected as a result of policy stimulus in the United States and China, negative risks are still more notable including a possible shift toward protectionism, tightening in the global capital market interacting with solvency weaknesses in some euro area economies, increased geopolitical tensions, and a more severe than expected slowdown in China. For developed economies growth figures in 2016 turned out somewhat stronger than expected while the picture for emerging and developing economies remained more diverse.[1]

Global oil demand increased 1.6% in 2016, which was above the expectations a year before (1.3%), as a result of soaring demand mainly in North Europe, Russia and Asia at the end of the year. Growth in demand in 2016 has mostly been attributed to industrially-driven growth in consumption and a colder winter. However, growth in 2016 remained below that in 2015 when oil prices were lower. In 2017 the rate of growth is expected to slow down to 1.3%, i.e. to return close to a sustained trend considering the impact of the risen cost of crude oil and strengthening of the US dollar.[2]

According to preliminary flash estimates, Estonian economic growth in 2016 was near 1.2% which is again less than the forecast (2.5%) made the year before. Economic growth proved slower than expected partly owing to the impact of the weak external environment where demand from trading partners did not increase as expected, but even more due to smaller than expected growth in investments, mostly in capital-intensive industries, for a third successive year. The above impacts were somewhat offset by increased consumption which was supported by wage rise and the high level of employment. Economic growth in 2017 is projected to range from 2.2% to 2.6%. According to forecasts, rise in investments may be expected, strongly influenced by EU co-financing facilities as well as growth in our trading partners' demand for imports. However, rise in prices can restrain consumption growth and the transit sector may face a sustained downward trend in the volumes of goods originating from Russia. Rise in the consumer price index in 2017 is projected to range from 2.6% to 3.0% reflecting the impact of increased excise duties as well as higher energy prices.[3]

The economic environment in 2016 also had a direct impact on the income of the group since the volumes of goods originating from Russia decreased in the ports of AS Tallinna Sadam. Due to sustained low oil prices and large reserves the cargo turnover in port terminals also remained passive since low oil prices reduced the profitability of added-value services provided in the terminals. Also, due to low oil prices and sanctions imposed on Russia by the western world the offshore services market remained at lows and thus, profitable additional summer-season work was not found for ice-breaker Botnica. On the other hand, low energy prices and inflation rate contributed to reduction in expenses.

[1] *IMF World Economic Outlook Update*, January 2017
[2] IEA *Oil Market Report*, 19 January 2017
[3] Statistics Estonia, Bank of Estonia, Ministry of Finance, Swedbank, SEB

2.1. Developments in Russia

In 2016 economic recession in Russia slowed and was estimated at -0.6% (2015: -3.7%) remaining close to the level forecast by the IMF (-1%) the year before. Inflation fell from 12.5% the year earlier to 5.5%. Several international experts consider 2016 a year of stabilisation for the Russian economy. Stabilised oil prices had a certain role in this. Forecasted continuation of rather low price of oil means that the revenue important for the Russian state budget remains at lows, and other sources of income should be found together with cutting budgetary expenses. This also means that investment and development programmes of refineries have been suspended due to lack of finances which in turn will have an impact on the economy and energy sector for years coming. For 2017 the IMF has forecast 1.1% growth in the Russian economy.

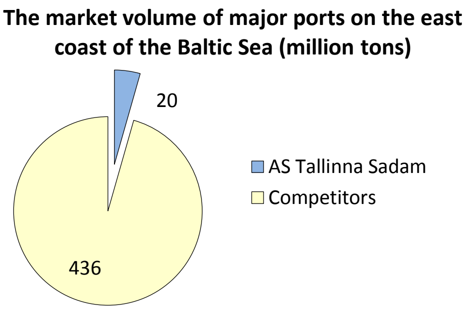
Oil production in Russia increased by 2.5%, up to a record of 547 million tons. Exports of crude oil and oil products also increased (3.7% and 1% respectively).

Real income decreased for a third successive year (6%) cutting domestic consumption and imports as well as investments made in business. Sale of new cars declined by 11% in 2016. The volume of containerised cargo handled in Russian ports increased only slightly (by 1.4%) in 2016 (in ports at the Baltic Sea: 1.7%), i.e. remained at lows after the year-earlier dive (26%).

In the Baltic Sea region, AS Tallinna Sadam's main competitors in Russia are the ports of St. Petersburg and Ust-Luga. The most rapid growth in cargo volumes in recent years has been that in Ust-Luga. However, the competitiveness of Russian ports was slightly reduced by a rise of about 20% in the exchange rate of the Russian rouble to the euro during the year.

2.2. Competitive position

On assessing our competitive position, major ports located on the east coast of the Baltic Sea and ports of Finland are considered as our competitors, the vast majority of which are immediate competitors of AS Tallinna Sadam in handling transit cargo mostly transported from or to Russia. In 2016 the total cargo turnover of major ports on the east coast of the Baltic Sea amounted to 456 million tons which meant slight growth by 3.5 million tons, i.e. 0.8%, compared to the record level the year before (2015: 452 million tons with growth of 0%).



Adding the cargo volumes of other Estonian ports (8.4 million tons), in 2016 the market cargo volume of AS Tallinna Sadam and its competitors was 464 million tons, i.e. also 3.5 million tons up on 2015.

The competitive position of ports in 2016 was again characterised by increased cargo volumes in the ports of Ust-Luga and Primorsk (Russia), Gdansk and Gdynia (Poland) and Klaipeda-Butinge (Lithuania) while the volumes in other ports either decreased or remained at the same level as the year before. In terms of cargo types, the volume of general cargo changed the most increasing by 4.7 million tons, i.e. 4%, mostly as a result of a rise in the volume of containerised cargo (by 4 million tons, i.e. 7%; in TEUs also by 7%) which accounted for slightly more than half of the year-earlier decline. The volume of containers increased the most in the ports of Gdansk (2.7 million tons), Klaipeda-Butinge (0.98 million tons) and St. Petersburg (0.97 million tons). The volume of containers decreased only in the port of Gdynia, slightly also in the ports of HaminaKotka and Ust-Luga. In terms of cargo types, volumes of dry bulk increased (2.9 million tons, i.e. 2.3%) as regards fertilizers (Ust-Luga and Sillamäe) and iron ore (Kaliningrad, Riga and Ust-Luga) while the volume of gravel (Riga, Kaliningrad) decreased. Volumes of liquid cargo declined by 4.1 million tons, i.e. 1.8%, most in the ports of Ventspils, Tallinn, St. Petersburg and Riga, and increased in the ports of Primorsk and Ust-Luga.

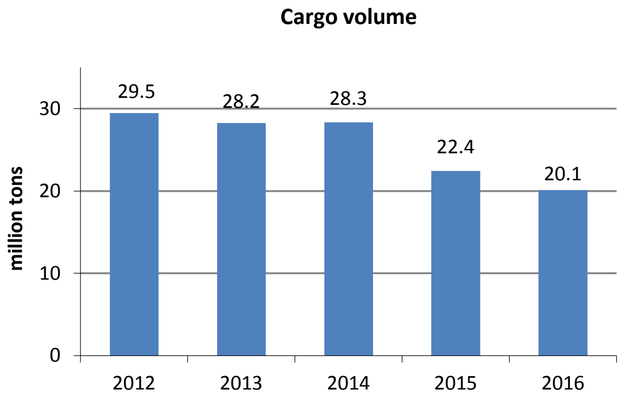
Within the major ports, the biggest growth in cargo volumes was in the ports of Ust-Luga (growth of 5.5 million tons, i.e. 6%) and Primorsk (4.8 million tons, i.e. 8%) followed by the ports of Klaipeda-Butinge (2.3 million tons, i.e. 5%), Gdansk and Gdynia (both 1.3 million tons) and Sillamäe (1.0 million tons, i.e. 18%). Rise in cargo volumes was achieved mainly on account of the increased volume of liquid bulk, and in Gdansk of containerised cargo. The volume of cargo declined the most in the ports of Ventspils (-3.7 million tons), Riga (-3.0 million tons), St. Petersburg (-2.9 million tons) and Tallinn (-2.3 million tons).

As a result of the changes, in terms of the ports of Russia and the Baltic states the market share of Russian and Lithuanian ports increased while the market share of Estonian and Latvian ports decreased. The market share of the ports of Russia was 61.9% (2015: 60.4%), Lithuania 12.9% (2015: 12.3%), Latvia 16.1% (2015: 17.8%), and Estonia 9.1% (2015: 9.5%).
The ports of Ust-Luga (market share 20%) and Primorsk (14%) continued as the largest ports on the east coast of the Baltic Sea with Klaipeda-Butinge (10.6%) rising to the third position narrowly outpacing the port of St. Petersburg (10.5%). AS Tallinna Sadam moved up from the eighth position to the seventh with a market share of 4.3% (2015: 5%) due to the decline in cargo volumes in the port of Ventspils exceeding ours by 1.4 million tons.

3. OPERATING PERFORMANCE

2016 was an eventful year for AS Tallinna Sadam, with regards to both traditional port management as well as passenger ferry service being launched as a new service line. In port management the cargo volumes declined, but the number of passengers increased and the port showed persistently solid results in the passengers segment. The volume of cargo decreased by 2.3 million tons, i.e. 10%, to 20.1 million tons, which meant the lowest level over the last period of almost 20 years. In terms of cargo types, only the volume of liquid bulk decreased (by 3.4 million tons) while the volumes of other cargo types increased, most the volumes of dry bulk (by 0.8 million tons, i.e. 27%) and Ro-Ro cargo (by 0.2 million tons, i.e. 5%). As a result of growth in the volume of line passengers the number of passengers reached a new record of 10.2 million. This also contributed to the growth in revenue related to line and cruise passengers segment. In October, through subsidiary OÜ TS Laevad rendering a ferry service on passenger ferry routes between the mainland and major islands of Estonia was commenced as a new business line in accordance with a 10-year contract signed with the state. The larger part of the income related to rendering public transport services, i.e. the public transport support, was recognised within other income.
Total income (revenue and other income) increased by EUR 11.6 million (12%) up to EUR 111 million that is comparable to the highest level so far earned in 2014 when ice-breaker Botnica was leased out during the off ice-breaking season to perform offshore operations, and in port operations the cargo volumes were 40% higher. All in all, income increased by EUR 11.6 million, i.e. 12%, expenses increased by EUR 3.1 million, i.e. 5% (however, when excluding an expense of EUR 5.2 million incurred as one-off write-down in 2015, the expenses in 2016 increased by 14%), operating profit increased by EUR 8.5 million, i.e. 21%, and net profit by about EUR 9 million, i.e. 28%. The dividend distributed to the shareholder in 2016 amounted to EUR 35.0 million, plus income tax expense of EUR 8.75 million (2015: EUR 31.2 million and EUR 7.8 million respectively).
One of the main events of the year was continued construction of the four new passenger ferries at the shipyards in Turkey and Poland; however, completion of the ferries turned out to take longer than agreed on. Therefore, on 1 October rendering the ferry service was started with temporarily rented replacement ferries. Rental expenses on replacement ferries are covered by income from the penalty receivable from shipyards as a result of delayed completion of the ferries. By the end of the year ferry Leiger had been delivered by the Turkish shipyard and the ferry started servicing the Rohuküla–Heltermaa route shortly before the end of the year. Shortly after the turn of the year ferry Tõll was delivered by the Polish shipyard. Tiiu, the second ferry under construction in the Turkish shipyard, and Piret, the second ferry under construction in the Polish shipyard, are expected to be delivered in March 2017. Related to port operations, the construction of a new automated traffic solution for passengers and cars passing through the Old City Harbour and modernisation of the reception facilities necessary for servicing passenger vessels were continued as the major capital expenditures.
As at the reporting date, an investigation continued in the criminal case started in 2015 against two long-term former members of the management board of AS Tallinna Sadam suspected of accepting bribes. Despite this extraordinary event the operations of AS Tallinna Sadam have continued in line with the strategy and objectives for core business approved by the supervisory board of the company but with appropriate changes having been made in the governance structure. In 2016, as a result of a public competition the supervisory board of AS Tallinna Sadam elected Valdo Kalm the new chairman of the management board, and Marko Raid (earlier appointed the temporary chairman of the management board until the new management board was elected) and Margus Vihman were elected members of the management board with Marko Raid in the position of the chief financial officer (CFO) and Margus Vihman in the position of the chief commercial officer (CCO).

3.1. Cargo volume

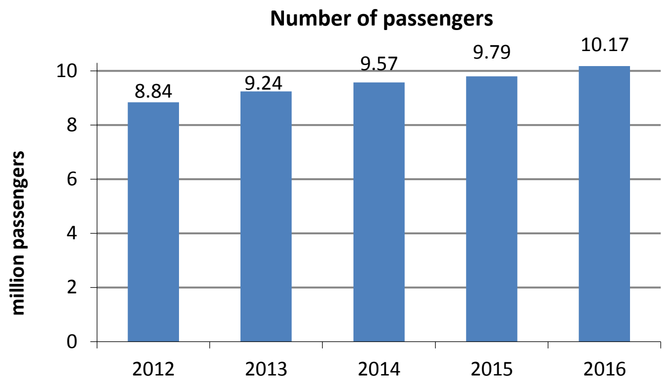


In 2016 the cargo volumes passing through the ports of AS Tallinn Sadam declined by 2.3 million tons (10%) to 20.1 million tons, i.e. to the lowest level over the last period of nearly 20 years. Again, the decline resulted from a drop in the volume of liquid bulk, the cargo having the largest proportion in total cargo volume, by 3.4 million tons, i.e. 26%. Mostly the volume of liquid cargo transported to the port by railway declined while the volume of liquid cargo serviced by the vessel-terminal-vessel scheme did not decrease considerably accounting for 33% of the total volume of cargo (2015: 31%). The total volume of other cargo types increased by 1.1 million tons, most of all the volume of dry bulk (by 0.8 million tons, i.e. 27%) and Ro-Ro cargo (by 0.2 million tons, i.e. 5%). By the year end the tonnage volume of containerised cargo also reached a slight increase by 37 thousand tons, i.e. 2%; however, in terms of TEUs the change still remained negative by 6.5 thousand (3%) and volume amounted to 202 thousand TEUs. Decline in liquid cargo can be attributed to the fact that Russia preferred its own ports on shipping cargo originating from Russia which was reflected in increased volumes of liquid cargo mostly in the ports of Ust-Luga and Primorsk. However, increase in the volume of liquid cargo shipped to the port with vessels is hindered by rather low oil prices which cut back demand for added-value services provided in terminals and decreases profitability. Although decrease in the volume of containerised cargo turned into a slight increase in the second half of the year, transit to and from Russia remained at lows due to weak domestic demand in Russia. Most of the Ro-Ro cargo moved on the north-south routes and was less connected with Russia. Growth in the volumes of containerised and Ro-Ro cargos related to the consumption on the east coast of the Baltic Sea and the area beyond has been fostered by a growing trend in the trade sector to deliver goods in containers. In terms of transport direction the most significant change was decrease in volume of transit in exports. However, the volume of Estonian exports showed rather solid growth by 0.5 million tons, i.e. 13%, while the volume of imports did not grow significantly.

In terms of types of cargo, liquid bulk with 47% (2015: 57%) accounted for the major part of cargo volumes; Ro-Ro accounted for 23% (2015: 19%), dry bulk for 19% (2015: 13%) and containers for 9% (2015: 8%) of the cargo volume. In near future, the structure of the types of bulk cargo (liquid bulk and dry bulk) will depend on further utilisation of the port capacities in Russia. As regards Ro-Ro and containerised cargo, the structure of cargo types will mostly depend on the development of the region's economic environment, geopolitical tensions influencing it and also on the trade-boosting labour-saving electronic transaction environment developed in Estonia. In terms of transport directions, transit accounted for 58% (2015: 65%), exports for 23% (2015: 18%) and imports for 19% (2015: 17%) of the cargo volumes.

Cargo transit through AS Tallinna Sadam is not seasonal by nature. The cargo volume passing through the port may be influenced by ice-covered shipping routes in the Gulf of Finland in the winter period as a result of extended cold weather when vessel and cargo traffic may be slowed down by ice-breaking operations. Extremely difficult ice conditions last occurred at the beginning of 2003. However, difficult ice conditions in the Gulf of Finland can give AS Tallinna Sadam a competitive edge over the northward and eastward ports where even more difficult ice conditions may result in more expensive and time-consuming transport of goods. Fluctuations in cargo volumes are usually subject to changes in market conditions (including changes in global market prices of transported cargo; domestic consumption in Russia; and such factors influencing exports as export duties, tariffs and export capacities).

3.2. Number of passengers



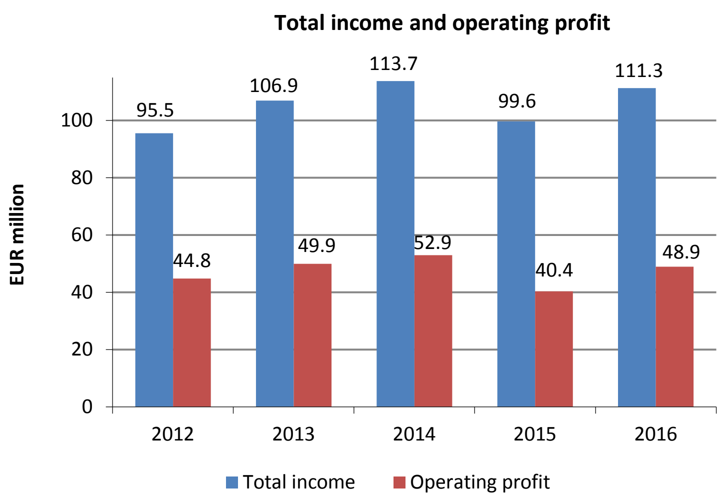
In 2016 the number of passengers passing through the ports of AS Tallinn Sadam increased by 380 thousand, i.e. 3.9%, and exceeded 10 million for the first time amounting to 10.17 million passengers (2015: 9.79 million passengers with the growth of 2.3%). Once again such a large number of passengers exceeded the expectations in the context of economic lows in the region; on the other hand, this reflected reinforcing interconnection between neighbouring countries as regards both tourism and business. Frequent trips of line passenger ferries and an increasingly available and convenient service make their contribution by facilitating travelling.

Again, rise in the number of passengers resulted from increased number of line passengers on the Tallinn-Helsinki route, the greatest in proportion, with the number of passengers amounting to 8.5 million (growth by 302 thousand passengers, i.e. 4%). The number of passengers also increased on the Stockholm route (by 32 thousand passengers, i.e. 4%, reaching nearly 1 million passengers) and St. Petersburg route (by 39 thousand passengers, i.e. 31%). The number of cruise passengers increased by 5.5 thousand, i.e. 1%, amounting to a bit more than 0.5 million. The Baltic Sea region maintains its reputation as rapidly developing and fastest growing region of the global cruise tourism. For 2017 we also forecast some increase in the number of cruise passengers.

In 2016 no major changes occurred as regards to activities of the ferry line operators. The number of vessel calls increased for almost all operators.

The high season of cruise vessel calls lasts from May to September. This seasonal feature in servicing passengers is regular by nature; therefore, it has no unexpected impact on the financial performance of AS Tallinna Sadam.

3.3. Income and expenses



Consolidated total income of AS Tallinna Sadam in 2016 amounted to EUR 111.3 million, up by EUR 11.6 million, i.e. 12% (2015: income of EUR 99.6 million and decrease of 12.3%). Beginning from October 2016 AS Tallinna Sadam started a new business line by rendering ferry services on passenger ferry routes between the mainland and major islands of Estonia through its subsidiary OÜ TS Laevad in accordance with the passenger transport public service contract signed with the state. Income from rendering the service comprises both income from the sale of tickets and public transport support, the first of which is recognised within revenue in accordance with accounting requirements, and the other and larger part is recognised within other income. For comparability of the financial indicators of different years the amounts of revenue and other income have been added together and shown as total income in the above graph.

AS Tallinna Sadam, the parent of the consolidation group, earned 78% of the group's income; TS Laevad OÜ earned 12%, TS Energia OÜ 6% and TS Shipping OÜ 4% of the income.

In terms of types of income, the biggest change was increase in other income by EUR 9.5 million up to EUR 15.4 million in total. Growth in other income was mostly attributable to the operations of OÜ TS Laevad, including both penalty income from shipyards (EUR 6.9 million) and public transport support provided by the state for delivering the ferry service in the fourth quarter (EUR 4.4 million). Other income also included penalty income from port operators for underperformance in terms of contractual volumes in the amount of nearly EUR 2.9 million. Other income in 2015 included one-off penalty income of EUR 3.0 million (resulting in income tax expense of EUR 0.6 million) due to early cancellation of the long-term charter agreement made for offshore operations of ice-breaker Botnica in off ice-breaking seasons.

