TALLINNA SADAM

GROUP ANNUAL REPORT 2019

AS Tallinna Sadam

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Beginning of financial year	1 January
End of financial year	31 December
Legal form	Limited company (AS)
Auditor	KPMG Baltics OÜ

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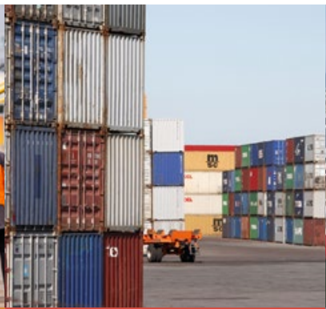
1 Tallinna Sadam at a glance

1.1 BUSINESS MODEL

The business model of AS Tallinna Sadam (Port of Tallinn) and its subsidiaries (collectively referred to as 'Tallinna Sadam', the 'Group') is based on four balanced business lines: passengers, cargo, shipping and real estate.

Passengers

- About 11 million passengers per year
- 1.4 million passenger cars
- 6100 passenger ship calls per year
- Old City Harbour and Saaremaa Harbour
- Reception of passenger ships, providing and developing the port infrastructure, serving passengers and vehicles
- Passenger lines: Tallinn-Helsinki, Tallinn-Stockholm, Muuga-Vuosaari, Tallinn-St. Petersburg, cruise



Cargo

- 20 million tons of cargo per year
- 450 000 trucks
- 1600 cargo ship calls per year
- Muuga Harbour, Paldiski South Harbour
- Reception of cargo ships, providing and developing the port infrastructure,
- Liquid bulk, dry bulk, containers, ro-ro, general cargo

Shipping

TS Laevad OÜ:

- Operating ferry traffic on Rohuküla-Heltermaa and Virtsu-Kuivastu lines
- 2.4 million passengers and 1 million vehicles per year year
- 5 ferries: Leiger, Tiiu, Tõll, Piret, Regula

TS Shipping OÜ:

- Ice breaking in the ports of Northern Estonia, icebreaker Botnica
- Off-shore works

Real estate

- 16 ha Old City Harbour real estate development
- 76 ha Muuga Industrial Park
- 34 ha Paldiski South Harbour Industrial Park
- 10 h Saaremaa Harbour logistics park
- Land for development and rental spaces in the harbours

Tallinna Sadam owns the largest cargo and passenger harbour complex in Estonia. Its harbours are navigable and easily accessible through the year and deep enough to receive all vessels passing through the Danish Straits. Estonia's geographical location is favourable for handling both north-south and east-west passenger and cargo flows. Tallinna Sadam owns two passenger harbours (the Old City Harbour and the Saaremaa Harbour) and two cargo harbours[1] (the Muuga Harbour and the Paldiski South Harbour).

In terms of the number of passengers served, Tallinn Old City Harbour is the third-largest harbour on the Baltic Sea (after Helsinki and Stockholm) and the fourth-largest in Northern Europe. The Muuga Harbour is Estonia's largest cargo harbour. Tallinna Sadam offers port services as a landlord port, i.e. it owns, administers and develops berths, port basins and the surrounding areas, leases land to cargo operators, organises vessel traffic in port basins and ensures safe navigation in port waters. Tallinna Sadam owns passenger terminals and other facilities required for passenger service. Cargo harbour superstructure belongs to cargo operators. Waste management service in harbours is provided by AS Green Marine (also referred to as 'Green Marine'), an associate of Tallinna Sadam, which offers innovative waste handling solutions.

[1] Tallinna Sadam is also the owner of the Paljassaare Harbour but has discontinued active business operations in that harbour due to a planned exit.

TALLINNA SADAM

Port services for passengers and cargo

TS LAEVAD

Ferry service to Saaremaa and Hiiumaa.
Port of Tallinn share 100%.

TS Shipping

Icebreaker Botnica charter.
Port of Tallinn share 100%.