The biggest changes in terms of revenue types were increase in income from passenger fees (by EUR +4.7 million) and decline in income from port charges and fees (by EUR -3.6 million), mostly impacted by tariff changes between the above income types as regards passenger vessels. Also, the decline in volume of liquid cargo had a decreasing effect on income from port charges and fees. Increase in income from passenger fees was also impacted by growth in the number of passengers. Income from cargo charges declined by EUR 0.7 million, i.e. 10%, due to decrease in liquid cargo volume that exceeded the impact of increase in other cargo types. Income from the sale of tickets for the ferry service in the amount of EUR 1.9 million was added as a new type of income. Changes in other income types were less significant.

In 2017 the income related to the ferry service and its proportion in total income will increase as a result of the full-year service compared to the service provided as from the fourth quarter in 2016.

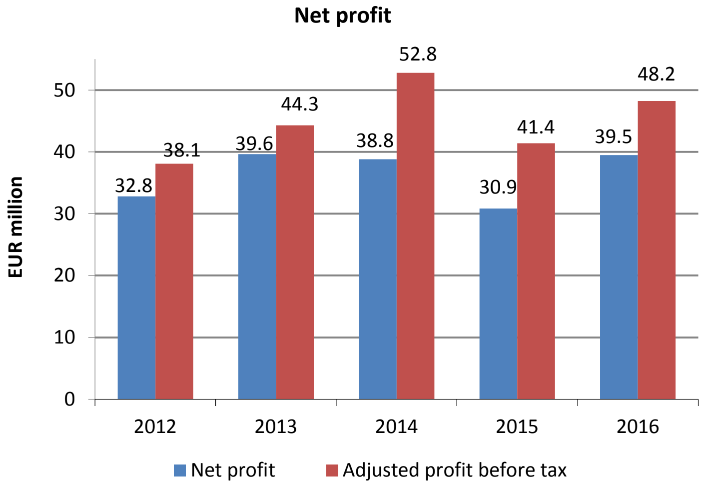
Expenses related to operating activities (operating expenses; personnel expenses; and depreciation, amortisation and impairment losses) and other expenses totalled EUR 62.4 million, up on 2015 by EUR 3.1 million, i.e. 5%. However, excluding one-off expenses of EUR 5.2 million in 2015 (impairment losses on non-current assets, including EUR 5.0 million incurred on ice-breaker Botnica) expenses increased by EUR 8.3 million, i.e. 14%, resulting mostly from expenses related to rendering the ferry service. In terms of types of expenses, operating expenses increased the most (by EUR 5.7 million, i.e. 24%) of which EUR 5.2 million was attributable to chartering of replacement ferries to provide the ferry service as a result of overrun contractual completion deadlines of the new passenger ferries under construction. Personnel expenses increased by EUR 1.7 million, i.e. 14%, also as a result of the commenced ferry service. Other expenses include an expense of EUR 1.0 million on deeming penalty receivables recognised in other income as doubtful, and a penalty of EUR 0.4 million for not meeting the terms of the ferry service contract due to the delay in the agreed completion deadlines of the new passenger ferries. However, expenses incurred on traditional port operations and ice-breaker Botnica decreased as a result of cost cutting measures applied due to declined operating volumes.

3.4. Operating profit, operating margin and EBITDA

Operating profit for 2016 amounted to EUR 48.9 million, up on 2015 by EUR 8.5 million, i.e. 21%, as a result of the growth in income exceeding the growth in expenses. Excluding the one-off expense of EUR 5.2 million incurred on impairment of non-current assets and the penalty income of EUR 3.0 million on Botnica in 2015, operating profit increased by EUR 6.4 million, i.e. 15%. As a result of the changes, operating profit margin (operating profit divided by total income) which shows the efficiency of the operations of AS Tallinna Sadam increased from 40.5% to 44.0% (on adjusted operating profit in 2015 the margin was 42.7%). Growth in operating profit resulted mostly from traditional port operations and the ferry service, supported by the impact of reduced expenses of subsidiary OÜ TS Shipping incurred on ice-breaker Botnica.

EBITDA (earnings before interest income and expenses; income tax; and depreciation, amortisation and impairment) for 2016 was EUR 66.6 million compared to EUR 63.0 million in 2015, up by EUR 3.6 million, i.e. 6%. A smaller increase as compared to the increase in operating profit resulted mostly from the impact the decreased depreciation, amortisation and impairment losses had on operating profit.

3.5. Net profit



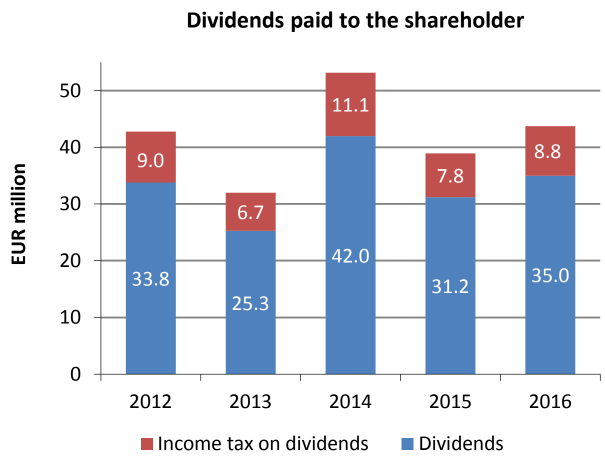
Net profit was additionally impacted by finance income and costs, and income tax on dividends. Finance income did not change significantly, but finance costs decreased by EUR 0.25 million, i.e. 19%, mostly as a result of decreased interest rates. Interest expenses related to the construction of ferries were capitalised in the amount of EUR 0.95 million compared to EUR 0.62 million the year before. Although the volume of interest-bearing liabilities increased by EUR 49 million, i.e. 25%, by the year end, net finance costs decreased by about EUR 0.25 million, i.e. 19%. Profit before income tax was EUR 48.2 million, up by EUR 9.0 million, i.e. 23%.

The group's net profit in 2016 amounted to EUR 39.5 million, up on 2015 by EUR 8.6 million, i.e. 28%. Increase resulted mostly from additional operating profit earned from the new business line, i.e. providing the ferry service, and increased operating profit from both port operations and ice-breaker Botnica as a result of cost cutting; however, the above impact was reduced by an increase of EUR 1.0 million in income tax expense due to dividend distribution increasing from EUR 31.2 million to EUR 35 million.

To compare net profits of AS Tallinna Sadam for different years, net profit is adjusted by more significant one-off income and expenses and income tax expense incurred on dividend distribution.

Adjusting the net profit in 2016 by income tax expense on dividends in the amount of EUR 8.75 million, the result is EUR 48.2 million of adjusted profit before tax. Upon adjusting the net profit in 2015 by income tax expense on dividends in the amount of EUR 7.8 million, a one-off expense incurred on impairment of non-current assets of EUR 5.2 million, and income from a penalty for early cancellation of the long-term charter agreement of Botnica after income tax of EUR 2.4 million, the result is EUR 41.4 million of adjusted profit before income tax. Increase in adjusted profit (by EUR 6.8 million) resulted from increased operating profit in various business lines as described above.

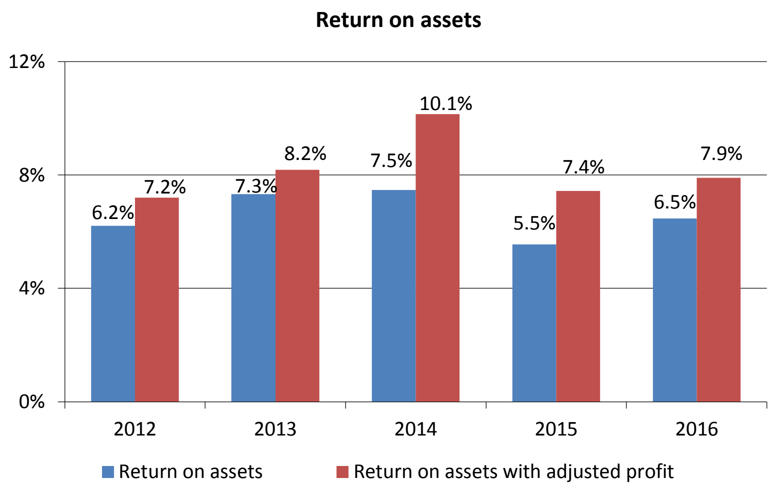
3.6. Dividends



In 2016, the shareholder was paid EUR 35.0 million as dividends plus income tax on dividends of EUR 8.8 million, a total of EUR 43.8 million. For further details see note 18 to the financial statements. The respective figures for 2015 were dividends of EUR 31.2 million plus income tax on dividends of EUR 7.8 million, a total of EUR 39.0 million.

The decision on dividend distribution by AS Tallinna Sadam is made by the Government of the Republic of Estonia upon the proposition of the Minister of Finance, as a rule, based on the financial performance of AS Tallinna Sadam, financial criteria specified in the expectations for the company approved by the shareholder, and taking into account the financial forecast based on the group's development plans. The decisions on dividend distribution to the parent by the companies of the consolidation group are made on an individual basis after approval of their financial results and in line with the company's development and capitalisation needs.

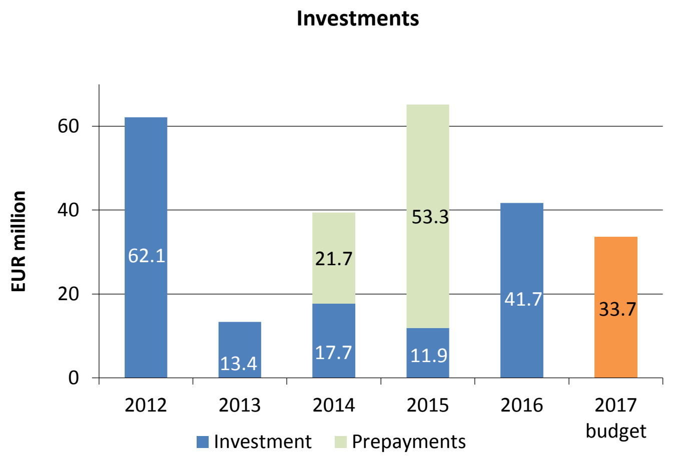
3.7. Return on assets



AS Tallinna Sadam's return on assets (net profit divided by the average total assets of the year) was 6.5%, rising from the year-earlier lows to the average level of the last five years. Return on assets based on adjusted profit before income tax also increased, amounting to 7.9%. Increase in 2016 mostly resulted from an increase in adjusted profit before income tax as a result of a rise in operating profit (by 15%) which exceeded the growth in average total assets (by 10%). A decline in return on assets the year before and a slight rise in 2016 was partly anticipated, resulting from increased total assets as a result of long-term and large-scale investments (including, for instance, passenger ferries under construction) commencement of income earned on which contributed to increased return on assets, in addition to growth in operating profit from port operations and Botnica.

In 2016 AS Tallinna Sadam's adjusted return on equity (adjusted profit before income tax divided by the average total equity of the year) was 14.0%. Return on equity also increased compared to 12.1% in 2015 (also based on adjusted profit before income tax), resulting from an increase in adjusted profit before income tax (by 16%).

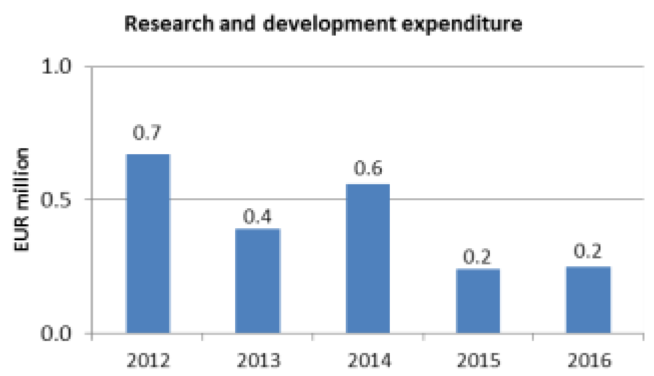
4. INVESTMENTS AND DEVELOPMENT OUTLOOK



In 2016, the group's capital expenses totalled EUR 41.7 million out of which investments into new infrastructure assets, acquisition of non-current assets and improvement of existing infrastructure assets amounted to total of EUR 14.9 million, which slightly exceeded the same investments in 2015. EUR 26.8 million was invested into the construction of ferries and into information and passage systems necessary for providing the ferry service.

In 2016 the major investments into infrastructure in total amount of about EUR 11.2 million were made in the Old City Harbour where improvement of vessels' reception and passenger service facilities continued as well as construction of utility tunnels and of a new traffic solution which will provide traffic areas with innovative solutions together with electronic entrance gates for cars to get on and off board the vessels. Investments in other ports and harbours were less significant and were made mostly into reconstruction of quays and berths and utility tunnels.

Investments planned for 2017 include part of the cost of construction of passenger ferries necessary for providing the ferry service between the mainland and major islands of Estonia, and other investments related to ferry traffic in the total amount of EUR 12.7 million. Construction of the passenger ferries will be completed in spring 2017 and the estimated total investment will amount up to EUR 118 million. Nearly EUR 14 million is planned to be invested in the Old City Harbour, mostly into building traffic solutions and reception facilities for vessels that will provide an innovative and client friendly service environment for the more than 10 million passengers passing through the Old City Harbour per year.



In addition to investments, each year AS Tallinna Sadam bears substantial research and development expenditures which in 2016 amounted to EUR 0.2 million. Research and development expenditures were related to elaborating various projects considering environmental, constructional and economic feasibility aspects. Also, regular inspections of the technical condition of quays and berths are carried out. Most research projects are aimed at planning new and unexploited areas in harbours; preparing necessary preliminary and detailed plans; also at environmental studies and monitoring of exploitation of mineral resources; and at assessing and monitoring other impacts arising from port operations.

In the Old City Harbour, under-exploited areas are planned to be leased out (property development) primarily so that busy passenger traffic could be improved and the harbour area further integrated with the urban space. Therefore, possibilities for optimal reorganisation of passenger and cargo traffic flows in the harbour area are researched.

5. OBJECTIVES AND POLICIES FOR MITIGATING FINANCIAL RISKS ARISING FROM FINANCIAL INSTRUMENTS

The main financial liabilities of AS Tallinna Sadam are loans and debt securities issued to finance the operations of the company, including investments, and maintain an optimal capital structure in line with the expectations for the company approved by the shareholder. The company's balance sheet also includes cash and short-term deposits, trade and other receivables, and trade payables.

The group's risk management adheres to the policy that risks must be taken in a balanced manner, by taking into consideration the internal rules established by the company and by applying risk mitigation measures according to the circumstances, thereby achieving stable profitability of the company and growth in the value of shareholder assets.

The company considers financial risk to be the risk that arises directly from the core business and investment activities, including market risk, liquidity risk and credit risk, thus reducing the company's financial capacity and/or reducing the value of the company's assets.

Market risk is the risk that changes in market prices will affect the fair value of the company's financial instruments. The company's financial instruments most exposed to changes in market prices are loans and debt securities issued. The main factor impacting the above financial instruments is interest rate risk. Interest rate risk is the risk of changes in future cash flows from financial instruments arising from changes in market interest rates. Change in market interest rates mostly impacts the company's long-term floating rate borrowings. The company's intention is to keep about 50% of its borrowings in fixed interest rate facilities mitigating interest rate risk by using *floating to fixed* interest rate swaps. Based on the low level of interest rates and market expectations as to the persistence of low interest rates for at least a couple of years coming, as at 31 December 2016 about a quarter of the company's borrowings were with fixed interest rates.

Term deposits are made at a fixed interest rate and future cash flows from them are not exposed to interest rate risk.

Liquidity risk arises from potential changes in the financial position reducing the company's ability to meet its liabilities on a timely basis and with precision. The risk will realise when the company does not have enough funds to service its borrowings, meet the requirements of working capital, for investments and/or distributing dividends declared. The company has taken a cautious approach to managing liquidity risk, retaining enough funds and short-term deposits or credit lines to be able to meet its financial liabilities at any time. Cash flow planning and control on an ongoing basis are key elements of liquidity risk management.

The objective of the company's capital management is to ensure long-term sustainable operations; therefore, the company is rather prudent in raising debt capital. Based on the expectations for the company approved by the shareholder, the optimal proportion of the company's equity capital is set on 60% of its total assets.

Credit risk is the risk arising from counterparties' inability to meet their obligations to the company. The company is exposed to credit risk mostly due to its core business operations (trade and other receivables) and transactions with financial institutions, including through cash in bank accounts and short-term deposits. In compliance with the company's risk management policies the company's short-term funds can be deposited only in current accounts with credit institutions of high credit-ratings, and overnight and term deposits. The company's procedures to prevent reduction in cash flows arising from credit risk and minimise such risk include daily monitoring and handling of clients' payment behaviour which enables immediate decision making on the necessity to apply appropriate measures. In the event of overdue debts the customers are contacted immediately to resolve the situation.

5.1. Risks arising from changes in foreign exchange, interest and stock exchange rates

Risks arising from changes in foreign exchange, interest and stock exchange rates during the financial year and the period of preparing these financial statements that would have an impact on the company were insignificant.

As nearly 100% of the financial transactions of AS Tallinna Sadam are conducted in euros, the company is not exposed to any currency risk.

During the year under review interest rates showed a downward trend, and based on market expectations, favourable interest rates from the perspective of borrowers are expected to continue. The company is exposed to interest rate related risk through floating interest rate borrowings. Since during the reporting year the interest rate environment was favourable for borrowers in Estonia as well as in the euro area and developed countries in general, the interest rate risk the company was exposed to during the reporting year can be considered insignificant taking also into account the measures applied by AS Tallinna Sadam based on its policies for mitigating financial risk.

Changes in stock exchange rates did not impact the company's business operations and performance indicators since the company does not have any assets or liabilities exposed to changes in stock exchange rates.

The group's exposure to financial risks and methods used to hedge the risks are also detailed in notes 3, 5 and 16 to the financial statements.

6. QUALITY AND ENVIRONMENTAL MANAGEMENT AND SOCIAL RESPONSIBILITY

Since 2003 AS Tallinna Sadam (the parent) has applied an integrated management system that is in compliance with the requirements of international quality and environmental management standards ISO 9001 and ISO 14001. In March 2016 a verification audit in accordance with ISO 9001: 2008 and ISO 14001: 2004 requirements was performed by Bureau Veritas Eesti OÜ who has performed certification and verification audits of the management system of AS Tallinna Sadam since 2009. The key objectives of the development of the quality and environmental management system of AS Tallinna Sadam were image building for the Port of Tallinn; reviewing the group's strategy, vision, mission and key values; updating the organisation's governance model and structure; updating organisational culture and employee motivation system; and streamlining project management; also, implementation of asset management software and improvement of digital document management and paper free accounting were continued. Our environmental management system is based on identifying material environmental aspects and environmental impacts arising from them, and based on that defining environment related objectives and tasks to improve performance. For us material aspects are activities that, in contact with the surrounding environment, have the strongest impact on nature, cooperation of interested parties, citizens' life quality, and business results. Based on the above, significant objectives of our environmental management system were monitoring of air quality in the western part of Muuga Harbour; mapping the noise in Muuga Harbour and development of relieving measures; and continuing improvement of the system of informing about environmental and safety issues.

6.1. Corporate social responsibility

One of the priorities of AS Tallinna Sadam is to implement corporate social responsibility (CSR) policies in the company's day-to-day activities. Since February 2015 the company has been a member of the Responsible Business Forum in Estonia in order to address CSR issues on a more systematic basis and contribute to promoting responsible attitude in Estonia. For sustainable operations of AS Tallinna Sadam the welfare and interests of our key stakeholders (employees, local communities, customers) are important; therefore, in addition to core business the company seeks to provide added value primarily also to them.

In 2016 the most significant activities aimed at key stakeholders included the following:

Employees

- Combining work and family life: flexible working hours, supporting camps for children, a Christmas party for children.
- Development of the staff: training in management and environment issues, foreign languages, PC skills and safety at work, staff briefing days.
- Team-building: sporty Shrove Tuesday, team training in summer, a year-end party, concerts by the port's choir *Laulude Lemmik,* various theme weeks.
- Promoting a healthy lifestyle: the health week, participation in sport events, supporting attendance at sport clubs – we joined Sport ID environment which enables each employee to choose the sport club or sports most suitable to them; joining the Network for Workplace Health Promotion.

- Enhancing social responsibility: organising and participating in the clean-up day "Let's Do It!", organising an environmental week and enhancing the staff's awareness of environmental aspects and activities aimed at environment-friendly approach; the Donor Day in the port (held for the fourth time already); joining the Donate Time initiative.
- Employee feedback: regular collection of employees' suggestions and ideas for developing the company.
- Appreciation of employees: annual appreciation of long-serving employees and selecting the Achievers of the Year; appreciation of the contributors to the development of Muuga on the 30th anniversary of Muuga Harbour; appreciation of employees on the tenth anniversary of Saaremaa Harbour.

Local communities

- Cooperation with local authorities: organisation of an environmental day in Muuga Harbour where the Port of Tallinn together with the Minister of the Environment presented preliminary results of improvement of the air quality at Muuga, including project e-Noses, and findings of the survey carried out to identify the sources of noise in the harbour. Round tables with local authorities of Muuga; hosting local authority delegations at harbours. New tourist signs at the premises of the Old City Harbour and in Tallinn city, financed by the Port of Tallinn.
- Events for local communities: tours in Muuga Harbour within the framework of Viimsi Safety Day and Maardu Fair; public events: Maritime Days at the premises of the Old City Harbour; a public event to celebrate the 10th anniversary of Saaremaa Harbour; organisation of open doors' days on board of the new ferries Leiger and Tõll.
- Involvement of local communities in development projects: The Old City Harbour Master Plan workshop and announcement of a Master Plan contest.
- Educational programmes: introduction of Muuga Harbour to young people from various schools and age groups and tours in the harbour; introduction of the cruise tourism sector and cruise area of the Old City Harbour; employees' participation in Back to School programme; employees' supervision of students' papers; running vocational training.
- Scholarships awarded to successful students of maritime related studies: Peeter Palu scholarship and Port of Tallinn scholarship by the Saaremaa Foundation; scholarship in engineer and master's degree studies by the Port of Tallinn.

Customers

- Informing and involving customers: senior personnel's and business line managers' meetings with key customers; a customer information day to present the company's new vision, significant projects and investments; meetings of the cruise cooperation network (feedback on the season and expectations as regards enhancing the attractiveness of the port area and addressing challenges).
- Joint activities with customers: conferences (Paldiski business seminar in cooperation with the Paldiski Association of Entrepreneurs; Maritime Conference); joint displays at international fairs (TransRussia, Cruise Shipping Miami, Boot Düsseldorf); events for local communities (tours in Muuga Harbour, public events in the Old City Harbour, the Donor Day); greeting the 10 millionth passenger.
- The survey of the largest customers (terminal operators, shipping lines, ship agencies) the results of which revealed their expectations for cooperation with the Port of Tallinn: strategic planning of the sector (logistics and the infrastructure of the port), leadership in the logistics think-tank; co-ordination of planning and obtaining permits; relationships with the community and the state; Centre of Excellence for environmental issues; environmentally friendly solutions in the port's premises; surveys in logistics; passenger and customer satisfaction surveys.
- The survey of passengers at passenger terminals – together with passenger line operators a survey of passenger terminals users was carried out to get feedback as regards terminals and the level of services offered at terminals, and passengers' expectations. According to the survey the overall assessment given to the terminal service environment was good (59%) or excellent (37%).
- Joint security and safety training with customers and authorities– ISPS, pollution recovery, sea survival drills, including multinational drills, fire drills, safety drills on board of vessels, etc., 19 drills in total.

Key personnel of the company has mapped main stakeholders of AS Tallinna Sadam (in total 22 different stakeholders) and identified the main tactics for involving stakeholders in four categories (engage, inform, care, monitor). In 2016 stakeholders' expectations and impact were identified and involvement tactics were practiced.

AS Tallinna Sadam has assessed its responsibility and sustainability activities by responding to Estonian Corporate Sustainability and Responsibility Index questionnaire in 2013 and 2014 organised by the Responsible Business Forum. As a result of the activities carried out in 2014 AS Tallinna Sadam was given 74.4 points out of a maximum of 100 points and received a CSR quality label at the bronze level. We have planned to participate in the inquiry again in 2017.

6.2. Indicators

To facilitate a balanced analysis of the group's results and their periodic monitoring, AS Tallinna Sadam (the parent) has developed indicators for measuring financial, customer, process, personnel and development aspects. Based on the observable indicators the following significant observations and trends in 2016 may be outlined:

- Financial performance indicators (EVA[4], profit, cash flows, etc.) of return and profitability mostly improved while the indicators of cash flows and investments with expected returns slightly declined;
- The process performance indicator of cargo volume declined; however, efficiency indicators of handling cargo volumes mostly improved, except for the indicator of cargo loading speed. Number of discrepancies increased slightly compared to 2015;
- Personnel and development performance indicators showed a decline in the proportion of personnel voluntarily leaving employment and the level of expenses incurred on research and development while the proportion of the hours of personnel in-service training slightly increased.
- Customer feedback was constantly monitored with the help of business line managers. To assess customer satisfaction, a survey of customers' expectations in respect of cooperation was conducted at the beginning of 2016 that was responded by 17 larger customers. At the end of the year, a passenger survey was carried out in passenger terminals during which 102 passengers were questioned before boarding. According to the survey the overall assessment given to the terminal environment was good (59%) or excellent (37%).

6.3. Environmental protection activities

In 2016 environmental protection expenses and investments of AS Tallinna Sadam amounted to EUR 0.91 million of which the maintenance costs of the ports' pollution recovery vessels and pollution recovery appliances accounted for EUR 0.65 million remaining within the same range as in previous years. Environmental research and consulting expenditures totalled EUR 0.1 million, EUR 0.03 million up on 2015; waste-water treatment charges amounted to EUR 0.06 million like in previous years.

Key environmental projects related to port development in 2016 were as follows:

- Monitoring outdoor air in the western part of Muuga Harbour and installing e-Noses in cooperation with oil terminal operators (co-financed by the Environmental Investment Centre) and launching an extended outdoor air monitoring project;
- Improvement of software application Mairis for prompt information and notification system in Muuga harbour in order to prevent exceeding the permitted limits of outdoor air pollutants;
- Monitoring the western part of Muuga Harbour to prevent potential oil pollution;
- Strategic assessment of the impact that building of an LNG terminal and bunkers in Muuga Harbour may have on the environment;
- Mapping the noise in Muuga Harbour and conducting a survey of relieving measures (co-financed by the Environmental Investment Centre);
- Ensuring the capacity of waste water reception in the Old City Harbour in accordance with HELCOM and IMO requirements (including building a micro-tunnel for receiving waste water and increasing reception capacity to 1,000 m^3/h);
- Preparations for providing ships with onshore electricity in the Old City Harbour; working out a solution to reduce air pollution and noise in the Old City Harbour.

[4] EVA: Economic Value Added

7. SUBSIDIARIES AND JOINT VENTURES

At year-end 2016 AS Tallinna Sadam held three subsidiaries (OÜ TS Energia, OÜ TS Shipping and OÜ TS Laevad) and one joint venture (AS Green Marine). As at the reporting date, no changes have been planned to be made in the structure of the consolidation group in 2017.

7.1. OÜ TS Energia

In the second half of 2004, AS Tallinn Sadam founded subsidiary OÜ Tallinna Sadama Elektrivõrk. The new company was engaged in rendering and selling electricity network services through a distribution network which was separated as an independent operation from the operations of AS Tallinna Sadam at the beginning of 2005. In 2011, the company's operations were expanded by adding management of water and sewage systems and providing heat supply at port premises. Assets and employees required for rendering the above services were transferred from the parent to the subsidiary that became responsible for ensuring and developing the whole energy supply at port territory. During restructuring the subsidiary was also renamed as OÜ TS Energia. The change did not have any impact on income and expenses at the group level.

In 2016, the company continued investing in renovation of electricity distribution networks and utilities networks to maintain and enhance the reliability of supply. Backup supply is guaranteed for the customers of the electricity network in accordance with the policy of increased supply reliability at port territory. Revenue from rendering of services in 2016 remained at about the forecast level as regards all main services which together with a decrease in expenses incurred on repairs provided net profit exceeding expectations.

The remuneration of the subsidiary's management board and members of the supervisory board for 2016 amounted to EUR 49.3 thousand and EUR 4.5 thousand respectively. The total remuneration of the members of the management board for 2015 amounted to EUR 61.3 thousand, including a bonus for financial performance in 2015 of EUR 12.3 thousand. The remuneration of the members of the supervisory board for 2015 amounted to EUR 2.3 thousand. A bonus for financial performance in 2016 may be added to the remuneration of the management board for 2016, which the supervisory board decides after the approval of the subsidiary’s annual report.

7.2. OÜ TS Shipping

The subsidiary (formerly OÜ Tallinna Sadama Veevõrk) was established in the second half of 2005 with an aim to separate in future the provision of water, sewage and heat network services at port territory from port services and to ensure as efficient as possible functioning of these services. However, from February 2011 the above services were transferred from the parent to another subsidiary, OÜ TS Energia. Up to then OÜ Tallinna Sadama Veevõrk had had no actual economic activity. At the end of 2012 the company was renamed as OÜ TS Shipping, and ice-breaker Botnica, acquired by the parent, together with the obligation to carry out the ice-breaking service contract signed with the state of Estonia for 10 years was transferred to OÜ TS Shipping. The subsidiary's new line of business was activities related to owning and operating vessels.

From the beginning of 2013 the company commenced actual business operations by rendering ice-breaking services under a 10-year service contract. Also, preparations of both the crew and the ship were commenced for off ice-breaking season when the vessel is used as a special purpose vessel in offshore operations.

In 2016 the performance of the 10-year service contract continued. However, no work was found off ice-breaking season as a result of early cancellation of the long-term charter agreement concluded in 2013 due to the economic sanctions imposed on Russia by the western world as well as impossibility to find appropriate work at the special purpose vessels market due to the sustained lows of the market owing to fallen oil prices.

The remuneration of the subsidiary's management board and members of the supervisory board for 2016 amounted to EUR 102.8 thousand and EUR 4.3 thousand respectively. The remuneration of the management board and members of the supervisory board for 2015 amounted to EUR 114.0 thousand and EUR 4.0 thousand respectively.

7.3. OÜ TS Laevad

OÜ TS Laevad was established in 2014 in order to participate in a public tender for operating a ferry service between the mainland and major islands of Estonia. The tender made together with OÜ TS Shipping was successful and in December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications for providing the ferry service in the period from 1 October 2016 to 30 September 2026. At the end of 2014 OÜ TS Laevad also signed contracts for construction of four passenger ferries necessary for providing the above service.

In 2016 preparations continued to crew the ferries and prepare both the staff and technical systems necessary for providing customer services. Since during the year it became evident that the shipyards may not be able to finish the new passenger ferries under construction on time, preparations for plan B to service the routes with temporary replacement ferries started. Thus, on 1 October 2016 operating the routes was commenced with chartered replacement ferries which, on the other hand, added confidence that with the additional time gained through this the desired quality of the new ferries under construction can be ensured. The last, i.e. the fourth, passenger ferry is expected to be delivered by the shipyard in March 2017. Rental expense on temporary replacement ferries are covered by penalties receivable from the shipyards for exceeding the contractual terms of completion.

Total remuneration of the subsidiary's management board for 2016 amounted to EUR 120.7 thousand including a bonus of EUR 19.1 thousand for the results of 2016; the remuneration of the members of the supervisory board amounted to EUR 1.4 thousand. The remuneration of the management board and members of the supervisory board for 2015 amounted to EUR 9.9 thousand and EUR 0.4 thousand respectively.

7.4. AS Green Marine

AS Green Marine is a joint venture engaged in waste management. The company was founded by AS Tallinna Sadam and AS NT Marine at the end of 2003 and it is under joint control of the shareholders. The activities of AS Green Marine include management of waste generated in ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of the ports' aquatory and premises.

In 2016 the company continued receiving and handling ship-generated waste under a cooperation agreement signed with AS Tallinna Sadam. In order to utilise more of the processing capacity of the mobile liquid waste handling terminal, also waste received from customers outside the port territory is handled. AS Green Marine did not distribute dividends in 2016 or in the comparative year 2015.

8. ORGANISATION AND PERSONNEL

8.1. Employees

In 2016 the group's average number of employees was 411 (2015: 363). Increase in the average number of employees resulted from new employees who started work in subsidiary TS Laevad OÜ during the year. Total remuneration of the employees in 2016 amounted to EUR 9.16 million (2015: EUR 8.13 million). Average gross wages of the group's employees in 2016 amounted to EUR 1,856 per month, i.e. 0.4% down on 2015 (EUR 1,864 per month). The change in the average gross wages of the group's employees was caused by increased number of the group's employees (TS Laevad OÜ) and resulting change in the amount of basic remuneration. Also both the total amount of bonuses and their proportion in total remuneration decreased in 2016.

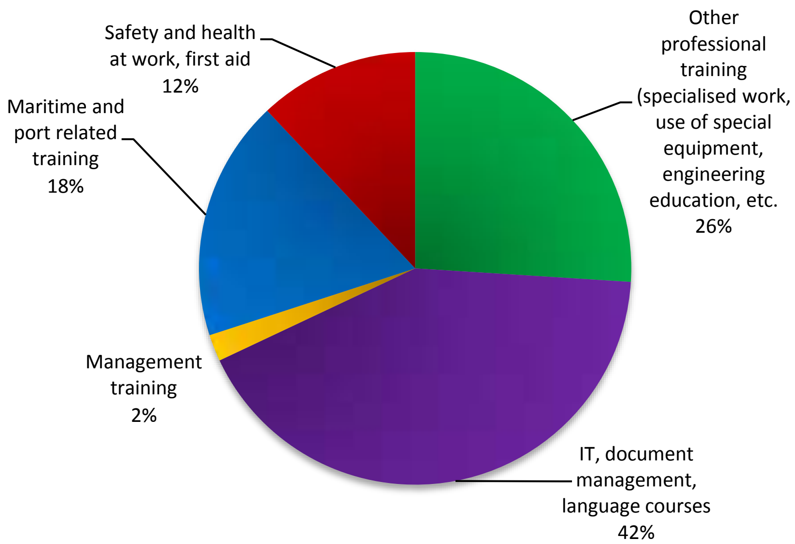
Employee turnover in 2016 was 3.4% (2015: 4.1%). The average number of sick leave days in 2016 was 3.4 calendar days per employee (2015: 3.7 calendar days). Work environment issues are important for us. Therefore, we invest in raising our employees' awareness of work environment and job safety on a regular basis. We also foster the staff's regular and consistent sport activities. From 2016 we work together with Sport ID environment which enables our employees to go to various sport clubs and choose from a large variety of training options. The group offers each employee a monthly allowance of EUR 35 to promote doing sports.

In 2016 another traditional health week was held where we focused on such employee health issues as healthy nutrition, muscle tension, restoring energy reserves and various therapies. Like in previous years, we organised a blood donor day for the staff and cooperation partners within the health week.

In 2016 the first risk week was held where various work related risks (business risks, risks related to the safety in the port, risks related to the security, safety and health at work) and risk prevention were discussed.

In 2016 the group's new long-term strategy was also devised, key values were updated and a new governance structure was approved. With the approval of the new governance structure more broad-based management of the group was established – most of the support structures became directly subordinated to the chairman of the management board, and the subsidiaries' support services will be centralised to achieve more coherence throughout the group. Several staff briefing days were held where changes in the group's operations (e.g. the new strategy, key values), the group's business results and goals, and activities aimed at organisational development and environmental issues were discussed. To enhance internal communication and make essential information available to each employee irrespective of their location of work, publishing of an intra-group newsletter was continued in 2016.

On average, in 2016 each group employee participated in 21.8 hours of training (2015: 11.1 hours). Training expenses per employee in 2016 amounted to EUR 315 (2015: EUR 364). In 2016 more group training courses were held; therefore, the number of training hours was considerably up and training expenses slightly down on 2015. Courses in IT skills, document management and languages (42% of the training volume), other professional training (including specialised work, use of special equipment and engineering education, 26% of the training volume) and maritime and port related training (18% of the training volume) accounted for the largest portions of the entire training volume. Training in safety and health at work and first aid accounted for 12% of the total training volume. Employees improved their knowledge of safety and health at work by attending training courses in providing first aid (in-service training), fire safety and using fire-extinguishing appliances.



8.2. Management board

One of the keywords in 2016 was election of a new management board. In August 2015 an extraordinary event for the group took place when two recent long-term members of the management board of AS Tallinna Sadam were arrested suspected of accepting bribes. To ensure that the company could perform as a going concern and to restore its integrity the supervisory board approved two new temporary members of the management board: Marko Raid, the CFO, and Carri Ginter, an external attorney-at-law. The authority of the new members of the management board was appointed for a fixed term with the final date of 26 February 2016 or until a new management board took office. As a result of a public competition held by the supervisory board, in January 2016 Valdo Kalm, a person with extensive management experience and an impeccable reputation, was elected the new chairman of the parent's management board taking office on 1 March 2016. Two other members were elected to the new three-member management board: Marko Raid, the current Chief Financial Officer (CFO), and Margus Vihman, elected Chief Commercial Officer (CCO) in a public competition.

The remuneration of the members of the management board for 2016 amounted to EUR 215.3 thousand. A bonus for financial performance in 2016 may be added to the remuneration of the management board for 2016, which the supervisory board decides after the approval of the annual report. The remuneration of the members of the management board for 2015 amounted to EUR 192.4 thousand, including a bonus for financial performance in 2015 of EUR 9.0 thousand.

8.3. Supervisory board

The supervisory board of AS Tallinna Sadam held 14 meetings in 2016. In 2016 no changes in the membership of the supervisory board were made.

The remuneration of the members of the supervisory board for 2016 amounted to EUR 28.8 thousand (2015: EUR 32.9 thousand).

9. CORPORATE GOVERNANCE REPORT

Upon resolving issues related to group management, AS Tallinna Sadam mostly observes the Corporate Governance Recommendations (hereafter: the CGR). In addition to the recommended guidelines provided in the CGR, the group also adheres to the State Assets Act (hereafter: the SAA), because AS Tallinna Sadam is wholly owned by the Republic of Estonia. Therefore, based on the ownership of AS Tallinna Sadam and the specific requirements arising from that as regards group management at the level of the general meeting and the supervisory board, AS Tallinna Sadam does not follow some of the guidelines recommended by the CGR. The provisions of the CGR (the CGR section with a brief description) not complied with and the explanation for non-compliance are presented below.

However, it should be noted that although the group does not observe some of the guidelines, protection of shareholders' and creditors' interests and equal treatment is ensured on arranging the operations of AS Tallinna Sadam. Non-compliance with the CGR guidelines mostly concerns conducting general meetings and appointing members of the supervisory board which is primarily aimed at ensuring that the interests of shareholders are protected. As the sole shareholder of AS Tallinna Sadam is the Republic of Estonia, the shareholder’s interests are protected in accordance with the principles set out in the SAA.

9.1. General meeting

AS Tallinna Sadam has not observed the following sections of the CGR upon organisation of the general shareholders’ meeting:

Section 1.2.1 – Notice on calling the General Meeting shall be sent to shareholders and/or published in a daily national newspaper concurrently with making it available on the Issuer’s website.

Section 1.2.3 –The Management Board shall publish on the Issuer’s website the essential information connected with the agenda provided to it or otherwise available concurrently with complying with the General Meeting calling requirements provided by law.

Section 1.2.4 – Within a reasonable period of time prior to holding a General Meeting the Supervisory Board shall publish on the Issuer’s website its proposals on agenda items.

Section 1.3.1 – The Chairman of the Supervisory Board or members of the Management Board cannot be elected as Chair of the General Meeting.

Section 1.3.2 – Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

Section 1.3.3 – Issuers shall make participation in the General Meeting possible by means of communication equipment (e.g. Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

The above recommended guidelines of the CGR are not followed due to the fact that the sole shareholder of AS Tallinna Sadam is the Republic of Estonia and the exerciser of the shareholder’s rights is the Ministry of Economic Affairs and Communications, represented at the general meeting of shareholders by the Minister of Economic Affairs and Infrastructure. Exercising of the shareholder’s rights and the authority of the representative are provided in the SAA; holding of the general meeting and its participants are determined on an ad hoc basis in concordance with the sole shareholder. Based on the above, AS Tallinna Sadam does not consider it feasible to appoint an independent chair of the general meeting or make participation in the general meeting possible by means of technical communication equipment.

9.2. Management board

The management board of AS Tallinna Sadam is a governing body that represents and manages the company in its daily operations in accordance with the law and the articles of association of AS Tallinna Sadam. The management board must act in the best interests of the company. According to the articles of association, the management board may consist of 1-5 members who are elected by the supervisory board for a period of up to five years.