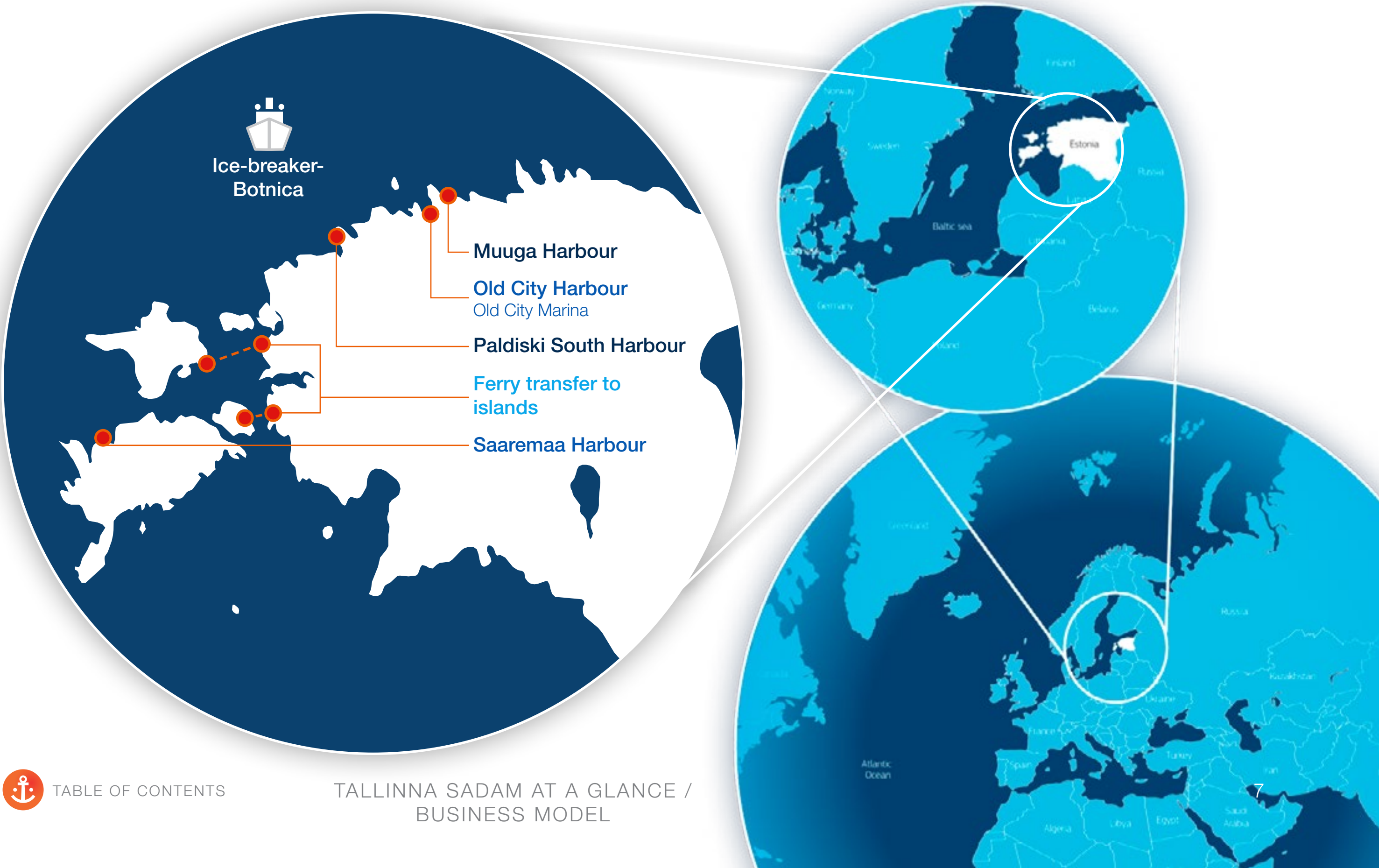
Green Marine

Waste management.
Port of Tallinn share 51%.

Since the end of 2016, Tallinna Sadam has also been operating ferries and providing passenger transport between Estonia's mainland and two largest islands – Saaremaa and Hiiumaa – through its subsidiary OÜ TS Laevad (also referred to as 'TS Laevad'). The Group owns five ferries and the routes served are the busiest domestic ferry routes in Estonia. The Group's other subsidiary, OÜ TS Shipping (also referred to as 'TS Shipping'), is also involved in shipping. It owns the multifunctional icebreaker Botnica, which provides icebreaking services in Northern Estonian ports and harbours during the winter season and icebreaking, ice management and escort services in the Arctic waters of Northern Canada during the summer season.

The real estate business line is still largely in the preparatory phase. To execute the Old City Harbour real estate development plan, by the end of 2019 Tallinn City Planning Department had initiated detailed plans for all areas of the Old City Harbour based on the applications submitted by Tallinna Sadam, which are consistent with the solutions of Masterplan 2030 created for the development of the Old City Harbour. Proceedings for the adoption of a detailed plan for the southern part of the Old City Harbour are already underway.

The Group's operating segments for financial accounting purposes differ somewhat from its business lines. Operating segments are Passenger harbours, Cargo harbours, Ferry and Other. The Passenger harbours segment comprises the provision of port services at harbours mainly involved in passenger service – the Old City Harbour and the Saaremaa Harbour – and real estate development in the Old City Harbour. The Cargo harbours segment comprises the provision of port services at harbours mainly involved in cargo handling – the Muuga Harbour and the Paldiski South Harbour – and activities related to industrial parks located in these harbours. The Ferry segment comprises the activities of the subsidiary TS Laevad, i.e. the provision of passenger transport between Estonia's mainland and two biggest islands. The segment Other mainly includes the operation of the multifunctional icebreaker Botnica by the subsidiary TS Shipping and the profits and losses on investments made in the associate Green Marine (accounted for under the equity method). Segment results are presented in section 6.8 of the management report and note 3 to the consolidated financial statements.