Up to 31 October 2016 the management board consisted of two members. As from 1 November 2016 the management board consists of three members as follows:

- Valdo Kalm, the chairman of the management board, with powers up until 1 March 2021;
- Marko Raid, a member of the management board, the CFO, with powers up until 18 April 2021;
- Margus Vihman, a member of the management board, the CCO, with powers up until 1 November 2021.

Service contracts have been signed with all members of the management board. In the reporting period AS Tallinna Sadam conducted limited small-scale transactions with parties related to the members of the management board that are disclosed in note 23 to the financial statements. All conducted transactions resulted from the normal course of business and were carried out on an arm's length basis.

When the management board consisted of two members, the two members were entitled to jointly represent AS Tallinna Sadam in any legal acts. In the three-member management board the chairman of the management board and one management board member jointly have the right of representation.

Pursuant to section 2.2.7 of the CGR, the following information about the amount of the remuneration of the members of the management board of AS Tallinna Sadam in 2016 and the scheme for determining severance package and additional bonuses and benefits are presented.

Total remuneration of the members of the management board for 2016 amounted to EUR 215.3 thousand (2015: EUR 192.4 thousand) and was allocated as follows: the remuneration of Valdo Kalm, the chairman of the management board (from 1 March 2016), EUR 100.0 thousand; Marko Raid, a member of the management board, EUR 83.7 thousand; Margus Vihman, a member of the management board (from 1 November 2016), EUR 16.0 thousand; and Carri Ginter, a member of the management board (up to 26 February 2016), EUR 15.6 thousand. A bonus for financial performance in 2016 may be added to the remuneration of the management board for 2016, which the supervisory board decides after the approval of the annual report. The bonus to the management board for 2015 amounted to EUR 9.0 thousand. The limits to the amounts of bonus payments and severance pay that can be paid to a member of the management board are prescribed in section 86 subsections 2 and 3 of the SAA, pursuant to which the amount of bonus payable to a member of the management board cannot exceed the amount equal to the management board member's four months' remuneration.

Under the valid contracts of service as at 31 December 2016 AS Tallinna Sadam has an obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration. In return for observing the prohibition of competition, the group has an obligation to pay the management board members monthly compensation during 12 months as of the expiry of the contract in the amount equal to 50% of the management board member's remuneration.

Section 2.3 of the CGR – Conflict of interests. On 26 August 2015, the Estonian Internal Security Service detained long-term former members of the management board of AS Tallinna Sadam Ain Kaljurand and Allan Kiil and suspicions of large-scale bribery during several years were filed against them. As at the reporting date the trial had not commenced yet, nor had any charges been brought against the persons, and preliminary investigation procedures were still in progress. The prosecution is expected to file charges within 2017.

During the reporting year the company reviewed, updated or amended several rules and regulations governing company's work to ensure transparent and open management. The activities will continue and are planned to be completed in 2017.

9.3. Supervisory board

The supervisory board plans the activities of AS Tallinna Sadam, organises the management of the company and supervises the activities of the management board. Pursuant to the articles of association, the supervisory board consists of 6–8 members. In the reporting year the supervisory board consisted of 6 members; no changes were made in the membership of the supervisory board and the current members have the powers up to 3 October 2020. During the year the supervisory board held 14 meetings.

The responsibilities of the supervisory board include approval of the annual budget and annual report of the company, as well as approval of the company's strategy, goals and development directions. In addition, at its meetings the supervisory board discusses operational and business risks the company is exposed to, regulatory and legal issues, matters of investment and large-scale funding, and other business matters.

Pursuant to section 3.2.5 of the CGR, the amount of the remuneration paid to the members of the supervisory board of AS Tallinna Sadam in 2016 and the procedure for remuneration are presented below.

The procedure for appointing and remunerating members of the supervisory board is stipulated in section 85 of the SAA. Pursuant to the SAA, the limits of remuneration and detailed procedure for remuneration are established by the Minister of Finance. The limits of the remuneration of the members of the supervisory board are laid down in the Minister of Finance Regulation No 10 of 22 February 2010, *Procedure for Remuneration of Members of the Supervisory Board of State-owned Companies and Foundations and Limits of Remuneration*.

Pursuant to the prescribed limits, the remuneration of a member of the supervisory board is determined by the minister controlling the shares. Pursuant to the directive of the Minister of Economic Affairs and Infrastructure the monthly remuneration of a member of the supervisory board of AS Tallinna Sadam was EUR 355 and of the chairman of the supervisory board EUR 473. Members of the supervisory board are remunerated once a month. Members of the supervisory board do not receive any remuneration for the month they did not participate in the meeting adopting resolutions of the supervisory board.

Total remuneration of the members of the supervisory board amounted to EUR 28.8 thousand (2015: EUR 32.9 thousand). AS Tallinna Sadam does not pay members of the supervisory board any severance pay or any other incentives besides the remuneration for participating in a body of the supervisory board.

AS Tallinna Sadam conducted limited small-scale transactions with parties related to the members of the supervisory board that are disclosed in note 23 to the annual financial statements. All conducted transactions resulted from the normal course of business and were carried out on an arm's length basis. As at the date of the approval of the annual report for 2016, the members of the supervisory board of AS Tallinna Sadam had not notified the group of any conflicts of interest arising during the financial year. In the case of risk of conflict of interests the supervisory board member exposed to the risk have removed himself/herself from the discussion of the item on the agenda and decision-making.

9.4 Additional management bodies and committees

In the company necessary procedures are regulated by rules and regulations, and for better risk assessment and management internal audit function has been established that prepares regular reports to the supervisory board. Pursuant to the Auditors Activities Act, the company has established an audit committee whose function is to monitor and analyse processing of financial information; efficiency of risk management and internal control; the process of auditing of the annual consolidated financial statements; independence of the audit company and the auditor who represents the audit firm on the basis of law; and to submit proposals and recommendations to the supervisory board in issues provided by law. As from October 2015 the audit committee consists of three members: Urmas Kaarlep, Agris Peedu and Mart Luik. The current audit committee members have the powers up to 15 October 2018.

For participating in the audit committee, the committee members are remunerated in the amount equal to 25% of a supervisory board member's remuneration; the remuneration of the chairman of the committee amounts to 50% of a supervisory board member's remuneration.

9.5 Disclosure of information

Due to public interest AS Tallinna Sadam as a state company pursues the policy of maximum openness in disclosing information. The company's main information channels are press releases and website www.ts.ee, where general information about the company, the business scope of the ports and harbours of AS Tallinna Sadam, and contact data of the company's key personnel are available, as well as information about the company's strategic goals, financial information (including interim and annual reports) and analyses of performance results. Monthly published key figures of the port operations include cargo flows by cargo type and number of passengers passing through the ports owned by AS Tallinna Sadam.

9.6 Financial reporting and auditing

Preparation of financial statements is the responsibility of the management board of AS Tallinna Sadam. The consolidated financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The financial statements are prepared and submitted for approval in conformity with the requirements stipulated in the Accounting Act of the Republic of Estonia, the Commercial Code and other applicable legislation.

The company releases its quarterly financial reports on its website after their preparation and approval by the management board and its annual report as soon as the report has been signed by the supervisory board.

AS Tallinna Sadam does not follow section 6.2.2 of the CGR – Before entering a contract for auditing services with an auditor, the Management Board shall present the Supervisory Board with the draft contract for approval.

The management board of AS Tallinna Sadam does not deem it necessary to obtain the supervisory board's approval to the draft contract for auditing services as the auditor is chosen through a tendering procedure, the contract is based on the tender results and material terms and conditions of the contract (including the schedule and responsibilities) have been agreed with the supervisory board before the tender is announced. Pursuant to the guidelines of the Financial Supervision Authority of 24 September 2003 "Rotation of Auditors of Certain Entities under State Supervision" the company organises rotation of auditors ensuring independence of the auditor by changing the executive auditor at least in every three years.

The auditor of AS Tallinna Sadam is AS Deloitte Audit Eesti and the independent auditors' report is signed by Veiko Hintsov. The contract for audit services has been made for three years (for auditing annual reports 2015-2017). In addition to the audit the auditing company has not rendered the company any such services that might compromise the auditor's independence.

MANAGEMENT'S CONFIRMATION AND SIGNATURES

By authorising the consolidated annual financial statements as at 31 December 2016 the management board confirms the correctness and completeness of the data of AS Tallinna Sadam and companies related to it as set out on pages 25 to 72 and that

1. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU);

2. The consolidated annual financial statements give a true and fair view of the financial position of the group and its cash flows and financial performance;

3. All significant events that occurred until the date on which the financial statements were authorised for issue (15 March 2017) have been properly recognised and disclosed in the consolidated financial statements; and

4. AS Tallinna Sadam and its subsidiaries are going concerns.

15 March 2017

Valdo Kalm	Marko Raid	Margus Vihman
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATEDSTATEMENT OF FINANCIAL POSITION

In thousands of euros

As at 31 December	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	**6**	49,918	25,902
Trade and other receivables	**7**	17,276	9,183
Inventories		378	129
Total current assets		**67,572**	**35,214**
Non-current assets			
Investments in joint ventures	**8**	1,086	710
Other long-term receivables	**7**	362	476
Property, plant and equipment	**9**	568,533	544,189
Intangible assets	**10**	1,155	495
Total non-current assets		**571,136**	**545,870**
Total assets		**638,708**	**581,084**
LIABILITIES			
Current liabilities			
Loans and borrowings	**15**	118,018	25,710
Derivatives	**16**	1,008	831
Provisions	**12**	1,156	965
Government grants	**17**	917	917
Taxes payable	**14**	9,436	8,318
Trade and other payables	**13**	8,384	5,700
Total current liabilities		**138,919**	**42,441**
Non-current liabilities			
Loans and borrowings	**15**	128,035	171,043
Government grants	**17**	23,703	23,695
Other payables	**13**	1,083	1,238
Total non-current liabilities		**152,821**	**195,976**
Total liabilities		**291,740**	**238,417**
EQUITY			
Share capital at par value		185,203	185,203
Statutory capital reserve		18,520	18,520
Hedging reserve		-1,008	-831
Retained earnings		104,775	108,907
Profit for the year		39,478	30,868
Total equity	**18**	**346,968**	**342,667**
Total liabilities and equity		**638,708**	**581,084**

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

In thousands of euros	Note	2016	2015
Revenue	**19**	95,885	93,794
Other income	**21**	15,366	5,824
Operating expenses	**20**	-29,260	-23,514
Personnel expenses	**20**	-14,121	-12,416
Depreciation, amortisation and impairment losses	**9, 10**	-17,358	-22,513
Other expenses	**21**	-1,617	-810
Operating profit		**48,895**	**40,365**
Finance income and finance costs			
Finance income		32	40
Finance costs	**22**	-1,075	-1,328
Net finance costs		**-1,043**	**-1,288**
Share of profit/loss of equity-accounted investees	**8**	376	162
Profit before income tax		**48,228**	**39,239**
Income tax expense	**18**	-8,750	-8,371
Profit for the year		**39,478**	**30,868**
Basic earnings and diluted earnings per share (in euros)	**18**	0.21	0.17
Basic earnings and diluted earnings per share - continuing operations (in euros)		0.21	0.17

Consolidated statement of comprehensive income

In thousands of euros (unaudited)	Note	2016	2015
Profit for the year		**39,478**	**30,868**
Other comprehensive income			
Revaluation of hedging instruments	**16**	-177	-84
Total other comprehensive income		**-177**	**-84**
Total comprehensive income for the year		**39,301**	**30,784**

CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD)

In thousands of euros	Note	2016	2015
Cash receipts for sale of goods or services		100,654	102,570
Cash receipts related to other income		7,053	1,603
Cash paid to suppliers		-37,343	-32,957
Cash paid to and for employees		-11,939	-11,267
Cash payments related to other expenses		-204	-629
Income tax paid on dividends	**18**	-7,763	0
Net cash from operating activities		**50,458**	**59,320**
Acquisition of property, plant and equipment	**25**	-39,208	-65,185
Acquisition of intangible assets	**25**	-704	-185
Proceeds from sale of property, plant and equipment		726	1,914
Connection fees received		0	170
Proceeds from government grants related to non-current assets		346	12
Interest received		14	18
Net cash used in investing activities		**-38,826**	**-63,256**
Proceeds from issue of debt securities	**15**	75,000	60,000
Redemption of debt securities	**15**	-2,500	-2,500
Proceeds from loans received	**15**	0	15,000
Repayment of loans received	**15**	-23,210	-21,433
Repayment of finance lease principal		-2	0
Dividends paid	**18**	-35,000	-31,192
Interest paid	**15**	-1,884	-1,866
Other payments related to financing activities		-20	-42
Net cash from financing activities		**12,384**	**17,967**
NET CASH FLOW		**24,016**	**14,031**
Cash and cash equivalents at beginning of year		25,902	11,871
Increase in cash and cash equivalents		24,016	14,031
Cash and cash equivalents at end of year	**6**	49,918	25,902

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Note	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
Equity at 31 December 2014		**185,203**	**18,520**	**-747**	**140,099**	**343,075**
Profit for the year		0	0	0	30,868	**30,868**
Other comprehensive income	**16, 18**	0	0	-84	0	**-84**
Total comprehensive income for the year		*0*	*0*	*-84*	*30,868*	***30,784***
Dividends declared	**18**	0	0	0	-31,192	**-31,192**
Total transactions with the shareholder of the company		*0*	*0*	*0*	*-31,192*	***-31,192***
Equity at 31 December 2015		**185,203**	**18,520**	**-831**	**139,775**	**342,667**
Profit for the year		0	0	0	39,478	**39,478**
Other comprehensive income	**16, 18**	0	0	-177	0	**-177**
Total comprehensive income for the year		*0*	*0*	*-177*	*39,478*	***39,301***
Dividends declared	**18**	0	0	0	-35,000	**-35,000**
Total transactions with the shareholder of the company		*0*	*0*	*0*	*-35,000*	***-35,000***
Equity at 31 December 2016		**185,203**	**18,520**	**-1,008**	**144,253**	**346,968**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as the parent) is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statements of AS Tallinna Sadam as at and for the year ended 31 December 2016 comprise the parent and its subsidiaries (together referred to as the group). The parent's core business line is rendering of port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure and organising vessel traffic in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour, currently a harbour servicing mostly ship repair companies, in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo harbour in Paldiski (Paldiski South Harbour); and the harbour in Saaremaa meant mostly for receiving cruise liners. The group’s subsidiaries render services that support port services in the above harbours, an ice-breaking service and other maritime support services, and are involved in providing a ferry service with passenger ferries.

Company	Domicile	Ownership interest (%)	Core business line
OÜ TS Energia	The Republic of Estonia	100	Rendering and sale of electricity network services, rendering water and heat supply and wastewater drainage services
OÜ TS Shipping	The Republic of Estonia	100	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	The Republic of Estonia	100	Rendering a ferry service with passenger ferries

The address of the parent’s registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.

The management board authorised these consolidated financial statements for issue on 15 March 2017. Under the Commercial Code effective in the Republic of Estonia the annual report has also to be approved by the supervisory board and the shareholder. The shareholder may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand preparation of a new annual report.

2. ACCOUNTING POLICIES

Significant accounting policies applied in preparing these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the group companies.

Bases of measurement
The group’s consolidated financial statements for 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The consolidated financial statements have been prepared on the historical cost basis except for the financial assets and financial liabilities carried at fair value (including derivatives); the accounting policies applied to these financial instruments are set out below.

Note 2 continued

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other relevant factors the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The management board reviews the estimates regularly and any change in the estimates is recognised prospectively or in the period the change in an estimate relates to. Most significant estimates made by management are disclosed in note 4 to these financial statements.

New and amended International Financial Reporting Standards (IFRS)
The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations effective for annual periods beginning in or after 2016. In cases where the amendments are not in compliance with the provisions of previous standards, the group applies the standards provided they are also adopted by the EU.

New amendments and interpretations applied in the reporting period

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception Adopted by the EU on 22 September 2016, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendments will have an impact on the group's financial statements.

Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interests in Joint Operations
The amendments concern recognition of interests in joint operations. Adopted by the EU on 24 November 2015, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendment will have a material impact on the group's financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative
Adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The management board does not expect the amendment will have a material impact on the group's financial statements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation
Adopted by the EU on 2 December 2015, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendment will have a material impact on the group's financial statements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants
Adopted by the EU on 23 November 2015, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendments will have an impact on the group's financial statements.

Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions
Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The management board does not expect the amendment will have a material impact on the group's financial statements.

Note 2 continued

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements
Adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendment will have a material impact on the group's financial statements.

Annual Improvements to IFRSs 2010-2012 cycle
Annual Improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 17 December 2014, effective for annual periods beginning on or after 1 February 2015. The management board does not expect the amendment will have a material impact on the group's financial statements.

Annual Improvements to IFRSs 2012-2014 cycle
Annual Improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) made to eliminate inconsistency in IFRSs and clarify wording. Adopted by the EU on 15 December 2015, effective for annual periods beginning on or after 1 January 2016. The management board does not expect the amendment will have a material impact on the group's financial statements.

Amendments published by the IASB and adopted by the EU, not yet effective

IFRS 9 "Financial Instruments"
Adopted by the EU on 22 November 2016, effective for annual periods beginning on or after 1 January 2018. The standard includes requirements for recognition, classification and measurement, impairment, derecognition and general hedge accounting of financial instruments. The classification and measurement requirements for financial assets reduce the number of valuation categories and place dependence on an entity's business model for managing financial assets as well as whether the contractual cash flows represent solely payments of principal and interest. The management board anticipates that the application of the standard may have an impact on the group's financial statements; the management board is assessing the extent of the impact.

IFRS 15 "Revenue from Contracts with Customers" and further amendments
Adopted by the EU on 22 September 2016, effective for annual periods beginning on or after 1 January 2018. The management board anticipates that the application of the standard may have an impact on the group's financial statements.

New standards and amendments to existing standards issued by the IASB, not yet adopted by the EU

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. The management board does not expect the amendment will have a material impact on the group's financial statements.

IFRS 16 "Leases"
Effective for annual periods beginning on or after 1 January 2019. The management board anticipates that the standard will have an impact on recognition of expenses, assets and liabilities arising from operating leases; the management board is assessing the extent of the impact.

IFRS 2 "Share-based Payment"
The amendments clarify the framework for classification and measurement of share-based payment transactions; effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the group's financial statements.

Note 2 continued

IFRS 4 "Insurance Contracts"

Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 is applied first time). The amendments address concerns arising from implementing IFRS 9 before implementing the new standard on insurance contracts that is being developed and will replace IFRS 4. The management board does not expect the amendments will have an impact on the group's financial statements.

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date was deferred indefinitely until the research project on the equity method has been concluded). The management board does not expect the amendment will have a material impact on the group's financial statements.

IFRS 15 "Revenue from Contracts with Customers"

Clarifications are effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the group's financial statements.

Amendments to *IAS 7 "Statement of Cash Flows",* effective for annual periods beginning on or after 1 January 2017 The management board does not expect the amendment will have a material impact on the group's financial statements.

IAS 12 "Income Taxes"

Effective for annual periods beginning on or after 1 January 2017. The amendments clarify how to account for deferred tax assets for unrealised losses incurred on debt instruments measured at fair value. The management board does not expect the amendment will have a material impact on the group's financial statements.

IAS 40 "Investment Property"

Effective for annual periods beginning on or after 1 January 2018. The amendments provide more stringent bases for transferring a property to, or from, investment property. The management board does not expect the amendment will have a material impact on the group's financial statements.

Annual Improvements to IFRSs 2014-2016 cycle

Annual Improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) made to eliminate inconsistency in IFRSs and clarify wording. Amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017; amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management board does not expect the amendment will have a material impact on the group's financial statements.

*IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (*effective for annual periods beginning on or after 1 January 2018). The management board does not expect the amendment will have a material impact on the group's financial statements.

Basis of consolidation

a) Subsidiaries

A subsidiary is any entity controlled by the group. The group controls an entity when it:

- has power over the entity;
- has exposure, or rights, to variable returns from its involvement with the entity; and
- has the ability to use its power over the entity to affect the amount of the returns.

Note 2 continued

In the group's consolidated financial statements, the financial information of the parent and its subsidiaries is combined on a line by line basis. Receivables, liabilities, income, expenses, and unrealised gains and losses on transactions between the parent and its subsidiaries have been eliminated.

b) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group’s share of the net assets under common control. The income statement of the group includes the group’s share in the profit or loss of the entity under common control.

Currency translations

a) Functional and presentation currency

Items included in the financial statements of each of the group’s entities are measured using the currency of the primary economic environment in which the entity operates – the euro (the functional currency).

The consolidated financial statements are also presented in euros (the presentation currency). All amounts in these consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Foreign currency transactions and financial assets and financial liabilities denominated in foreign currencies

Foreign currency transactions are translated into the functional currency using the official exchange rates of the European Central Bank prevailing at the dates of the transactions or valuation where items are re-measured. When the European Central Bank does not quote a particular currency, the official exchange rate against the euro of the central bank issuing the currency is used as the basis. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the European Central Bank prevailing at the reporting date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the European Central Bank does not quote the particular currency. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and finance costs; other foreign exchange gains and losses are presented as other income or other expenses. Non-monetary items carried at cost are not revalued.

Financial assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified under this category if acquired primarily for the purpose of reselling it in the short term.

Derivatives with positive value are classified as financial assets at fair value through profit or loss, except for those designated as hedging instruments.

The group does not have any financial assets at fair value through profit or loss.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the group has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost. If the group sells more than an insignificant amount of held-to-maturity investments before maturity, all financial assets

Note 2 continued

in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are recognised as long-term investments except for those with maturities less than 12 months as at the reporting date.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised within current assets except for those with maturities of more than 12 months after the reporting date which are recognised as non-current assets. The group's loans and receivables recognised in the statement of financial position comprise trade and other receivables, bank deposits with maturities of more than 3 months, and cash and cash equivalents.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated into this category or that are not classified into any other category of financial assets. Available-for-sale financial assets are recognised as non-current assets, except when management intends to dispose of them within 12 months after the reporting date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised at the trade-date, i.e. the date that the group commits itself to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at cost and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value though profit or loss are subsequently measured at fair value. Receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the assets classified as financial assets at fair value through profit or loss are presented in the income statement within "*Finance income*" or "*Finance costs*" in the period in which they arise.

Changes in the fair value of available-for-sale financial assets are recognised through other comprehensive income. When available-for-sale securities are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are recognised in the income statement under finance income and finance costs.

The fair values of listed investments are determined by reference to their quoted bid price. If the market for a financial instrument is not active (and for unlisted securities), the group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length transactions, reference to other similar instruments and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on group-specific inputs.

At each reporting date the group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. For available-for-sale equity instrument a significant or prolonged decline in the fair value of the securities below their cost is objective evidence of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative revaluation loss – measured as the difference between the acquisition cost and the current fair value, adjusted by any previous impairment loss on that financial asset – is removed from the equity revaluation reserve and recognised in the income statement of the period. Impairment losses recognised on equity instruments through profit or loss are not reversed in the income statement. Impairment allowances for receivables are disclosed in note 7 to these financial statements.

Note 2 continued

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative instruments and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and also subsequently. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, on the nature of the item being hedged. The group has concluded several long-term interest swap contracts – cash flow hedges – in order to fix interest expense on floating interest rate borrowings and debt securities.

At the inception of the transaction the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in mitigating the changes in fair values or cash flows of the hedged items.

The fair values of derivatives used for hedging purposes and movements in the hedging reserve in equity are disclosed in the statement of comprehensive income and notes 16 and 18 to these financial statements.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss attributable to the ineffective portion is recognised immediately in the income statement within *"Other income"* or "*Other expenses*". Amounts accumulated in equity are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. The gain or loss attributable to the effective portion of the instrument hedging variable rate borrowings is recognised in the income statement within *"Finance costs".* If a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time remains in equity and is recognised when the future transaction is ultimately recognised in the income statement. If the future transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is immediately recognised in the income statement under *"Other income"* or "*Other expenses*".

Cash and cash equivalents

Cash and cash equivalents recognised in the statements of financial position and cash flows comprise cash on hand, current account balances, funds that have not been transferred to the current account through collecting agencies or other payment intermediaries yet, and term deposits with maturities of up to three months from the date of acquisition.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. An impairment

allowance is recognised if there is objective evidence that the group may not be able to collect all amounts due in accordance with the terms and conditions of the receivables. Such evidence may include debtors' significant financial difficulties, bankruptcy, financial reorganisation or default (payments more than 90 days past due).

Note 2 continued

The amount of the impairment allowance is measured as the difference between the asset's carrying amount and recoverable amount, i.e. the amount of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the *"Allowance for doubtful receivables"* account and the amount of the loss is recognised in the income statement within operating expenses or other expenses. When a trade receivable has been deemed irrecoverable, it is written off reducing also the write-down previously recognised in "*Allowance for doubtful receivables"*. Subsequent recoveries of amounts previously written off are recognised in the income statement as reduction of operating expenses or other expenses.

Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories are expensed using the FIFO method. The cost of inventories does not include borrowing costs. The cost of raw and other materials comprises the purchase price, transport costs and other costs directly attributable to the acquisition of inventories.

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the group's operations and are expected to be used for more than one year. Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

a) Cost

An item of property, plant and equipment is initially recognised at cost, which comprises the purchase price and any costs directly attributable to the acquisition which are necessary for bringing the asset to its operating condition and location. The borrowing costs incurred in order to finance self-constructed non-current assets (including amortisation of contract fees and interest charges), which are calculated from commencing construction activities until substantive completion of the asset, are recognised as part of the cost of commenced new construction projects. Subsequent improvement-related expenditures are added to the asset's cost if they meet the definition of property, plant and equipment, and recognition criteria. If a part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item and the replaced part is written off the statement of financial position. Ongoing repairs and maintenance are expensed as incurred.

b) Borrowing costs

Borrowing costs are expensed as incurred, except for the costs that are directly attributable to the acquisition, construction or production of assets whose preparation for intended use or disposal lasts for an extended period (e.g. vessels under construction). The borrowing costs attributable to the acquisition, construction or production of such assets are capitalised as part of the cost of the asset until the date of substantive completion of the asset.

c) Depreciation

Depreciation of property, plant and equipment is calculated on the difference between the cost and residual value using the straight-line method over the estimated useful life of the asset. The value of vessels at the end of their service life (residual value) is equal to the value of scrap metal.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items and assigned depreciation rates that correspond to their useful lives.

Based on the common practice in the shipping sector, depreciation for a vessel's two significant parts with different useful lives is calculated separately: a vessel itself and dry dock expenses as a separate part.

The estimated useful lives and residual values of items of property, plant and equipment are reviewed at each reporting date, on recognising subsequent improvements, and when significant changes are made in the group's development plans. If the estimated useful life of an asset differs significantly from the previous estimate, the remaining useful life of the asset is adjusted, resulting in a change in the asset's depreciation charge for subsequent periods.

Note 2 continued

The estimated useful lives of items of property, plant and equipment are as follows:

Quays and berths	10–50 years
Dredging areas of aquatories	20 years
Buildings and other structures	5–50 years
Plant and equipment	3.3–10 years
Vessels	10–25 years
Capitalised dry dock maintenance costs	2.5–5 years
Other items of property, plant and equipment	2–10 years

Land is not depreciated.

Depreciation of an asset commences when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when its carrying amount equals its residual value, the asset is fully depreciated or reclassified as "*Non-current assets held for sale"*. The appropriateness of the useful life and residual value of the asset is assessed at each reporting date.

Intangible assets

Development expenditures (expenditures attributable to designing and testing of new or improved products) are recognised as intangible assets when the following criteria are met:

- Management intends to complete the intangible asset and commence using it or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the asset;
- The expenditure during its development can be reliably measured.

Development expenditures are capitalised if a plan exists to implement the project and future economic benefits generated by the intangible asset can be measured reliably. Other research and development expenditures that do not meet the criteria to be classified as intangible non-current assets are recognised as an expense as incurred.

Intangible assets are amortised under the straight-line method over their estimated useful life which does not exceed 20 years. Expenditures incurred on purchasing computer software are also included in intangible assets. Software development expenditures are included in intangible assets if they are directly attributable to the development of such software items that are identifiable, controlled by the group and from which the group expects to gain future economic benefits for a longer period than one year.

Capitalised software development expenditures include labour costs and other costs directly attributable to development. Expenditures incurred on software are amortised over the software's estimated useful life which does not exceed 5 years. Expenditures incurred on day-to-day maintenance of software are recognised as expenses in the income statement.

Impairment

Financial assets

At each reporting date the group assesses whether there is any indication that a financial asset may be impaired. A financial asset is impaired if there is objective evidence of one or more events that have had an adverse impact on the estimated future cash flows of that asset.

Note 2 continued

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated through its fair value.

Impairment of significant financial assets is tested on an individual basis. Assets that are not individually significant are assessed for impairment collectively, in groups of assets with similar credit risk characteristics.

Any impairment loss is recognised in the income statement. Impairment losses on available-for-sale financial assets are recognised by reclassifying accumulated losses previously recognised in other comprehensive income to the income statement.

If the amount of an impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed. Decrease in the impairment loss on financial assets measured at amortised cost is recognised in the income statement.

Non-financial assets

The group assesses whether there is any indication that an asset may be impaired. Impairment losses can be estimated for an individual asset or for a group of assets (cash-generating unit). If such indications occur, the recoverable amount of the asset is assessed and compared with its carrying amount recognised in the statement of financial position. The impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For the purpose of testing impairment, the recoverable amount is assessed either for each individual asset or for the smallest possible group of assets for which there are separately identifiable cash inflows. The amount of the impairment loss of a cash generating unit is allocated to more significant non-current items of the unit on a pro rata basis so that their value does not fall below their fair value less cost of disposal. Impairment losses are recognised as expenses in the period in which they are incurred.

Assets that have been previously written down to recoverable amount are assessed at each reporting date to assess whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. Reversal of impairment losses is recognised in the income statement for the year as reduction of impairment losses on non-current assets.

Financial liabilities

All financial liabilities of the group are classified as other financial liabilities at amortised cost.

All financial liabilities (trade payables, loan commitments, and other short- and long-term loans and borrowings) are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are recognised in the statement of financial position in the amount to be settled. In order to measure the amortised cost of non-current financial liabilities, the liabilities are initially recognised at fair value of the consideration received (less transaction costs), and in subsequent periods interest expense is calculated on the liabilities under the effective interest method.

Financial liabilities are classified as current when they are due within twelve months as from the reporting date or if the group does not have an unconditional right to defer the payment for later than 12 months after the reporting date. Loans and borrowings whose due date is within 12 months as from the reporting date but which are refinanced and, as a result, become non-current, or whose due date is extended beyond 12 months as from the reporting date but before the financial statements are authorised for issue are recognised as current. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contractual terms are also classified as current.

Borrowing costs that are directly attributable to construction of non-current assets up to preparing the asset for its intended use are capitalised. In other cases borrowing related costs are recognised as expenses in the period in which they are incurred.

Note 2 continued

Dividend distribution and corporate income tax

Under the Income Tax Act effective in the Republic of Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profits, dividends distributed from retained earnings are subject to income tax that is calculated as 20/80 of the net dividend distribution. Dividend distribution to shareholders is recognised as a liability in the period in which the dividends are declared by the shareholder. The income tax payable on dividends is recognised as income tax expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are actually distributed.

Employee benefits

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. Short-term employee benefits include wages, salaries and social security contributions; short-term compensated absences (such as paid annual leaves) where the absence is expected to occur within 12 months after an employee has rendered the related service; and incentive payments that are due to be settled within 12 months after the end of the period in which an employee renders the related services.

When an employee has rendered services during the accounting period in exchange for which a benefit may be expected to be paid, the group recognises a liability in the undiscounted amount of the benefit expected to be paid (accrued expense), less any amount already paid.

b) Termination benefits

Termination benefits are employee benefits payable as a result of either the group's decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept voluntary redundancy in exchange for those benefits. The group recognises termination benefits as a liability and an expense when, and only when, the group is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Provisions and contingent liabilities

A provision is recognised only if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognised for future operating losses. A provision is recognised based on management's estimates of the timing and amount of the expenditure required to settle the obligation. A provision is recognised in the amount which management estimates as required to settle the obligation at the reporting date or to transfer it to a third party at that time. If an obligation has to be settled later than 12 months after the reporting date, the provision is recognised at the present value of the expected future cash flows.

A provision is used only to cover the expenditures for which it was originally recognised.

Other possible or existing obligations the settlement of which is less likely to occur than not to occur or where no reliable estimate of expenditures attributed to the obligation can be made are disclosed as contingent liabilities in the notes to the financial statements.

Share capital

Ordinary shares are recognised within equity.

Statutory capital reserve

The statutory capital reserve is recognised to meet the requirements of the Commercial Code. Each financial year, 1/20 of net profit is transferred to the statutory capital reserve until it amounts to 1/10 of share capital. The statutory capital reserve may be used for covering accumulated losses or for increasing share capital. No payments may be made from the statutory capital reserve.

Note 2 continued

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the equity holder of the parent by the average number of ordinary shares issued during the period. Diluted earnings per share are calculated by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account all discounts and concessions made. Revenue is shown net of value-added tax, returns, rebates or discounts and intra-group sales transactions.
Revenue from the sale of goods is recognised when the significant risks of ownership of the goods have been transferred to the buyer; the revenue and expenses attributable to the transaction can be measured reliably; and it is probable that the consideration associated with the transaction will flow to the group. Revenue from the rendering of services is recognised after the service has been rendered. Revenue is not reliably measurable until all terms and conditions related to the sale have been met. The group bases its estimates on historical experience taking into account the type of customer, the type of transaction and the specific features of each arrangement.

Calculation of port charges and fees

Port charges and fees are levied as follows:

- Tonnage charge is calculated on the basis of the gross tonnage of the vessel for each call of the vessel;
- Waste fee is calculated on the basis of the gross tonnage of the vessel for each call of the vessel;
- Mooring charge is calculated for each mooring operation based on the gross tonnage of the vessel;
- Passenger fee is calculated at arrival and departure of a vessel based on the number of passengers (provided by the captain of the vessel) who has arrived at (or left) the port on board the vessel. Passenger fee is levied regardless of whether or not the passengers disembarked;
- Electricity, communication services and water supply charges are calculated when a vessel plugs into the electricity system on shore and uses electricity; a vessel plugs into the communication network on shore and uses the communication network; and when a vessel uses water supply through quay systems;
- Fees for the use of port’s auxiliary vessels are charged for liquidation of oil pollution; deployment of oil booms for loading or unloading operations; and short-term use of the vessels.

On calculation of charges and fees an entrance of a vessel into any of the ports of AS Tallinna Sadam is considered a call.

Calculation of cargo charges

Cargo charge is levied for using the port's general infrastructure. Cargo charge is calculated based on the cargo volumes reshipped by the operator during the reporting period.

Calculation of charter fees

Charter income on vessels is recognised on a straight-line basis over the charter term.

Calculation of income from the ferry service

Income from the ferry service is recognised when a passenger ferry’s passenger or vehicle ticket is used or expires; income from additional services is recognised when the service is rendered. Tickets sold for the trips not performed yet are recognised as prepayments within current liabilities.

Accounting for sale of electricity and network services

Revenue is recognised based on the readings of customers' electricity meters. Customers state their actual consumption based readings, or remote reading is used, or readings are projected based on consumption schedules.

Note 2 continued

Accounting for connection fees

On connecting to the electricity network, customers pay a connection fee based on the expenses incurred on connecting to the network. Connection fees are recognised as income on a straight-line basis over the estimated period during which customers use the service related to the connection. In the cases where the period of the sale of a service is not stated in the contract, the connection fee is recognised as income over the useful life of the investments made in respect of the connection.
The connection fee not included in income is recognised in the statement of financial position as long-term deferred income.

Interest income and dividend income

Income on interest and dividends is recognised when the receipt of income is probable and the amount of income can be measured reliably. Interest income is recognised using the effective interest rate of the asset, except when the receipt of interest is uncertain. In such cases, interest income is accounted for on a cash basis. Dividend income is recognised when the group's right to receive payment is established.

Other income

Other income include penalties and interest on arrears, income from government grants, gain on sale of non-current assets, and other income. Other income is recognised when the receipt of income is probable and the amount of income can be measured reliably. Penalties paid by companies operating in the ports for failure to achieve minimum contractual cargo volumes are recognised once a year in accordance with contractual terms. Penalties for delayed completion of vessels under construction are recognised on an accrual basis taking into account the penalty rates stated in construction contracts and the number of days overdue.
Income from government grants also includes public transport support received for operating passenger ferries in accordance with fee rates stated in the passenger transport public service contract; income earned on sale of passenger and/or vehicle tickets in the accounting period is deducted from the amount of the above support.

Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an item of property, plant and equipment to the lessee is recognised as a finance lease. The assets leased under finance lease terms are initially recognised at the lower of fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned between the finance income/finance costs and lease payables/receivables so that the amount payable in each period remains the same. Other leases are recognised as operating leases.

a) The group as the lessee

Finance lease liabilities are reduced by repayments of the finance lease principal, interest expenses on lease payments are recognised in the income statement as finance costs.
Operating lease payments are expensed in the income statement over the lease term on a straight-line basis.

b) The group as the lessor

Assets leased out under operating lease terms are recognised as non-current assets. Assets leased out are depreciated using the same accounting policies as the group applies to depreciating similar assets. Operating lease payments received are recognised as income over the term of the lease on a straight-line basis.

Government grants

Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions associated with the grant and the grant will be received.

Note 2 continued

Government grants are recognised under the gross method. According to that method assets acquired through government grants are initially recognised at cost. The amount received as a government grant is recognised as deferred income related to the government grant. Acquired assets are depreciated and the liability arising from the government grant is recognised as income over the estimated useful life of the acquired asset.

Liabilities arising from the government grants related to non-depreciable assets (e.g. land) are not depreciated since the economic value of the assets is non-depreciable. Liabilities arising from the government grants related to non-depreciable assets are derecognised when the asset is ultimately retired or reclassified into non-current assets held for sale.

Income from grants related to income is recognised in the income statement over the periods in which the group recognises as expenses the related costs for which the grant is intended to compensate. In the income statement, the costs to be compensated and income from the grant are recognised separately.

A government grant that becomes repayable is accounted for as a change in accounting estimate. Repayment of a grant related to income is applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is recognised immediately in the income statement. Repayment of a grant related to an asset is recognised by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in the income statement to date in the absence of the grant is recognised immediately in the income statement.

Statement of cash flows

The statement of cash flows has been prepared under the direct method.

Related party transactions

For the purpose of the consolidated financial statements, the members of the supervisory and management boards of the group companies; their close family members; the companies, joint venture, and government agencies under the control or significant influence of the above persons; and companies under the control or significant influence of the state are considered as related parties.

3. FINANCIAL RISK MANAGEMENT

The group's operations are exposed to several financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group’s financial performance. The group uses derivative financial instruments to hedge certain risk positions.

Risk management is performed by the group's risk management professionals in accordance with the policies approved by the management board. The management board stipulates in written the policies of risk management and regulations covering specific areas.

Market risk

a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the group’s financial instruments or in cash flows arising from movements in foreign exchange rates. The main instrument for mitigating the group's currency risk is the euro-based nature of its contracts. The group has no material liabilities or receivables denominated in any other currency. All outstanding long-term loans and borrowings are denominated in euros; therefore, they are considered as liabilities not exposed to currency risk.

In 2016, 100% of the receipts (2015: 96.3%), and 99.6% of expenditures (operating expenses, investments, finance costs, etc.) were denominated in euros (2015: 97.0%). Since nearly all receipts and payments are denominated in euros, the group can be considered not exposed to credit risk.

b) Price risk

As the group has made no investments in equity instruments, the group is not exposed to market price risk arising from financial instruments.

c) Interest rate risk

The group’s interest rate risk results from long-term loans and borrowings. Term deposit contracts are made at fixed interest rates and do not expose the group to any cash flow interest rate risk.

Floating interest rate loans and borrowings expose the group to interest rate risk. The group's policy is to maintain approximately 50% of its debt portfolio in fixed rate instruments by using *floating-to-fixed* interest rate swaps when appropriate.

At 31 December 2016, the proportion of loans and borrowings with rates fixed through derivative transactions was 22% (31 December 2015: 30%) of the portfolio. Thus, 78% of the loans and borrowings that are not hedged are exposed to interest rate risk.

The proportion of fixed interest rate liabilities different from the intended proportion results from a highly favourable interest environment (negative values of 3 month and 6 month Euribor) and market expectations that similar environment will continue for a couple of years coming. In addition, in the second half of 2017 three maturing debt securities will be refinanced, and subsequently interest rate risks the loan portfolio is exposed to will be reviewed and the need for fixed interest rates will be assessed.