1.2 KEY PERFORMANCE INDICATORS FOR 2019

Revenue 130.5 million euros (-0.1%)

Adjusted EBITDA 74.3 million euros (-0.1%)

EBITDA margin 56.9%

Profit 44.4 million euros (+81.8%)

Investment 29.5 million euros (+106.9%)

Cargo volume 19.9 million tonnes (-3.3%)

Number of passengers 10.64 million (+0.2%)

Number of vessel calls 7,855 (+2.7%)

Dividends paid 35.2 million euros (0.134 euros per share)

71% utilisation rate of icebreaker Botnica

19% of vessel calls with Environmental Ship Index (ESI) discounts

93% of ship-generated waste recovered for recycling

1.3 SIGNIFICANT EVENTS IN 2019

Completion of phase I of passenger terminal D

Record number of passengers and record number of cruise passengers

New vessel and passenger service on the Muuga-Vuosaari route

On-shore power supply

Opening of the Reidi Road


Author: Madis Veltman

All detailed plans for the Old City Harbour area initiated

Marko Raid receives Most Influential CFO in Estonia Award 2019

Sustainable development strategy workshop

First Annual General Meeting

New terminals and terminal owners: Liwathon, PK Terminal, Olerex, Baltic Maritime Logistics Group

Research partnership agreements with the Estonian Academy of Arts and the Estonian Maritime Academy

1.4 LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The year 2019 was Tallinna Sadam's first full year on the stock exchange. At the first annual general meeting we were able to deliver good news to our shareholders: excellent operating results and a dividend distribution exceeding the target in the dividend policy. Our performance in 2019 reflects that we continue to hold true to our promise of generating stable revenue and earning a healthy profit.

Being a sustainably responsible company, we have set ourselves the goal to embed the global sustainable development goals into our strategy and to formulate our short- and long-term objectives in three closely related areas – the environment, the economy and society. We weigh all our decisions and investments responsibly to make sure they support the sustainable development of the company and society at large and are consistent with our commitment to protect the environment. We take care to minimise our ecological footprint and strive to achieve climate neutrality. Tallinna Sadam is a forward-looking company: we collaborate with research institutions and apply science-based solutions to ensure the company's sustainable development and contribute to the development of the Estonian economy.

Last year Tallinna Sadam was the proud recipient of two important titles – people living in Estonia rated Tallinna Sadam as one of the top ten most reputable large companies and as one of the top five best preferred employers in the industry. This is both an honour and a challenge to maintain the position achieved. We wish to be a reliable partner to all our customers, current and future employees, and investors.

I would like to thank everyone that has contributed to the success of Tallinna Sadam.

Aare Tark

Chairman of the Supervisory Board

1.5 LETTER FROM THE CHIEF EXECUTIVE

For Tallinna Sadam, 2019 was another eventful year. Although divergent movements left their mark on our financial performance, in the end the results reached the exceptionally strong level of 2018. Accordingly, in 2020 we continue to stand firmly behind the promise given to shareholders in our dividend policy.

Progress was probably the most visible at the Old City Harbour, where we once again served a record number of passengers: 10.64 million people in total and, as we are particularly pleased to report, the number of passengers travelling on routes between Finland and Estonia recovered. In the autumn, we opened phase I in the reconstruction of passenger terminal D into a new contemporary passenger service facility. Although the work will continue until the summer, preliminary feedback reflects that our renovated passenger terminal D greets passengers with a light and modern Nordic exterior and interior suitable for Estonia's largest tourist gateway. At the end of the year, we signed a contract for building a new cruise terminal with green technological solutions to better serve our continuously growing number of cruise tourists. The goal is not only to serve the needs of cruise tourists but also to create an attractive high-quality urban seafront for both local people and visitors. The new green and smart cruise terminal will use sea water for heating and draw additional energy from solar panels. Moreover, in 2019 the city of Tallinn initiated all detailed plans relevant to the Old City Harbour area, which is a major step forward in our real estate development business.

We started a new environmentally sustainable development project at the Old City Harbour – creating onshore power supply systems for passenger ships travelling on regular routes in order to help cut fuel consumption, improve air quality and reduce noise in the heart of Tallinn. An important milestone of the period was vigorous growth on the Muuga-Vuosaari route, generated by the second vessel, which was added to the route, and the launch of services to passengers with vehicles, which will substantially reduce the number of heavy vehicles and traffic flows in the centre of Tallinn.

In the cargo handling business, the owners of several terminal operators at Muuga Harbour changed and, thanks to an excellent year for grain, the handling of dry bulk cargo grew considerably.

We also broke a record in public passenger transport between Estonia's mainland and biggest islands: our ferries carried around 2.4 million passengers and over a million vehicles. Besides improving our day-to-day service quality, we started the electrification of the fleet of TS Laevad. The first step is the reconstruction of the ferry Tõll into a more environment friendly hybrid vessel. For the second year already, our icebreaker Botnica spent the period from summer to late autumn in the arctic waters of Northern Canada, providing escort and ice management services to Panamax-type cargo vessels.

Tallinna Sadam's success is underpinned by our staff whose dedicated work enables us to achieve our objectives and thus create value for our shareholders. As a company, we have set ourselves ambitious targets for the next few years – to offer the best customer experience to our passengers, to create new opportunities for growth in all our business lines, to contribute to cleaning up the Baltic Sea and sustainable port operations and shipping, and to become a trailblazer in digitalising the port logistics chain.

Valdo Kalm

Chairman of the Management Board of Tallinna Sadam

1.6 VISION, MISSION, VALUES

The vision of Tallinna Sadam is to become the most innovative port on the Baltic Sea by offering its customers the best environment and the best development opportunities.

Tallinna Sadam is a modern gateway to the Baltic Sea. We are a growth-oriented development and service organisation. We create the best environment and development opportunities for our customers and employees by combining services to people and cargo, shipping, and waterfront real estate development into an integrated logistics business. We listen to the communities and protect the environment. We are open, smart and reliable. We represent the image of Estonia and are one of the engines of its economy.

The core values of Tallinna Sadam are openness, smartness and reliability.

We are **open** to new ideas and innovation and find opportunities to implement them. We share information about our intentions and activities both internally and externally.

We make sensible and **smart** decisions and do the right things at the right time and in the right way. We seek, seize and offer resourceful and forward-looking solutions to improve the company's competitiveness.

We are **reliable**. We keep our promises and deliver quality. We are professional, competent and influential experts in our area and treat ourselves as well as others with respect and consideration.

VISION OF OLD CITY HARBOUR. ZAHA HADID ARCHITECTS

1.7 STRATEGY

Tallinna Sadam sees new revenue generation opportunities in all its business lines: cargo, passengers, real estate, and shipping.

Our goal for the next five years is to systematically increase the competitiveness of cargo corridors passing through Estonia together with other members of the logistics chain. Our focus is on digitalising the logistics chain. We see opportunities in the growth of the container transport and liquefied gas markets as well as north-south cargo flows (including Rail Baltica) through the opening of new ro-ro routes. The replacement of fossil fuels with renewable and biofuels and alternative energy sources also presents new opportunities.

GROWTH OPPORTUNITIES

Passengers
- Increasing the number of line- and cruise passengers
- Upgrading passenger terminals
- Construction of cruise terminal
- Digitalization and automation
- Smart Port solution
- Auto-mooring
- On-shore power supply for passenger ships in the Old City Harbour

Cargo
- Opportunities to increase north-south cargo traffic (incl. Rail Baltic)
- China Silk Road branch (e-trade, distribution center)
- LNG and container goods market growth
- Conscious improvement of competitive position of the freight corridors passing through Estonia with participants of the logistics chain
- Digitalization of the logistics chain and cooperation

Shipping

TS Laevad OÜ:
- Additional ferry to Virtsu-Kuivastu line
- Improving efficiency of operations
- Electrification of the ferries

TS Shipping OÜ:
- Icebreaker Botnica charter for summer period

Real estate
- Implementation of the Old City Harbour area development plan Masterplan 2030+
- Development of business models
- Improvement of attractiveness and customer journey of the Old City Harbour as a tourism and representative gateway
- Development of the industrial parks and providing additional value

The United Nations (UN) summit, held in New York in September 2015, adopted a sustainable development agenda along with sustainable development goals[2]. The UN agenda, the Estonian government's climate neutrality target and the European Green Deal are the foundation for Tallinna Sadam's sustainable development plans.

Being a responsible and environmentally friendly company, Tallinna Sadam consistently invests in reducing the environmental impacts of its operations. Our objective is not to undertake single stand-alone social responsibility projects but to manage the whole company and all our projects in alignment with sustainability principles. This means that we consider the economic, environmental and social aspects of all our business decisions. We wish to be a reliable partner to our customers, current and future employees, and investors

[2] https://sustainabledevelopment.un.org/

In autumn 2019, we arranged a strategic planning workshop, where our employees together with the representatives of stakeholder groups sought important topics in all areas and opportunities to contribute to the achievement of global sustainable development goals. The discussions produced inputs for designing Tallinna Sadam's sustainable development strategy both in the short- and long-term perspective and integrating it into the company's overall strategy. The next step is the development and implementation of more specific sustainable development goals, metrics and action plans.

ECONOMIC IMPACT

- Innovation
- Digitalized and/or automated infrastructure
- Development based on science
- Sustainable selection of partners
- Sustainable operation and development

SOCIAL IMPACT

- Quality public and regional development
- Raising awareness of environmental and sustainable development
- Equal opportunities and safe environment
- Value-based corporate management culture

ENVIRONMENTAL IMPACT

- Clean Baltic Sea, increasing the circular economy
- Clean air
- Energy efficiency, sustainable use of natural resources

1.8 TALLINNA SADAM'S STAKEHOLDER GROUPS

EMPLOYEES

- Current and future emplyees of Port of Tallinn group companies
- Labor Unions

CLIENTS & PARTNERS

- Operators (cargo terminals and passenger vessels)
- Agents, lease holders
- Passengers (int. and local)
- Charterers of ice-breaker
- Suppliers, financiers
- Parties in logistics chain
- Surveillance and other institutions

SOCIETY & COMMUNITY

- Local municipalities
- Local communities
- Cooperation organizations and -networks
- Education and science institutions
- Publicity and media

INVESTORS

- Estonian State
- International institutional investors
- EST investment and pension funds
- EST retail investors
- Potential investors

Service responsibility

2 Service responsibility

2.1 SAFETY AND SECURITY

We invest daily in ensuring and promoting safety and security in all our business lines. Our main challenge is to make sure, by implementing innovative security systems, that all employees, passengers, cargo and companies are safe and secure.

The harbours of Tallinna Sadam have implemented a safety and security assurance system to meet the marine traffic safety, security, environmental protection, and safe cargo handling requirements of the Estonian Ports Act. We assess safety risks regularly and update our safety measures whenever necessary. General safety requirements are set out in the Port Rules. Our structural units' roles in preventing and responding to dangerous situations at the harbours of Tallinna Sadam are described in the procedure for preventing and resolving dangerous situations and each harbour has developed and implemented a plan for responding to safety incidents. To cope with dangerous situations, we carry out regular drills and exercises and work with supervision authorities, local communities and all operators, including handlers of hazardous substances on the premises of our harbours.