To assess the group's exposure to interest rate risk, sensitivity analysis is used which describes the impact of interest rate risk exposure on the group's profit through estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2016 had been higher/lower by 100 basis points, i.e. 1 percentage point, the group’s profit for the financial year would have been EUR 1,930 thousand bigger/smaller assuming all other variables remained constant. At 31 December 2015, the value of the market interest rate fluctuation estimate used in the sensibility analysis was also 100 basis points and the total impact on profit would then have been EUR 1,378 thousand.

Note 3 continued

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At 31 December 2016, the group's balances of receivables exposed to credit risk totalled EUR 58,491 thousand (31 December 2015: EUR 34,950 thousand).

In thousands of euros At 31 December	**2016**	**2015**
Current accounts and bank deposits with maturities of less than 3 months (note 6)	49,886	25,895
Receivables from customers* (note 7)	7,796	8,499
Other receivables (note 7)	809	556
Total	**58,491**	**34,950**

*Impairment losses are deducted from receivables from customers.

To reduce customer related credit risk exposure, advances or bank guarantees have been required from customers whose solvency is deemed to be doubtful. To mitigate credit risk, the customer’s integrity due diligence is performed prior to concluding any major contracts. Other methods for managing customer-related credit risk exposure include day-to-day monitoring of customers' payment behaviour and prompt application of appropriate measures. As at year-end, all known doubtful receivables were written down. Further details on the credit quality of financial assets are disclosed in note 5.2. to these financial statements.

Credit risk exposure to financial transactions is mitigated by using financial institutions with high credit ratings on performing investment or derivative instrument transactions. The procedure of financial transactions established by AS Tallinna Sadam provides counterparty risk limits set on issuers of traded securities and volume limits set on the components of the investment portfolio.

Receivables not past due as at the reporting date amounted to 78.5% (2015: 93.1%) of the receivables from customers. Trade receivables written down amounted to 5.5% (2015: 6.1%) of the receivables from customers. Further details on receivables from customers are disclosed in note 7 to these financial statements.

Liquidity risk

For the purposes of liquidity risk management, the group applies two-level liquidity monitoring. The first level liquidity reserve is used to meet the group's obligations arising from prompt settlement of liabilities incurred in the ordinary course of business. The reserve comprises receivables from overnight deposits at banks and receivables from shares in money market and interest funds. In accordance with the requirements established for financial transactions, the minimum first level liquidity reserve is EUR 959 thousand.

The second level liquidity reserve enables effective settlement of claims which arise from the group’s operations but are not urgent by nature and immediately scheduled to a certain date. The second level liquidity reserve includes claims arising from commercial papers and debt securities of issuers with a credit rating of Baa1 (Moody’s) and BBB+ (S&P’s) or higher, and claims arising from term deposits at banks. The minimum second level liquidity reserve is EUR 320 thousand.

If necessary, short-term external financing in the form of various debt instruments is used.

Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the group’s liquidity reserve (which comprises cash and cash equivalents, term deposits at banks with maturities of more than 3 months, available-for-sale financial assets and available credit lines). At 31 December 2016, the group’s liquidity reserve amounted to EUR 49.9 million (31 December 2015: EUR 25.9 million).

Note 3 continued

Movements in the liquidity reserve forecast for 2017 are as follows:

In thousands of euros	**2017**
Opening balance	**49,918**
Cash flows from operating activities	50,735
Cash flows used in investing activities	-33,512
Interest payments	-2,431
New loan/debt security emission	105,000
Dividend payments	-46,200
Debt security redemption and loan repayments	-118,016
Closing balance	**5,494**

In the following liquidity analysis the group's financial liabilities are grouped by contractual maturity. The balances shown in the table are contractual undiscounted cash flows, which comprise of the principal and accrued interest for interest bearing loans and borrowings. On calculating interest accrued on interest bearing loans and borrowings (bank loans and issued debt securities), the yield curves of interest rate swap transactions at Nordea Bank Finland Plc have been used as the basis for Euribor forecast as follows: for year-end 2016 liquidity risk estimate as at 13 February 2017; for year-end 2015 liquidity risk estimate as at 4 February 2016.

Liquidity analysis

In thousands of euros	**Loans drawn**	**Debt securities issued**	**Trade and other payables**	**Derivatives**	**Total**
At 31 December 2016					
< 6 months	3,441	1,784	16,756	59	**22,041**
6–12 months	3,626	110,757	0	205	**114,589**
1–5 years	38,160	26,240	0	653	**65,054**
> 5 years	18,357	56,876	0	0	**75,232**
Total	**63,585**	**195,658**	**16,756**	**917**	**276,916**
At 31 December 2015					
< 6 months	18,491	1,575	13,073	50	**33,189**
6–12 months	5,087	1,667	0	239	**6,992**
1–5 years	38,544	112,002	0	886	**151,432**
> 5 years	25,614	0	0	0	**25,614**
Total	**87,736**	**115,244**	**13,073**	**1,175**	**217,228**

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

Equity risk management

AS Tallinna Sadam is a company whose shares are wholly owned by the state. Decisions on dividend distribution and increase or decrease in share capital are made by the Republic of Estonia (through the Ministry of Economic Affairs and Communications). Each financial year, the dividend amount payable by AS Tallinna Sadam into the state budget is established by the order of the Government of the Republic of Estonia.

Note 3 continued

Gearing

In thousands of euros At 31 December	2016	2015
Loans and borrowings (note 17)	246,053	196,753
Cash and cash equivalents (note 6)	49,918	25,902
Net debt	**196,135**	**170,851**
Total equity	346,968	342,667
Total capital	**543,103**	**513,518**
Gearing ratio	**36%**	**33%**

At 31 December 2016, the gearing ratio of AS Tallinna Sadam, i.e. the ratio of external funds to total capital was 36%. Compared to 2015, the gearing ratio has increased by 3 percentage points with the net debt increased by 15% and total capital increased by 6%.

Special terms of loan agreements stipulate requirements for the company's financial ratios, including the equity to assets ratio, which must not fall below 50%.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The areas involving a higher degree of judgement or complexity, or areas in which assumptions and estimates have significant effect on the consolidated financial statements involve assessing useful lives of items of property, plant and equipment; testing property, plant and equipment for impairment; and assessing doubtful receivables.

Classification of leased out assets

One of the critical judgements is that assets that by their nature could also be classified as investment property since lease income is earned on the asset are classified as property, plant and equipment. The group owns land and buildings in the port territory and has made no investments outside the port’s service area. The group has classified all such assets as property, plant and equipment since the assets are held for earning income in the port’s core operations through increasing cargo or passenger flows or in activities supporting core operations. Therefore, according to the group's estimates the main objective of holding such assets is not to earn rentals; they are primarily held to help increase income earned from operating activities. Accordingly, the main income attributable to those assets is not received from rentals.

Property that cannot be directly attributable to the group’s core operations on increasing cargo or passenger flows or in activities supporting core operations and that cannot be sold or leased out under a finance lease, is recognised as investment property only if an insignificant part (less than 10%) of the asset is used for providing services or for administrative purposes. At 31 December 2016 the group did not have such assets.

Useful life and residual value of property, plant and equipment

Useful lives of the items of property, plant and equipment are based on management’s estimates on the period of actual use of the asset. At 31 December 2016, the net value of the group’s property, plant and equipment amounted to EUR 568,533 thousand; depreciation for the year was EUR 16,463 thousand; at 31 December 2015, the respective figures were EUR 544,189 thousand and EUR 17,016 thousand (note 9). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 1,646 thousand; in the comparative year 2015 by EUR 1,702 thousand.

Useful lives and residual values of assets are reviewed at each reporting date. If new estimates differ significantly from the previous ones, changes are accounted for as changes in accounting estimates.

Note 4 continued

Impairment tests of property, plant and equipment

The group assesses whether there is any indication that any item of property, plant and equipment may be impaired. If such indications occur, the recoverable amount of the asset is assessed and compared with its carrying amount recognised in the statement of financial position. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the fair value of an item of non-current asset cannot be determined reliably, a future cash flow model is developed to calculate its value in use. Such calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of the services sold. If circumstances change in future, either additional impairment is recognised or the previously recognised impairment loss is reversed either in part or in full.

Assets are tested for impairment on an ad hoc basis when circumstances indicate that assets might be impaired or events that led to a previous write-down of assets might have ceased. Information about impairment losses incurred is disclosed in note 9.

Assessment of doubtful receivables

Based on its historical experience, the group has set a rule according to which receivables which are more than 90 days past due are generally classified as doubtful receivables. Evidence of impairment may include such indications as the debtor's bankruptcy, significant financial difficulty or delinquency in payments. However, the recoverability of receivables is assessed on an individual basis; therefore, if sufficient certainty and probability about the recoverability exists, some receivables that are more than 90 days past due may not be written down whereas some receivables that are less than 90 days past due may be written down. At 31 December 2016, the group's doubtful receivables amounted to EUR 1,579 thousand. At 31 December 2015, doubtful receivables amounted to EUR 555 thousand (note 7).

5. FINANCIAL INSTRUMENTS

5.1. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros At 31 December	**2016**	**2015**
Receivables and loans	*66,047*	*35,523*
Cash and cash equivalents (note 6)	49,918	25,902
Trade and other receivables	16,129	9,621
Total financial assets	**66,047**	**35,523**

Financial liabilities

In thousands of euros At 31 December	**2016**	**2015**
Financial liabilities carried at amortised cost	*253,124*	*201,764*
Trade and other payables	7,071	5,011
Loans and borrowings (note 15)	246,053	196,753
Hedging instruments through equity	*1,008*	*831*
Derivatives (note 16)	1,008	831
Total financial liabilities	**254,132**	**202,595**

Note 5 continued

Fair value

According to the group's estimates, the fair values of assets and liabilities recognised at amortised cost do not differ significantly from their carrying amounts stated in the group's consolidated statement of financial position as at 31 December 2016 and 31 December 2015. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting future contractual cash flows by current market interest rates that would be available for the group for similar financial instruments. Since no separate statistics is published about the loans granted by the Nordic Investment Bank (NIB) and European Investment Bank (EIB) but the group considers them as a separate loan market, indications given to the group by the NIB and EIB about the interest rates of the instruments of the similar nature have been used to calculate the fair value of the loans granted by those banks (with the carrying amount of EUR 59,893 thousand). A more detailed comparison of the carrying amount and fair value of loans and borrowings stated in the statement of loans and borrowings is disclosed in note 15 to these financial statements. The carrying amount of trade receivables and trade payables, less any write-downs, is estimated to be equal to their fair value. Derivatives are recognised at fair value. A more detailed description is provided in note 2 under "*Derivative instruments and hedging"*.

Only derivatives that are publicly traded in financial markets at the current market price are recognised at fair value in the statement of financial position. The fair value of derivatives is evaluated on a monthly basis using bank pricing based on the price of similar products in financial markets. In terms of fair value hierarchy this qualifies as the 3rd level measurement.

5.2. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to, for instance, credit ratings of independent credit agencies (if available for the counterparty) or historical information available for the group about counterparty default rates.

Cash in current accounts and deposits by rating*

In thousands of euros

At 31 December	**2016**	**2015**
Aa2	40,000	20,000
Aa3	9,886	5,890
A2	0	5
Total in current accounts and deposits	**49,886**	**25,895**

*The remaining balance in the statement of financial position entry *"Cash and cash equivalents"* consists of cash on hand and funds that have not been transferred to the current account through collecting agencies or other payment intermediaries yet.

Note 5 continued

Trade receivables by customer group*

In thousands of euros At 31 December	2016	2015
New customers (up to 6 months)	242	191
Current customers (more than 6 months) with no or little contractual delinquency	6,917	8,159
Current customers (more than 6 months) with frequent contractual delinquency	202	82
Total trade receivables by customer group (note 7)	**7,361**	**8,432**

* Includes only receivables not past due nor impaired as at the reporting date.

6. CASH AND CASH EQUIVALENTS AND DEPOSITS

In thousands of euros At 31 December	2016	2015
Cash on hand	14	2
Current accounts with banks	9,886	5,895
Short-term deposits	40,000	20,000
Cash in transit	18	5
Total cash and cash equivalents (notes 3 and 5)	**49,918**	**25,902**

All balances recorded under cash and cash equivalents are denominated in euros (as at both 31 December 2016 and comparative 31 December 2015).

The interest accrued as at the reporting date is recognised in *"Trade and other receivables"*.

7. TRADE AND OTHER RECEIVABLES

In thousands of euros At 31 December	2016	2015
Receivables from customers	9,375	9,054
Incl. for non-current assets	*912*	*1,512*
Allowance for doubtful receivables	-1,579	-555
Prepaid taxes (note 14)	1,512	364
Outstanding government grants	189	0
Other prepayments	1,560	217
Receivables from joint venture (note 23)	17	23
Other receivables	6,564	556
Total trade and other receivables	**17,638**	**9,659**
Incl. short-term receivables	17,276	9,183
long-term receivables	362	476

*Incl. prepayment of EUR 1,187 thousand for chartering passenger ferries as at 31 December 2016

**Incl. receivables from shipyards accrued for penalties in the amount of EUR 5,755 thousand as at 31 December 2016

All long-term receivables will fall due within 10 years as from the reporting date.

Note 7 continued

Receivables from customers by maturity

In thousands of euros At 31 December	2016	2015
Receivables not due nor impaired* (note 5.2)	7,361	8,432
Receivables past due but not impaired*, incl.	*435*	*67*
1–30 days	430	61
31–60 days	4	0
61–90 days	1	2
more than 360 days	0	4
Receivables not due but impaired**	1,067	0
Receivables past due and impaired**	*512*	*555*
1–30 days	0	2
61–90 days	0	17
91–180 days	1	0
181–360 days	40	54
more than 360 days	471	482
Total receivables from customers by maturity	**9,375**	**9,054**

***** Trade receivables that are not due or that are less than 90 days past due and in respect of which no other indications of uncertainty about the collectability occur are usually classified as receivables that are not impaired. The group also has receivables that are more than 360 days past due which have not been written down. Those receivables have not been written down as the receivables past due are collateralised and therefore, according to management's estimate, collectible in full.

** At 31 December 2016 receivables written down amounted to EUR 1,579 thousand, including contractual penalties of EUR 1,067 thousand receivable for failure to achieve the minimum cargo volume that was written down as a result of an announcement of a business partner about filing for bankruptcy at the beginning of 2017. Expenses incurred on the above write-down are recognised within other expenses (note 21). At 31 December 2015, receivables written down amounted to EUR 555 thousand.

Impairment allowances for the reporting period have been disclosed in the table below. Based on the historical experience, the group has set a rule according to which receivables more than 90 days past due are generally written down after being analysed on an individual basis (a detailed description of impairment policies is disclosed in note 4 to these financial statements).

Changes in impairment allowances for doubtful receivables

In thousands of euros	2016	2015
Impairment allowance at beginning of year	-555	-1,484
Items deemed doubtful during the year	-1,131	-136
Previously written-down items recovered during the year	48	84
Doubtful receivables deemed irrecoverable	59	981
Impairment allowance at end of year (note 4)	**-1,579**	**-555**

Changes arising from impairment are recognised in the income statement within operating expenses if attributable to invoiced revenue, and within other expenses if attributable to invoiced other income.

Written-down items are recognised as irrecoverable if recovery of the receivable is impossible or if it is probable that costs incurred on recovery will exceed potential income.

Receivables from customers as at 31 December 2016 and 31 December 2015 have been denominated in euros.

Note 7 continued

The maximum exposure of receivables from customers and other receivables to credit risk as at the reporting date equals their fair value. Receivables arising from port charges and fees are secured by a maritime lien, i.e. a pledge created by law on a vessel, which extinguishes after one year has passed from the date the receivable arose. Recovery of other receivables from customers and the receipt of services and goods related to other receivables is generally not secured by collateral. In exceptional cases, bank guarantees may have been required from customers to secure the receivables.
Other receivables and prepayments have not been impaired.

8. INVESTMENTS IN JOINT VENTURE

AS Green Marine

The joint venture is a waste management entity established by AS Tallinna Sadam and AS NT Marine at the end of 2003. Although AS Tallinna Sadam holds 51% of ownership interest in the joint venture, this does not constitute control over the joint venture since pursuant to the shareholders' agreement, the company is under the joint control of its shareholders. The lines of business of AS Green Marine include management of waste generated in ports and harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of ports' aquatory and harbour premises.
The financial statements of AS Green Marine have been prepared in accordance with accounting principles generally accepted in Estonia (the Estonian GAAP). According to management estimates the financial results of AS Green Marine would not be significantly different if the financial statements had been prepared in accordance with IFRS (EU).

Changes in investments in joint venture

In thousands of euros

At 31 December	**2016**	**2015**
Carrying value at beginning of year	710	548
Share in profit under the equity method	376	162
Carrying value at end of year	**1,086**	**710**

Joint venture

In thousands of euros

At 31 December	**2016**	**2015**
Current assets	1,565	1,077
Non-current assets	1,615	1,838
Current liabilities	524	597
Non-current liabilities	527	925
Operating income	3,842	3,459
Operating expenses	3,081	3,078
Net profit	741	319

9. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Prepayments	Total
At 31 December 2014						
Cost	569,721	100,841	7,030	6,912	21,720	**706,224**
Accumulated depreciation and impairment losses	-168,368	-31,127	-5,361	0	0	**-204,856**
Carrying amount at 31 December 2014	**401,353**	**69,714**	**1,669**	**6,912**	**21,720**	**501,368**
Movement in 2015						
Acquisition and reconstruction (note 25)	392	263	191	10,981	53,280	**65,107**
Depreciation charge	-11,461	-5,119	-436	0	0	**-17,016**
Impairment loss	-258	-5,010	-2	0	0	**-5,270**
Reclassified at carrying amount	7,063	4,710	49	-11,822	0	**0**
At 31 December 2015						
Cost	576,673	105,757	7,172	6,071	75,000	**770,673**
Accumulated depreciation and impairment losses	-179,584	-41,199	-5,701	0	0	**-226,484**
Carrying amount at 31 December 2015	**397,089**	**64,558**	**1,471**	**6,071**	**75,000**	**544,189**
Movement in 2016						
Acquisition and reconstruction (note 25)	175	28,923	395	16,625	-4,431	**41,687**
Disposed at carrying amount	-148	0	0	0	0	**-148**
Depreciation charge	-11,273	-4,807	-383	0	0	**-16,463**
Impairment loss	-157	-113	0	0	0	**-270**
Other adjustments	0	-218	-210	-34	0	**-462**
Reclassified at carrying amount	2,648	1,777	24	-4,449	0	**0**
At 31 December 2016						
Cost	578,096	135,543	6,471	18,213	70,569	**808,892**
Accumulated depreciation and impairment losses	-189,762	-45,423	-5,174	0	0	**-240,359**
Carrying amount at 31 December 2016	**388,334**	**90,120**	**1,297**	**18,213**	**70,569**	**568,533**

The group's assets have not been pledged.

At 31 December 2016 the cost of fully depreciated items still in use amounted to EUR 27,238 thousand, at 31 December 2015: EUR 22,241 thousand.

Commitments related to property, plant and equipment are disclosed in note 24 to these financial statements.

Under the passenger transport public service contract signed on 11 December 2014 the Ministry of Economic Affairs and Communications has the right to acquire the four passenger ferries (Leiger, Tiiu, Tõll and Piret) that are possessed by the group or being constructed or recently completed. The Ministry has the right to exercise the option to redeem one to four passenger ferries giving a notice of it four years before expiry of the contract at the latest (i.e. on 30 September 2022 at the latest). The acquisition price for each passenger ferry is EUR 26.6 million. The Ministry has no obligation to exercise the option to redeem the passenger ferries.

Note 9 continued

At 31 December 2016 non-current asset group "*Assets under construction"* comprised capitalised borrowing costs of EUR 1,225 thousand (2015: EUR 657 thousand), and consultation and owner supervision service expenses of EUR 1,860 thousand (2015: EUR 1,496 thousand).

In 2016 borrowing costs were capitalised in the amount of EUR 952 thousand and consultation and owner supervision service costs in the amount of EUR 1,043 thousand (2015: EUR 620 thousand and EUR 1,042 thousand respectively).

The amount of borrowing costs eligible for capitalisation has been calculated based on the amount of additional capital borrowed by the group for making an investment, which in this case equals the amount of the investment. On capitalising borrowing costs weighted average interest rate of the group's loans and borrowings has been applied which in 2016 was 1.02% a year on average (2015: 1.28%).

In 2016 write-downs of EUR 5 thousand and write-offs of EUR 265 thousand were recognised under "Impairment losses", including:

- Write-off of warehouses in the amount of EUR 152 thousand as a result of demolishing of the buildings in 2016;
- Write-off of electrical equipment in the amount of EUR 113 thousand as a result of liquidation of a substation;
- Write-down of an office building in the amount of EUR 5 thousand as a result of planned demolishing of the building in 2017.