To ensure fire safety, our harbours are supplied with basic fire extinguishing equipment (dry powder, gas and water extinguishers, hose systems, grease fire extinguishers, fire blankets, etc.), automatic alarm systems (fire alarm, sprinkler, gas extinguishing, water curtain, and alarm transmission systems) and external fire extinguishing water systems (fire hydrants, sea water extraction places). We carry out regular fire drills and checks of firefighting equipment, systems and installations in cooperation with the Rescue Board.

The Rescue Board's Muuga brigade, which is based at Muuga harbour, ensures swift response to possible rescue incidents. To increase its capabilities, Tallinna Sadam has acquired foam extinguishers and hose systems that can supply water from sources up to 3 km away and a HydroSub pump unit designed for the use of sea water, which has a pumping capacity of 11,000 litres per minute.

The purpose of implementing security requirements at harbours is to assure the safety and security of passengers, cargo and harbour employees and to prevent offences and wrongdoing. All harbours belonging to Tallinna Sadam apply the heightened ISPS[3] security requirements. The Old City Harbour has been identified as a facility essential for national security and, accordingly, is subject to additional security measures.

All harbours of Tallinna Sadam have a security plan, which is based on a risk analysis carried out by the Estonian Maritime Administration and the Estonian Internal Security Service. According to the plan, each harbour consists of different facilities for which the plan outlines appropriate security measures. The effectiveness of the security plan is tested during drills and exercises carried out every three months. Compliance with security requirements is reviewed by the Estonian Maritime Administration, which carries out relevant audits on an annual basis.

Access to all harbours is restricted: entry is granted on the basis of permits. All harbours have manned guarding and consistently upgraded modern technical surveillance systems, which support security assurance.

Thanks to extensive preventive work, Tallinna Sadam has had only a few serious incidents in the past decade. There have been no safety incidents resulting in a large number of fatalities or injuries.

TS Shipping ensures the safety of the icebreaker Botnica in accordance with the requirements and standards issued by SOLAS and MARPOL. In 2019, Botnica's main engines and other mechanisms and systems were supplied with remote surveillance equipment. Besides improving safety, it allows using the vessel's engines and systems more efficiently and reducing its costs and emissions. Smooth operation of the vessel's propeller systems and their controls is also ensured with a remote management solution installed in 2019.

TS Laevad applies the safety and security requirements of the ISPS Code. Fire safety is ensured by conducting weekly rescue and firefighting drills on board the vessels as required by SOLAS. In 2019, TS Laevad and the Rescue Board carried out several joint exercises in Virtsu and Rohuküla. In preventing the pollution of marine environment and managing waste, TS Laevad observes the requirements of MARPOL. Relevant action plans were updated in 2019. All vessels of TS Laevad have implemented a comprehensive safety management system and the Maritime Administration performs separate audits of all vessels and the office once a year.

[3] International Code for the Security of Ships and Port Facilities

2.2 QUALITY MANAGEMENT AND RISKS

The Group's parent, AS Tallinna Sadam, has been applying an integrated management system, which complies with the requirements of international quality and environmental management standards ISO 9001 and ISO 14001, since 2003 already. Conformity with international standards proves that the management system of AS Tallinna Sadam ensures the satisfaction of customers and other stakeholder groups, efficiency of work flows, and effective control of risks and environmental aspects. In March 2019, we successfully passed a recertification audit carried out by the certification agency Bureau Veritas Eesti OÜ, which confirmed our compliance with the requirements of ISO 9001:2015 and ISO 14001:2015. The main quality and environmental management system development goals included performing customer satisfaction, corporate reputation and employee engagement surveys and analysing the results. We also continued with our digitalisation projects, which are aimed at implementing digital asset and incident management solutions and paperless teamwork tools.

TS Shipping has been applying an integrated management system, which complies with the requirements of quality management standard ISO 9001:2015, environmental management standard ISO 14001:2015, and occupational health and safety management standard OHSAS 18001 since 2017. The most recent audit was performed in June 2019 in connection with transition from OHSAS 18001:2007 to the new occupational health and safety standard ISO 45001:2018. TS Shipping achieved its key targets for 2019: a ship availability indicator of at least 90% and a customer satisfaction index of at least 80%.

The risks that affect the operations of Tallinna Sadam are reviewed and reassessed in accordance with the Group's risk management framework. The risks of Tallinna Sadam have been classified into three basic categories: risks resulting from the external environment, risks associated with specific business lines and operational risks. Each risk has been assigned a level of severity (low, moderate, high, extreme). The first priority or the highest-level (extreme) risks for Tallinna Sadam are those related to its cargo and shipping business:

- **strained political and economic relations between Estonia and Russia,** resulting primarily from the continuation and expansion of economic sanctions imposed on Russia by the EU and the US;
- **development and operation of competing cargo harbours,** which mainly manifests itself in the direction of exports controlled by the Russian government to Russia's own ports (e.g. Ust-Luga) and the growing activity of other Baltic and Estonian ports and harbours;
- **cargo throughput limitations on roads,** railways and at border checkpoints, which mainly result from Russia's continuing restriction of rail transport volumes;
- **non-deployment of the icebreaker Botnica outside the icebreaking season,** due to factors in the external offshore market environment.

The Group lowers the severity of those risks by applying various mitigation measures, which depend mainly on the nature of the business project, e.g. diversification of activities, competitive pricing, development of industrial parks to secure cargo flows, broad-based sales activities, and consistent cooperation with stakeholders and government agencies. We have to admit that the measures applied do not lower the risks' level of severity sufficiently. On the other hand, according to estimates cargo flows related to Russia account for only 30% of Tallinna Sadam's total cargo throughput and relevant risk exposures can be mitigated by diversification: at our harbours different operators handle different types of cargo, which is of different origin. The risks related to passenger service and the real estate business as well as the business of TS Laevad are not considered to be as high and, depending on the risk, fall into the category of low, moderate or high.

Detailed information about the financial risks of Tallinna Sadam and their mitigation and hedging objectives and principles is provided in note 4 to the financial statements.

In keeping with our values and ethics, we have put in place a Group-wide procedure for preventing conflicts of interest under which, among other things, members of Group companies' management and supervisory boards and key personnel are required to declare their business interests.

2.3 CUSTOMERS AND SUPPLIERS

We have a broad customer base, which largely consists of stable big Estonian and international companies, many of which are listed on different stock exchanges. Our largest customers are ferry operators, cargo terminal operators, and the state (Republic of Estonia) through contracts for the provision of public ferry transport service, and icebreaking service with Botnica. Our customers also include the end consumers of our services: passengers travelling on our ferries to the islands of Saaremaa and Hiiumaa, passengers travelling on international routes, and cargo carriers and owners.

We wish to offer the highest possible service quality. To achieve this, we monitor customer satisfaction for six major customer groups: cargo terminal operators, ferry operators, shipping agents, tenants, passengers, and customers of the marina. In 2019, the customer satisfaction index was 4.87 on a 6-point scale (2018: 4.93). TS Laevad, which provides ferry service, measures its customers' satisfaction with services provided using the net promoter score (NPS) methodology. In 2019, NPS was 65% (2018: 58%).

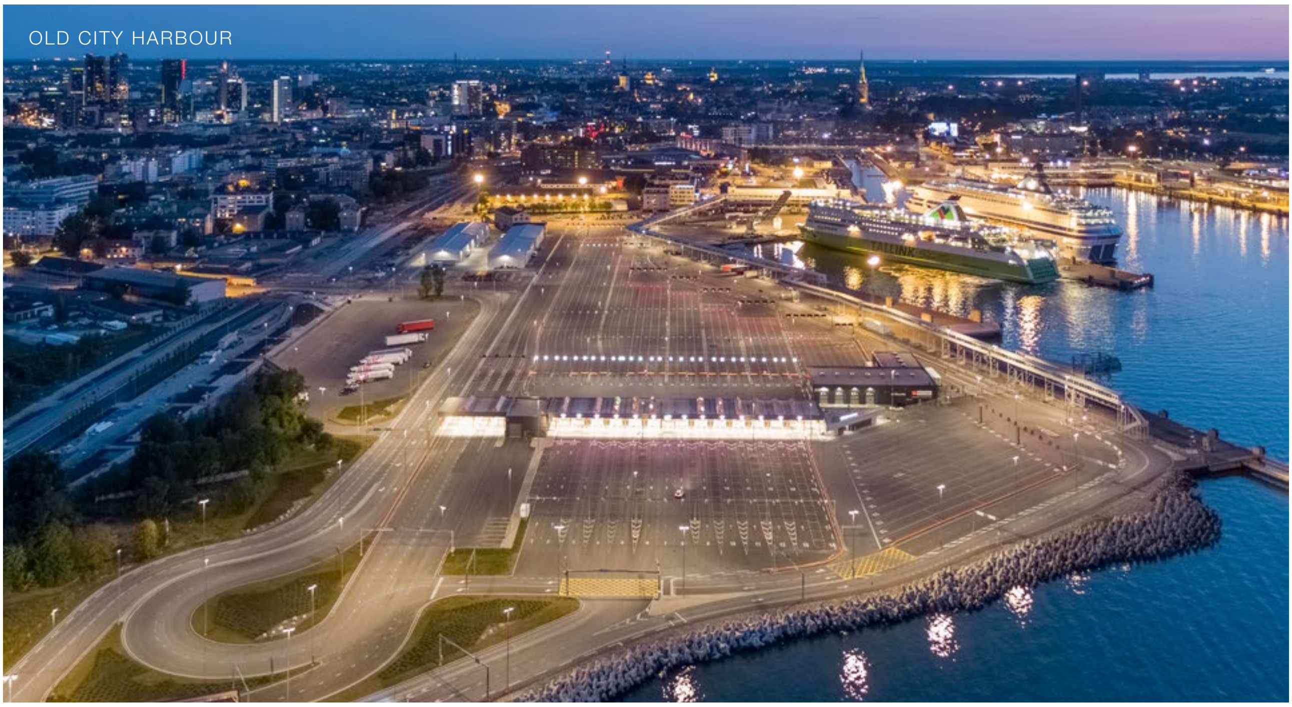
In customer relations, we observe the principles of openness and engagement. Our management and heads of business lines regularly meet our key customers. At least once a year, we organise a Customer Information Day for informing the public about the company's significant plans, projects and investments.