In the comparative year 2015 write-downs of EUR 5,262 thousand and write-offs of EUR 8 thousand were recognised under "Impairment losses".

In 2016 adjustments of EUR 428 thousand resulting from raising the threshold for recognising items of property, plant and equipment and adjustment for assets reclassified as operating expenses in the amount of EUR 34 thousand were recognised under *"Other adjustments"*.

10. INTANGIBLE ASSETS

In thousands of euros	**Computer software**	**Assets under construction**	**Total**
At 31 December 2014			
Cost	1,431	0	**1,431**
Accumulated amortisation and impairment losses	-883	0	**-883**
Carrying amount at 31 December 2014	**548**	**0**	548
Movement in 2015			
Acquisition and reconstruction (note 25)	50	124	**174**
Amortisation charge	-227	0	**-227**
Reclassified at carrying amount	20	-20	**0**
At 31 December 2015			
Cost	1,501	104	**1,605**
Accumulated amortisation and impairment losses	-1,110	0	**-1,110**
Carrying amount at 31 December 2015	**391**	**104**	495
Movement in 2016			
Acquisition and reconstruction (note 25)	220	637	**857**
Amortisation charge	-197	0	**-197**
Reclassified at carrying amount	709	-709	**0**
At 31 December 2016			
Cost	2,430	32	**2,462**
Accumulated amortisation and impairment losses	-1,307	0	**-1,307**
Carrying amount at 31 December 2016	**1,123**	**32**	**1,155**

11. OPERATING LEASES

Carrying amount of non-current assets leased out under operating lease

At 31 December In thousands of euros	2016	2015
Land	39,499	45,700
Incl. with right of superficies	*35,783*	*35,783*
Buildings	7,671	7,918
Plant and equipment	39	95
Other items of property, plant and equipment	631	743
Total carrying amount of non-current assets leased out under operating lease	**47,840**	**54,456**

Depreciation charge on non-current assets leased out under operating lease

In thousands of euros	2016	2015
Buildings	473	515
Plant and equipment	5	5
Other items of property, plant and equipment	112	103
Total depreciation charge on non-current assets leased out under operating lease	**590**	**623**

Rental income from non-current assets leased out under operating lease

In thousands of euros	2016	2015
Land	8,371	8,455
Buildings	3,567	3,705
Plant and equipment	126	96
Other items of property, plant and equipment	175	181
Total rental income from non-current assets leased out under operating lease (note 19)	**12,239**	**12,437**

Rental income in subsequent periods under non-cancellable operating lease contracts

In thousands of euros At 31 December	2016	2015
< 1 year	10,268	11,016
1–5 years	38,257	43,332
> 5 years	278,246	328,023
Total rental income in subsequent periods under non-cancellable operating lease contracts	**326,771**	**382,371**

Operating leases are agreements whereby the lessor transfers to the lessee in return for a payment or series of payments the right to use an asset for an agreed period in accordance with signed contracts. Operating lease contracts are entered into for periods ranging from 2 years to 20 years. Operating lease rentals are generally subject to increase once a year based on changes in the consumer price index for the previous year (depending on the contract, either the index applied in Estonia, the euro area or Germany serves as the basis). Improvements to a leased asset made by a lessee are generally not compensated by the lessor at the end of the lease term.

Note 11 continued

Under right of superficies contracts, all significant risks and rewards of the ownership of the asset are transferred to the superficiaries. In contracts entered into by the group and customers for the establishment of a right of superficies, payments for the right of superficies and the duration of the contract (usually ranging from 36 years to 50 years) have been stipulated. Payments for a right of superficies are generally subject to increase after a certain period has passed based mostly either on changes in the assessed value of land (for older contracts) or changes in the consumer price index (for more recent contracts). Contractual payments for a right of superficies are generally not covered by guarantees. At expiry of a contract the superficiary generally has the right to remove the construction erected on the land under the right of superficies; apply for extension of the term of the right of superficies up to the end of the construction's life; or the constructions are subject to compensation by the constitutor of the right of superficies at the usual value of the right of superficies.

Rentals payable in subsequent periods under non-cancellable operating lease contracts

The Group as the lessee

In thousands of euros At 31 December	2016	2015
< 1 year	510	483
1–5 years	756	848
> 5 years	9	24
Total rentals payable in subsequent periods under non-cancellable operating lease contracts	**1,275**	**1,355**

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

12. SHORT-TERM PROVISIONS

Provision for bonuses

In thousands of euros	2016	2015
At beginning of year	**865**	**1,144**
Recognised and revalued	912	865
Used	-621	-1,144
At end of year	**1,156**	**865**

Other provision

In thousands of euros	2016	2015
At beginning of year	**100**	**3,235**
Recognised and revalued	225	100
Used	-325	-3,235
At end of year	**0**	**100**
Total provisions	**1,156**	**965**

The provision for bonuses includes estimated bonuses of the group companies' management board members and employees for the operating results of the reporting period. The provision also includes social security charges and unemployment insurance contributions. Payment of bonuses to the members of group companies' management boards is generally decided

Note 12 continued

by the supervisory boards after the annual reports of the respective companies for the year ended 31 December 2016 have been approved.

13. TRADE AND OTHER PAYABLES

In thousands of euros

At 31 December	**2016**	**2015**
Trade payables	5,299	3,635
Incl. for property, plant and equipment (note 25)	2,276	*2,057*
for intangible assets (note 25)	*164*	*13*
Payables to employees	930	641
Interest payable	589	486
Accrued tax payable on remuneration	501	349
Advances for goods and services	475	459
Payables to joint venture (note 23)	129	114
Other payables	1,544	1,254
Total trade and other payables	**9,467**	**6,938**
Incl. current liabilities	8,384	5,700
non-current liabilities	1,083	1,238

14. TAXES PAYABLE

In thousands of euros

At 31 December	**2016**	**2015**
Value added tax	27	47
Personal income tax	187	139
Corporate income tax*	8,773	7,785
Pollution charge	3	3
Social security tax	378	287
Unemployment insurance contributions	21	15
Funded pension contributions	15	11
Excise duty	32	31
Total taxes payable	**9,436**	**8,318**
* Incl. income tax on dividends (note 18)	8,750	7,763

At 31 December 2016, the group’s prepaid taxes amounted to EUR 1,512 thousand, in the comparative period at 31 December 2015: EUR 364 thousand. Prepaid taxes are disclosed in note 7 to these financial statements.

15. LOANS AND BORROWINGS

In thousands of euros At 31 December	2016	2015
Current portion		
Loans and borrowings	6,766	23,210
Debt securities	111,250	2,500
Finance lease liability	2	0
Total current portion	**118,018**	**25,710**
Non-current portion		
Loans and borrowings	53,127	59,893
Debt securities	74,900	111,150
Finance lease liability	8	0
Total non-current portion	**128,035**	**171,043**
Total loans and borrowings (note 5)	**246,053**	**196,753**

Interest paid

In thousands of euros	2016	2015
On loans and borrowings	640	851
On debt securities issued	835	714
On derivatives	409	301
Total interest paid	**1,884**	**1,866**

Interest expenses are recognised in the income statement under "*Finance costs*" and disclosed in note 22 to these financial statements.

Issue and redemption of debt securities

In previous periods, AS Tallinna Sadam had four debt security issues with final maturities in 2017 and 2018. The debt securities have been issued in euros and with a floating interest rate (with the base interest rate of 3 month or 6 month Euribor plus a fixed risk margin).

In 2016 a new debt security issue was carried out by tender at a nominal value of EUR 75 million. In stiff competition of tenderers Swedbank AS was chosen for the best terms and conditions and the bank subscribed the emission in full. The debt securities were issued with the floating interest rate with the base interest rate of 3 month Euribor, plus an appropriate margin; redeemed in 2026.

The debt security issues are not listed.

In 2016, AS Tallinna Sadam redeemed debt securities in the amount of EUR 2,500 thousand (2015: EUR 2,500 thousand) in line with the schedule.

Considering the effect of derivative transactions used to hedge interest rate risk, the weighted average interest rate of the debt securities as at 31 December 2016 was 0.805% (31 December 2015: 0.779%).

Loans

All loan agreements are denominated in euros and based on a floating interest rate (the base interest is 6 month Euribor). At 31 December 2016, the weighted average interest rate on drawn loans was 0.838% (2015: 0.865%). Considering the effect of derivative transactions used to hedge the interest rate risk, the average interest rate on loans as at 31 December 2016 was 1.703% (31 December 2015: 1.310%).

Commitments arising from the loan agreements are unsecured liabilities, i.e. no assets have been pledged to cover the commitments. The group has performed all its contractual obligations stipulated in loan agreements which concern meeting special terms, the obligation of notice and minimum requirements set to the company's financial ratios.

Note 15 continued

In 2016 a short-term loan agreement for EUR 15 million with a maturity of 12 months signed with Danske Bank A/S Estonian branch the year before, expired.

In 2015 an overdraft agreement was signed with Swedbank AS for up to EUR 5 million with a maturity of 6 months. Upon expiry of the agreement a new competition was held and as a result an overdraft agreement was signed with Swedbank AS for EUR 10 million with a maturity of 12 months. The agreement expired in 2016.

In 2016, loan principal repayments amounted to EUR 23,210 thousand (2015: EUR 21,433 thousand), including direct refinancing of EUR 15 million. The final maturities of drawn loans fall into the years from 2024 to 2028.

Contractual maturities of loans and borrowings

In thousands of euros

At 31 December	**2016**	**2015**
< 6 months	4,634	19,633
6–12 months	113,384	6,077
1–5 years	45,721	138,214
> 5 years	82,314	32,829
Total loans and borrowings (note 3)	**246,053**	**196,753**

Carrying amount of loans and borrowings recognised in the statement of financial position against their fair value

In thousands of euros

At 31 December	**2016**	**2015**
Carrying amount		
Debt securities	186,150	113,650
Loans and borrowings	59,893	83,103
Total carrying amount	**246,043**	**196,753**
Fair value		
Debt securities	186,488	114,252
Loans and borrowings	60,205	84,169
Total fair value	**246,693**	**198,421**

In terms of fair value hierarchy this qualifies as the 2nd and 3rd level measurement.

16. DERIVATIVE INSTRUMENTS

In thousands of euros	**2016**	**2015**
Base amount at 31 December	53,000	59,000
Fair value at beginning of year (negative)	**-970**	**-840**
Incl. market value of derivative	*-831*	*-747*
interest payable	*-139*	*-93*
Change in derivative's market value (note 18)	-177	-84
Change in interest payable	-33	-46
Fair value at end of year (negative)	**-1,180**	**-970**
Incl. market value of derivative (note 5)	*-1,008*	*-831*
interest payable	*-172*	*-139*

At 31 December 2016, AS Tallinna Sadam had effective interest rate swap transactions to fix the interest rates of long-term loans in the nominal value of EUR 53,000 thousand (31 December 2015: EUR 59,000 thousand). All terms and conditions and maturities of interest rate swap transactions follow the repayment schedule of the loan to be hedged and the swap transactions are classified as cash flow hedging instruments.

At 31 December 2016, AS Tallinna Sadam had entered into 3 derivative transactions to hedge interest rate risk with maturities from 5 to 7 years and with outstanding maturities ranging from 1.5 to 5 years as at 31 December 2016. The floating interest rate to be swapped by all derivative transactions is 6 month Euribor.

The fair value of derivative instruments is based on quotes of Nordea Bank Finland Plc and Swedbank AS. The payments related to derivative instruments are made in euros.

To assess the effectiveness of derivative instruments, the qualitative Critical Terms Match Method is used both retrospectively and prospectively at each reporting date. If the result of the qualitative analysis indicates that a derivative instrument may be ineffective, the quantitative Dollar-offset method is used to assess hedge effectiveness. Since at 31 December 2016 the base amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and were in line with the amortisation schedules; the hedged interest payments were calculated on the same bases (6 month Euribor); the payments were denominated in the same currency (the euro) and were made at the same dates, it should be assumed that risk hedging has been and will be effective.

At 31 December 2016, the weighted average fixed interest rate of the derivatives was 0.671% (31 December 2015: 0.670%); the floating interest rate is based on Euribor. Gains and losses on interest rate swap transactions included within the hedging reserve in equity are recognised in the income statement on expiry of derivative contracts or when hedging is deemed ineffective.

17. GOVERNMENT GRANTS

In thousands of euros	2016 Grants related to non-current assets	2016 Grants related to income	2016 **Total**	2015 Grants related to non-current assets	2015 Grants related to income	2015 **Total**
Non-current government grant liabilities at beginning of year						
Cohesion Fund	22,920	0	**22,920**	23,386	0	**23,386**
TEN-T Fund	627	0	**627**	232	0	**232**
State budget of the Republic of Estonia	148	0	**148**	163	0	**163**
Total long-term government grant advances at beginning of year	**23,695**	**0**	**23,695**	**23,781**	**0**	**23,781**
Grants received						
TEN-T Fund	535	-18	**517**	439	0	**439**
European Regional Development Fund	0	0	**0**	0	1	**1**
Other foreign assistance	0	0	**0**	0	12	**12**
State budget of the Republic of Estonia	0	4,644	**4,644**	0	0	**0**
Total grants received	**535**	**4,626**	**5,161**	**439**	**13**	**452**
Grants repaid						
TEN-T Fund	0	92	**92**	0	108	**108**
Total grants repaid	**0**	**92**	**92**	**0**	**108**	**108**
Recognised as income						
Cohesion Fund	464	0	**464**	466	0	**466**
TEN-T Fund	48	74	**122**	44	-93	**-49**
European Regional Development Fund	0	0	**0**	0	1	**1**
Other foreign assistance	34	0	**34**	0	12	**12**
State budget of the Republic of Estonia	15	4,431	**4,446**	15	0	**15**
Total recognised as income (note 21)	**561**	**4,505**	**5,066**	**525**	**-80**	**445**
Non-current government grant liabilities at end of year						
Cohesion Fund	22,456	0	**22,456**	22,920	0	**22,920**
TEN-T Fund	1,114	0	**1,114**	627	0	**627**
State budget of the Republic of Estonia	133	0	**133**	148	0	**148**
Total non-current government grant liabilities at end of year	**23,703**	**0**	**23,703**	**23,695**	**0**	**23,695**
Short-term government grant advances						
TEN-T Fund	704	0	**704**	717	166	**883**
Other foreign assistance	0	0	**0**	34	0	**34**
State budget of the Republic of Estonia	0	213	**213**	0	0	**0**
Total short-term government grant advances	**704**	**213**	**917**	**751**	**166**	**917**
Short-term government grant receivables						
Other foreign assistance	189	0	189	0	0	0
Total short-term government grant advances	**189**	**0**	**189**	**0**	**0**	**0**

Note 17 continued

Pursuant to section 22 subsection 12 of the 2007-2013 Structural Assistance Act a final recipient is required to guarantee the preservation of the assets necessary for achieving the goal of the project and use thereof for the intended purposes under the prescribed conditions and in compliance with the provisions on Article 57 of Council Regulation No 1083/2006/EC within at least the period of five years after the end of the eligibility period of the project.
The outstanding balance of the project related government grant of EUR 23,703 thousand (at 31 December 2015: EUR 23,695 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (at 31 December 2015: also EUR 13,902 thousand).

Cohesion Fund
Project "Extension of the eastern part of Muuga Harbour" (2006-2011)
Within the framework of the project, the first stage of the extension of Muuga Harbour was supported, including filling the coastal area and seabed.
The outstanding balance of the project related government grant of EUR 17,304 thousand (31 December 2015: EUR 17,533 thousand) includes non-depreciable asset related grant of EUR 13,902 thousand (31 December 2015: also EUR 13,902 thousand).

Project "Creating connections between the eastern part of Muuga Harbour and the Industrial Park" (2010-2014)
Within the framework of the project, a viaduct was constructed in Muuga Harbour to connect the Industrial Park with the harbour; the free zone of Muuga Harbour was extended; and the railway network of Muuga Industrial Park was finished.
The outstanding balance of the project related grant was EUR 5,152 thousand (at 31 December 2015: EUR 5,387 thousand). There are no non-depreciable assets attributable to the project.

TEN-T programme "Motorways of the seas"
"The Baltic Sea hub and spokes project" (2010-2013)
AS Tallinna Sadam was granted support for making investments and developing cooperation in safety and security related areas within the framework of "The Baltic Sea hub and spokes project".
The outstanding balance of the project related grant was EUR 20 thousand (at 31 December 2015: EUR 33 thousand). There are no non-depreciable assets attributable to the project.
In 2015 grants related to income were repaid in the amount of EUR 108 thousand.

LNG in the Baltic Sea Ports (2012 -2016)
The aim of the project was to develop a harmonised approach towards LNG bunker filling infrastructure in the Baltic Sea region. Within the framework of the project pre-investment surveys such as environmental impact assessment, feasibility studies for LNG terminals and bunkering vessels, project designs, regional market surveys, safety guidelines, etc. were focused on.
In 2016 grants related to income were repaid in the amount of EUR 92 thousand.

TWIN-PORT (2012-2015)
Within the framework of TWIN-PORT project the Tallinn–Helsinki maritime link, i.e. the infrastructure in the Old City Harbour of Tallinn and the Western Port of Helsinki is developed as part of north-south transport corridor of the European Union. Investments in the Old City Harbour are related to improving the traffic scheme in the harbour area and developing the roads connecting the harbour and the city.
In 2016 no investments were made or expenses incurred within the framework of the project. In 2015 investments amounted to EUR 4,418 thousand and expenses to EUR 167 thousand. In 2016 and in the comparative year 2015 no support was received.
The outstanding balance of the project related grant was EUR 560 thousand (at 31 December 2015: EUR 594 thousand). There are no non-depreciable assets attributable to the project.
The eligibility period of the project activities ended on 31 December 2015. In 2016 activities aimed to meet the set objectives that had not been finished by the end of the eligibility period, continued. The above activities were financed from internal funds without using support. The project report was presented to the European Commission on time, i.e. by 31 December 2016. At the reporting date the Innovation and Networks Executive Agency (INEA) of the European Commission was performing a compliance audit on the project. The project team and management believe that all project related activities, expenditures and investments were aimed directly at meeting and achieving the objectives, and as at 31 December 2015 the

Note 17 continued

objectives set for the project were met to the extent sufficient for receiving the support.

<u>TWIN-PORT 2 (2014-2018)</u>
TWIN-PORT 2 is a follow-up project to TWIN-PORT. Within the framework of the project Port of Helsinki builds a new Western Terminal, AS Tallink Grupp brings a new LNG vessel to the Tallinn–Helsinki route, and AS Tallinna Sadam invests in the development of various infrastructure assets in the Old City Harbour.
In 2016 investments amounted to EUR 1,783 thousand and expenses amounted to EUR 25 thousand. In 2015 no investments were made and no expenses were incurred within the framework of the project.
The outstanding balance of the project related grant was EUR 533 thousand (31 December 2015: EUR 0 thousand). There are no non-depreciable assets attributable to the project.

State budget of the Republic of Estonia
<u>Public transport support (2016-2026)</u>
In December 2014 a public passenger transport service contract was signed with the Ministry of Economic Affairs and Communications for providing the ferry service on Kuivastu–Virtsu and Rohuküla–Heltermaa ferry routes in the period from 1 October 2016 to 30 September 2026. The final amount of the contractual support depends on the difference between the revenue base calculated annually on the basis of tariff rates fixed in the contract and ticket income earned.
In 2016 support was calculated in the amount of EUR 4,419 thousand and received in the amount of EUR 4,632 thousand.

<u>Noise survey in Muuga Harbour and development of relieving measures (2016)</u>
In 2016 noise from the activities of operators at Muuga Harbour was surveyed, co-funded by the Environmental Investment Centre to the extent of 50% within the framework of the atmosphere air protection sub-programme of the environmental programme. To identify the sources of noise emitted from Muuga Harbour, necessary noise emission measurements (e.g. loading/unloading, hoists, trains, manoeuvring of locomotives, etc.) were carried out to draft a noise map; also, measurements of sound pressure levels both at night and in the daytime were performed in the residential areas adjacent to Muuga Harbour. In the course of the surveys more problematic areas were identified and an analysis of potential relieving measures was prepared.
In 2016 expenses incurred within the framework of the project amounted to EUR 24 thousand; support received amounted to EUR 12 thousand.

<u>Programme "Grant for small ports" (2010)</u>
Within the framework of the project eligible costs related to the construction of the Old City Marina were financed.
The outstanding balance of the project related grant was EUR 84 thousand (at 31 December 2015: EUR 92 thousand). There are no non-depreciable assets attributable to the project.