In collaboration with customers and stakeholders from the logistics industry, we participate in logistics events and conferences (TransRussia, BreakBulk, TransKazakhstan, CLIF, Baltic Sea Ports and Shipping, Seatrade Cruise Global, etc.) and receive business delegations in order to introduce the capabilities of Estonian logistics companies and ports in handling cargo flows and serving passengers. Last year we helped organise a number of industry conferences in Estonia: Green Cruise Port Conference, Paldiski Association of Entrepreneurs' Investment Conference "A Different Kind of Paldiski", and XV International Maritime Conference.

To harmonise service quality across passenger terminals, we joined forces with passenger operators and developed the Old City Harbour Community Service Compass, which is a set of common principles and agreements concerning the provision of services to visitors of the harbour. TS Laevad wishes to offer its passengers the best travel experience in Estonia. The shops and restaurants on board the Group's ferries were renovated in 2019. Together with our partners, we make every effort to make all our visitors as well as passengers feel welcome and to develop an open and hospitable culture and vibe at all our harbours and on board all our ferries.

In ordering products and services, we prefer, where possible, sustainable solutions, which reflect the values of Tallinna Sadam. We observe the sustainability criteria already in preparing the procurement requirements and exclude bids that burden the environment.

We wish that all our partners would share our values and contribute to the wellbeing of society. This means that in selecting our partners we evaluate their approach to sustainability and corporate responsibility.



Environment

3 Environment

Tallinna Sadam is a responsible and environmentally friendly company, which consistently strives to reduce the negative environmental impacts of all its business and development activities. We take responsibility for the natural and marine environment, listen to local communities and work with local authorities, research organisations and other major ports on the Baltic Sea to ensure the company's sustainable development and operation. Our environmental management system is designed to identify significant environmental aspects and their impacts, and to determine environmental goals and tasks to improve our performance.

The environmental goals of Tallinna Sadam are aligned with the UN's sustainable development goals. Our environmental priorities are: clean air, a clean Baltic Sea, energy efficiency and sustainable use of natural resources.

3.1 CLEAN AIR

Our goal is to ensure that outdoor air in our locations of operation is clean and of high quality. To achieve this, we employ innovative solutions in close cooperation with our customers and partners. In addition to vehicle traffic rearrangement, we continue to focus on three key areas in handling possible air pollution resulting from our operations: odour issues caused by the cargo of oil terminals, air pollution from ships and the differentiation of port dues based on a ship's investment in reducing air pollution.

To this end, we have carried out a number of activities and implemented innovative solutions in various areas:

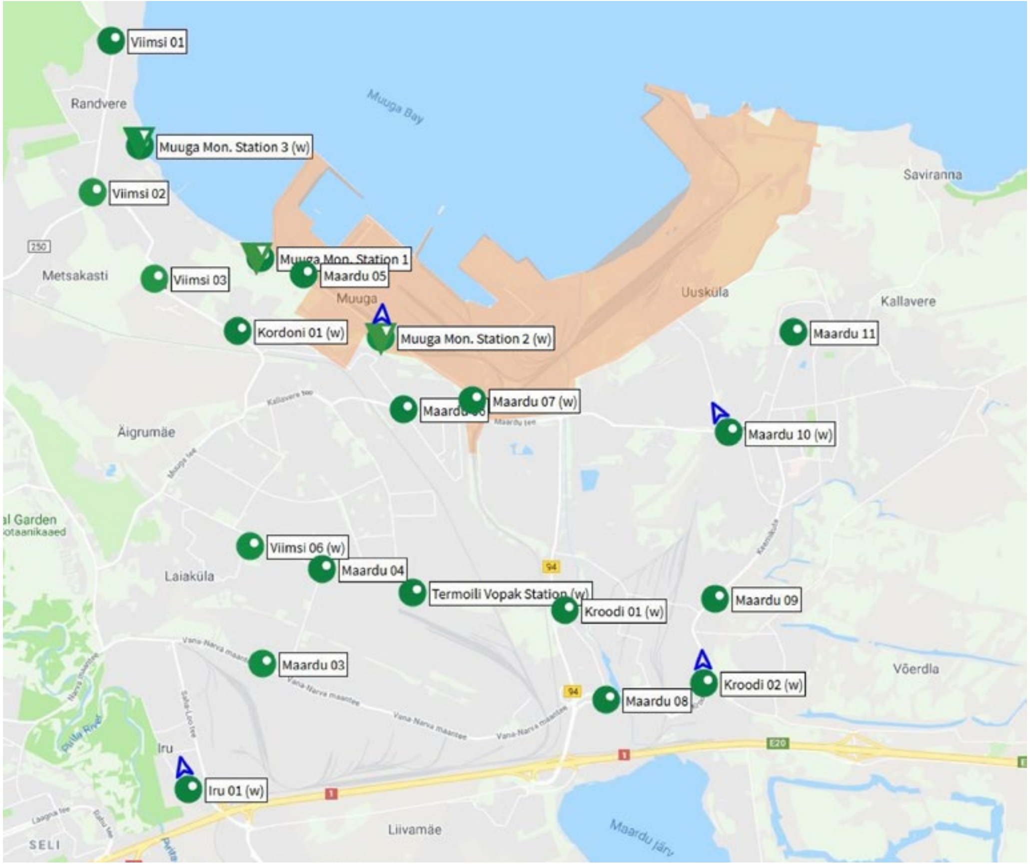
1. **The Smart Port traffic management system** at the Old City Harbour (cars' and trucks' automated check-in and guidance to waiting areas and vessels) has shortened vehicle waiting times at the harbour by around 30 minutes and thus reduced emissions to air in the heart of Tallinn. We are planning to develop the system further and implement it at Muuga Harbour to manage ro-ro traffic on harbour premises.