<u>Programme "Atmosphere air protection programme ” (2011-2013)</u>
Within the framework of the project "Extension to the outdoor air monitoring system in Muuga Harbour" the outdoor air monitoring and management system in Muuga Harbour was extended in 2013 by installing one outdoor air monitoring station in Randvere village, west of Muuga Harbour.
The outstanding balance of the project related grant was EUR 49 thousand (at 31 December 2015: EUR 56 thousand). There are no non-depreciable assets attributable to the project.

Preparation Programme for EU Strategy for the Baltic Sea Region (EUSBSR Seed Money Facility)
<u>Project "*Green Cruise Port – Sustainable Development of Cruise Port Locations"* (2016–2019)</u>
The project is aimed at enhancing cooperation of cruise ports in the Baltic Sea region on developing port facilities and services focusing on the aspects of environmentally friendly and economically beneficial solutions. Project partners are ports of Hamburg, Klaipeda, Riga, Rostock, Helsinki, Bergen, Esbjerg and Kaliningrad, and Maritime Institute Gdansk. Within the project a master project together with technical solutions for the Old City Harbour cruise terminal is prepared; a study: "Sustainable energetic solutions for the cruise terminal building in Northern climate” is carried out; and an international cruise conference is held in Tallinn.

Note 17 continued

In 2016 expenses incurred within the project amounted to EUR 8 thousand. In 2015 no expenses were incurred. In 2016 no support was received (in 2015: EUR 7 thousand received). There are no non-depreciable assets attributable to the project.

18. EQUITY

Share capital

At 31 December 2016 AS Tallinna Sadam had 185,203,032 registered shares; in the comparative period at 31 December 2015: also 185,203,032 shares. The par value of a share is EUR 1. All shares of the limited company are held by the Republic of Estonia. The shares are held and the shareholder's right is exercised by the Ministry of Economic Affairs and Communications. At the general meetings of shareholders the Ministry is represented by the Minister of Economic Affairs and Infrastructure.

The maximum number of ordinary shares of AS Tallinna Sadam stipulated in the articles of association was 664,000,000 (in the comparative year 2015: also 664,000,000). At 31 December 2016 and in the comparative period at 31 December 2015 all shares issued had been fully paid for.

In 2016 and in the comparative year 2015 share capital was not increased.

Earnings per share

	2016	**2015**
Weighted average number of shares (pcs)	185,203,032	185,203,032
Consolidated net profit for the reporting period (in thousands of euros)	39,478	30,868
Basic earnings and diluted earnings per share (in euros)	0.21	0.17

Unrestricted equity

At 31 December 2016, the unrestricted equity of the parent amounted to EUR 144,253 thousand; in 2015, the respective figure was EUR 139,775 thousand. At the reporting date, EUR 115,402 thousand could be distributed as dividends to the shareholder and the income tax on dividends would amount to EUR 28,851 thousand. The respective figures in 2015 were EUR 111,820 thousand and EUR 27,955 thousand.

The basis for calculating unrestricted equity, potential dividend amount and related income tax on dividends is disclosed in the table below:

In thousands of euros At 31 December	**2016**	**2015**
Retained earnings	144,253	139,775
Unrestricted equity	**144,253**	**139,775**
Income tax on distributing all of the unrestricted equity (until 31 Dec. 2014: 21%; as from 1 Jan. 2015: 20%)	28,851	27,955
Potential net dividend	**115,402**	**111,820**

Statutory capital reserve

In 2016 and in the comparative year 2015 capital reserve was not increased.

Note 18 continued

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (note 16).

In thousands of euros	**2016**	**2015**
Hedging reserve at beginning of year	**-831**	**-747**
Change in derivative's market value	-177	-84
Hedging reserve at end of year	**-1,008**	**-831**

Dividends

In thousands of euros	**2016**	**2015**
Dividends declared and distributed in the reporting period	35,000	31,192
Dividends per share	0.19	0.17

Income tax on dividends and services delivered abroad

In thousands of euros	**2016**	**2015**
Income tax charged on dividends in the Republic of Estonia	8,750	7,763
Income tax paid on dividends in the Republic of Estonia	-7,763	0
Outstanding income tax on dividends (note 14)	*8,750*	*7,763*
Income tax withheld on services delivered abroad	0	608

19. REVENUE

In thousands of euros	**2016**	**2015**
Port charges and fees	47,058	50,654
Cargo charges	6,474	7,219
Passenger fees	16,431	11,764
Rental income (note 11)	12,239	12,437
Sale of electricity	5,476	5,427
Charter fees	4,613	4,575
Sale of ferry services	1,883	0
Sale of other services	1,711	1,718
Total revenue	**95,885**	**93,794**

All services were provided in the Republic of Estonia.

20. OPERATING EXPENSES

In thousands of euros	2016	2015
Fuel, oil and energy costs	5,935	4,626
Technical maintenance and repairs of non-current assets	4,509	7,488
Services purchased for infrastructure	3,529	2,160
Tax expenses	3,095	3,020
Incl. land tax	*2,720*	*2,660*
Consultation and development expenses	501	416
Incl. research and development expenses	*211*	*242*
Services purchased	3,472	2,854
Incl. mooring service	*1,142*	*1,145*
reception/discharge of ship-generated waste	*1,827*	*1,675*
port charges and fees	*446*	*0*
Acquisition and maintenance of insignificant items	1,050	557
Advertising expenses	191	217
Rental expenses	5,716	405
Incl. chartering vessels	*5,224*	*0*
Insurance expenses	414	411
Other operating expenses	848	1,360
Incl. allowance for doubtful receivables	*44*	*49*
Total operating expenses	**29,260**	**23,514**

Personnel expenses

In thousands of euros	2016	2015
Wages and salaries	10,603	9,329
Social security charges	3,518	3,087
Total personnel expenses	**14,121**	**12,416**
Incl. short term benefits of members of management and supervisory boards of group companies	596	404
social security charges on members of management and supervisory boards of group companies	196	133
Total expenses on members of management and supervisory boards of group companies	**792**	**537**

Under the valid contracts as at 31 December 2016 AS Tallinna Sadam has an obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration. In return for observing the prohibition of competition, the group has an obligation to pay management board members monthly compensation during 12 months as of the expiry of the contract in the amount equal to 50% of the management board member's remuneration.

Under the valid contracts as at 31 December 2016 the subsidiaries of AS Tallinna Sadam have an obligation to pay compensation to the members of the management board upon their removal in the amount equal to the management board member's three months' remuneration.

21. OTHER INCOME AND EXPENSES

Other income

In thousands of euros	2016	2015
Gain on sale of non-current assets	146	0
Penalties, interest on arrears*	9,858	5,359
Income from government grants (note 17)	5,066	445
Other income	296	20
Total other income	**15,366**	**5,824**

Note 21 continued

* Penalties recognised in 2016 include contractual penalties of EUR 2,909 thousand for contract partners' failure to achieve the minimum cargo volume and EUR 6,905 thousand for delayed completion of the passenger ferries under construction. In the comparative year 2015 contractual penalties of EUR 2,179 thousand were recognised for contract partners' failure to achieve the minimum cargo volume and EUR 3,042 thousand for early cancellation of a long-term charter agreement.

Other expenses

In thousands of euros	**2016**	**2015**
Penalties, interest on arrears*	403	35
Allowance for doubtful receivables**	1,039	4
Compensation to former employees	67	79
Other expenses	108	692
Total other expenses	**1,617**	**810**

*Incl. a penalty of EUR 400 thousand for not meeting the terms of the ferry service contract due to delayed arrival of new passenger ferries on their routes.

**Incl. write-down expense of EUR 1,067 thousand on contractual penalty receivables for failure to achieve the minimum cargo volume that was recognised as a result of an announcement made by a business partner about filing for bankruptcy at the beginning of 2017 (note 7) and reduction of expenses arising from recovery of receivables deemed doubtful in the amount of EUR 28 thousand.

22. FINANCE COSTS

In thousands of euros	**2016**	**2015**
Interest expense on loans and borrowings:		
Interest expense on loans	584	789
Capitalised borrowing costs	-952	-620
Interest expense on debt securities	961	724
Interest expense on derivatives	442	347
Total interest expense on loans and borrowings	***1,035***	***1,240***
Foreign exchange loss	4	32
Other finance costs	36	56
Total finance costs	**1,075**	**1,328**

23. RELATED PARTY TRANSACTIONS

The shares of AS Tallinna Sadam are wholly owned by the Republic of Estonia.

In thousands of euros	**2016**	**2015**
Transactions with joint venture		
Revenue	216	232
Operating expenses	1,900	1,745
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	2	4
Operating expenses	13	131
Other expenses	7	0
Transactions with government agencies and companies in which the state has control		
Revenue	5,215	5,025
Other income	4,554	21
Operating expenses	4,839	4,358
Other expenses	493	54
Acquisition of property, plant and equipment	4	4

Note 23 continued

In thousands of euros At 31 December	2016	2015
Trade receivables from and payables to joint venture		
Receivables (note 7)	17	23
Payables (note 13)	129	114
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Receivables	2	0
Payables	1	25
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	556	539
Payables	1,286	605

All provided and purchased services were transactions resulting from the normal course of business based on an arm's length basis.

The amount of benefits payable to the members of the management and supervisory boards is disclosed in note 20 to these financial statements.

Revenue and operating expenses on transactions with related parties comprise only business related services sold and purchased.

Information presented on companies in which members of supervisory and management boards of group companies have significant influence is based on declarations submitted by related parties.

24. COMMITMENTS

At 31 December 2016, the group's contractual liabilities related to acquisition of property, plant and equipment; repairs; and research and development expenditures totalled EUR 23,025 thousand (incl. liabilities of EUR 18,448 thousand arising from contracts for construction of passenger ferries); at 31 December 2015, the above liabilities amounted to EUR 41,135 thousand and EUR 39,100 thousand respectively.

25. EXPLANATIONS TO THE CASH FLOWSTATEMENT

Acquisition of property, plant and equipment

In thousands of euros	2016	2015
Net cash flow	**-39,208**	**-65,185**
Offsets	-1,214	-195
Capitalised loan interest	-950	-620
Paid for previous year	2,057	3,128
Outstanding balance at end of year (note 13)	-2,276	-2,057
Other adjustment	-96	-178
Total adjustments	*-2,479*	*78*
Acquisition and reconstruction (note 9)	**41,687**	**65,107**

Note 25 continued

Acquisition of intangible assets

In thousands of euros	2016	2015
Net cash flow	**-704**	**-185**
Capitalised loan interest	-2	0
Paid for previous year	13	24
Outstanding balance at end of year (note 13)	-164	-13
Total adjustments	*-153*	*11*
Acquisition and reconstruction (note 10)	**857**	**174**

26. CONTINGENT LIABILITIES

The tax authorities may inspect the group's tax accounting records for up to 5 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate nor conduct any tax inspections at the group companies or single-case inspections in the reporting period or in the comparative period. According to group management's estimate no such circumstances occur that could result in significant additional tax imposed on the group companies by the tax authorities.

The loan agreements concluded by the group set out certain limits to the group's consolidated financial indicators. The set limits have not been exceeded.

Under several lease and right of superficies contracts, upon expiry of the contracts, AS Tallinna Sadam has an obligation to compensate the cost of the constructions built by the lessee or improvements made to the assets of AS Tallinna Sadam at the usual value of the respective construction or improvement. Taking into account the extended duration of these contracts (especially right of superficies contracts) and the fact that the constructions are mostly special purpose facilities (port terminals), no valid experience in measuring the usual value of such constructions upon expiry of the contracts exists. Based on the above, the value of those obligations could not be estimated reliably as at the reporting date.

As a result of past events the group is involved in some pending litigation and/or lawsuits. The total amount of monetary claims filed during the litigation remains below EUR 4 million. The management board believes that the claims filed against the group are not substantiated and the realisation of the claims in the above amount is highly unlikely. Therefore, the management board did not consider it necessary to establish provisions to cover the above claims.

27. INVESTIGATIONS CONCERNING THE GROUP

On 26 August 2015, the Estonian Internal Security Service detained long-term members of the management board of the parent company AS Tallinna Sadam Ain Kaljurand and Allan Kiil and suspicions of large-scale bribery during several prior years were filed against them. As at the reporting date the trial in the case of the by now former management board members had not commenced yet, nor had any charges been brought against the above persons, and preliminary investigation procedures were still in progress. Despite the above events the day-to-day business operations of the group have continued without complications. Based on the information available at the reporting date the management board believes that the above event will not have any material impact on the group's financial performance or financial position; however, it can continue to cause serious damage to the group's reputation.

28. ADDITIONAL INFORMATION ON THE PARENT

The financial information on the parent comprises unconsolidated primary financial statements of the parent which are required to be disclosed in accordance with the Estonian Accounting Act, but they are not separate statements as defined in IAS 27. On preparing the primary financial statements of the parent, the same accounting policies have been applied as to preparing the consolidated financial statements, except that investments in subsidiaries are measured at cost.

Statement of financial position

In thousands of euros

As at 31 December	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	49,343	23,320
Current portion of finance lease receivable	386	368
Trade and other receivables	15,800	14,068
Inventories	5	5
Total current assets	**65,534**	**37,761**
Non-current assets		
Investments in subsidiaries	23,395	13,395
Investments in joint ventures	132	132
Non-current portion of finance lease receivable	4,167	4,553
Other long-term receivables	139,507	122,178
Property, plant and equipment	404,396	403,103
Intangible assets	297	399
Total non-current assets	**571,894**	**543,760**
Total assets	**637,428**	**581,521**
LIABILITIES		
Current liabilities		
Loans and borrowings	118,016	25,710
Derivatives	1,008	831
Provisions	846	756
Government grants	704	882
Taxes payable	9,121	8,085
Trade and other payables	5,074	3,239
Total current liabilities	**134,769**	**39,503**
Non-current liabilities		
Loans and borrowings	128,027	171,043
Government grants	22,443	22,390
Other payables	128	124
Total non-current liabilities	**150,598**	**193,557**
Total liabilities	**285,367**	**233,060**
EQUITY		
Share capital at par value	185,203	185,203
Statutory capital reserve	18,520	18,520
Hedging reserve	-1,008	-831
Retained earnings	110,569	108,036
Profit for the year	38,777	37,533
Total equity	**352,061**	**348,461**
Total liabilities and equity	**637,428**	**581,521**

Note 28 continued

Income statement and statement of comprehensive income

Income statement

In thousands of euros	**2016**	**2015**
Revenue	83,425	83,070
Other income	4,172	2,962
Operating expenses	-17,811	-19,100
Personnel expenses	-8,272	-8,096
Depreciation, amortisation and impairment losses	-13,023	-13,096
Other expenses	-1,182	-801
Operating profit	**47,309**	**44,939**
Finance income and finance costs		
Finance income	2,225	2,261
Finance costs	-2,007	-1,904
Net finance costs	**218**	**357**
Profit before income tax	**47,527**	**45,296**
Income tax expense	-8,750	-7,763
Profit for the year	**38,777**	**37,533**

Statement of comprehensive income

In thousands of euros	**2016**	**2015**
Profit for the year	**38,777**	**37,533**
Other comprehensive income		
Revaluation of hedging instruments	-177	-84
Total other comprehensive income	**-177**	**-84**
Total comprehensive income for the year	**38,600**	**37,449**

Note 28 continued

Statement of cash flows

In thousands of euros	**2016**	**2015**
Cash receipts for sale of goods or services	86,513	87,486
Cash receipts related to other income	2,421	1,590
Cash paid to suppliers	-21,524	-25,972
Cash paid to and for employees	-6,900	-7,003
Cash payments related to other expenses	-180	-591
Income tax paid on dividends	-7,763	0
Net cash from operating activities	**52,567**	**55,510**
Acquisition of property, plant and equipment	-12,941	-9,706
Acquisition of intangible assets	-61	-122
Proceeds from sale of property, plant and equipment	726	1,914
Proceeds from government grants related to non-current assets	346	12
Increase of share capital in subsidiaries	0	-1,998
Loans granted	-25,847	-54,731
Repayment of loans granted	0	2,703
Change in overdraft (receivable)	-1,826	1,677
Interest received	668	4,261
Net cash used in investing activities	**-38,935**	**-55,990**
Proceeds from issue of debt securities	75,000	60,000
Redemption of debt securities	-2,500	-2,500
Proceeds from loans received	0	15,000
Repayment of loans received	-23,210	-21,433
Dividends paid	-35,000	-31,192
Interest paid	-1,884	-1,866
Other payments related to financing activities	-14	-35
Net cash used in financing activities	**12,392**	**17,974**
NET CASH FLOW	**26,024**	**17,494**
Cash and cash equivalents at beginning of year	23,320	5,826
Increase in cash and cash equivalents	26,024	17,494
Cash and cash equivalents at end of year	49,343	23,320

Note 28 continued

Statement of changes in equity

In thousands of euros	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
Equity at 31 December 2014	**185,203**	**18,520**	**-747**	**139,228**	**342,204**
Profit for the year	0	0	0	37,533	**37,533**
Other comprehensive income	0	0	-84	0	**-84**
Total comprehensive income for the year	*0*	*0*	*-84*	*37,533*	***37,449***
Dividends declared	0	0	0	-31,192	**-31,192**
Total transactions with the shareholder of the company	*0*	*0*	*0*	*-31,192*	***-31,192***
Equity at 31 December 2015	**185,203**	**18,520**	**-831**	**145,569**	**348,461**
Carrying amount of interests under control and significant influence	0	0	0	-13,395	**-13,395**
Value of interests under control and significant influence under the equity method	0	0	0	7,601	**7,601**
Adjusted unconsolidated equity at 31 December 2015	**185,203**	**18,520**	**-831**	**139,775**	**342,667**

In thousands of euros	Share capital at par value	Statutory capital reserve	Hedging reserve	Retained earnings	Total equity
Equity at 31 December 2015	**185,203**	**18,520**	**-831**	**145,569**	**348,461**
Profit for the year	0	0	0	38,777	**38,777**
Other comprehensive income	0	0	-177	0	**-177**
Total comprehensive income for the year	*0*	*0*	*-177*	*38,777*	***38,600***
Dividends declared	0	0	0	-35,000	**-35,000**
Total transactions with the shareholder of the company	*0*	*0*	*0*	*-35,000*	***-35,000***
Equity at 31 December 2016	**185,203**	**18,520**	**-1,008**	**149,346**	**352,061**
Carrying amount of interests under control and significant influence	0	0	0	-13,395	**-13,395**
Value of interests under control and significant influence under the equity method	0	0	0	8,302	**8,302**
Adjusted unconsolidated equity at 31 December 2016	**185,203**	**18,520**	**-1,008**	**144,253**	**346,968**

In accordance with the Accounting Act of the Republic of Estonia, adjusted unconsolidated retained earnings represent the amount that is available for distribution to shareholders.

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[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS Tallinna Sadam:

Opinion

We have audited the consolidated financial statements of AS Tallinna Sadam (hereinafter also „the Company"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and consolidated notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

15 March 2017

Veiko Hintsov
Certified Auditor, No. 328

Mariel Akkermann
Certified Auditor, No. 574

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STATEMENT OF THE SUPERVISORY BOARD

The supervisory board of AS Tallinna Sadam has approved the consolidated annual report of AS Tallinna Sadam as at and for the year ended 31 December 2016, which consists of the management report and the financial statements, and the accompanying independent auditors' report.

16 March 2017

Aare Tark	Mart Luik	Merike Saks
Urmas Kaarlep	Üllar Jaaksoo	Agris Peedu

PROFIT ALLOCATION PROPOSAL

At 31 December 2016, the retained earnings of prior periods amounted to EUR 144,252,516 including profit for the year of EUR 39,477,989. Pursuant to section 77 subsection 1 of the State Assets Act the dividends payable by a company in which the state has at least the discretion is approved by the Government of Estonia at the proposal of the Minister of Finance. As at the date of approval of this profit allocation proposal the Government of Estonia had not made its decision on the dividend distribution by AS Tallinna Sadam. Based on the above, the management board proposes the allocation of the profit of EUR 46,200,000 based on the latest information available at the date of the proposal about the planned order by the Government of Estonia. The expected dividend per share is EUR 0.25.

Under section 332 of the Commercial Code of Estonia, the management board proposes that the retained earnings of EUR 144,252,516 as at and for the year ended 31 December 2016 be allocated as follows:

Dividends	EUR 46,200,000
Retained earnings of prior years	EUR 98,052,516

Valdo Kalm	Marko Raid	Margus Vihman
Chairman of the Management Board	Member of the Management Board	Member of the Management Board