2. **Taking heavy goods vehicles and cars out of the city centre** and developing the **Muuga-Vuosaari route** in cooperation with operators. In 2019, another ro-pax vessel[4] was added to the route, and both Eckerö Line and Tallink began providing services to passengers with vehicles on the route which previously only served heavy goods vehicles. There were 803 (ro-pax) vessel calls on the Muuga-Vuosaari route in 2019, which reduced the number of heavy goods vehicles and cars passing through the city centre by over 62,000 units (15%) and almost 28,000 units (2%), respectively. Positive impacts include a lower traffic burden and better air quality in the centre of Tallinn. Carbon emissions are estimated to have dropped by around 1,166 tonnes.

3. To mitigate odour nuisances caused by the cargo of oil terminals, we have installed three stationary air quality monitoring systems and **an e-nose network** on the premises of the Muuga Harbour. The e-nose network is a preventive, round-the-clock warning system consisting of 21 odour sensors. The system enables us to promptly identify the location and source of an odour and start resolving the problem. In 2019, the Environmental Inspectorate received 135 complaints about odour issues at the Muuga Harbour but an analysis revealed that only 17 of them were directly attributable to activities at the Muuga Harbour and that odour nuisances in the area are also caused by other companies.

[4] Ro-pax vessel (roll-on / roll-off passenger vessel) is a ro-ro ship with a capacity to carry more than 12 passengers. The ship may have amenities and services similar to a ferry but its main purpose is to carry wheeled cargo.

EMap of the locations of e-noses installed in the area of the Muuga Harbour and Maardu



Air quality monitoring results by year are available on the website of Tallinna Sadam at https://www.ts.ee/ohuseire

4. In 2019, we invested in creating an **on-shore power supply** system for ferries on quays 3, 12 and 13 of the Old City Harbour. The system enables ferries to connect to an onshore electricity network and stop their engines, which reduces ship-generated air pollution, particulate matter and noise pollution. The project was funded from the TWIN-PORT 3 project, co-financed by the European Union. The total investment in 2019 amounted to EUR 2.6 million. In 2020, we will continue the project by installing onshore power supply equipment for ferries on quays 5 and 7 of the Old City Harbour.

5. In 2019, we carried out a procurement of services for installing **automated mooring systems** on quays 5, 12 and 13 of the Old City Harbour. The purpose is to reduce vessels' emissions by shortening their manoeuvring and mooring time. A total of 18 automated mooring systems will be installed in 2020. The total cost of the investment exceeds EUR 8 million.

6. We **grant more eco-friendly vessels a discount on port dues** based on the Environmental Ship Index (ESI).[5] In 2019, we gave an ESI Index-based discount for 1,439 port calls, i.e. 19% of all port calls.

7. In July 2019, TS Laevad signed an agreement with the Estonian shipbuilding company Baltic Workboats AS to rebuild **the ferry Tõll** into **Estonia's first environmentally friendly hybrid ship** by March 2020. The vessel will be supplied with battery banks, which will allow replacing about a fifth of its diesel fuel consumption with electricity. This will reduce carbon emissions by an estimated 1,600 tonnes per year.

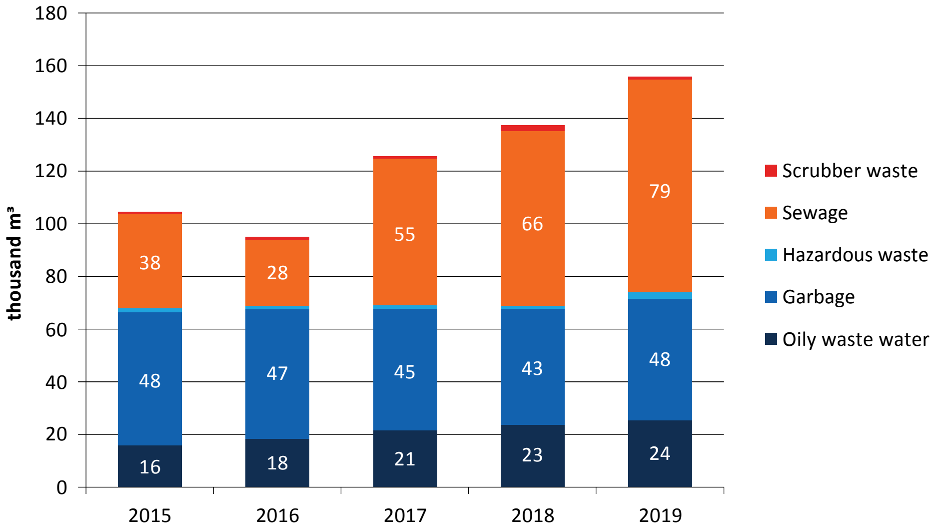
8. In late 2019, TS Laevad installed an innovative Blueflow **fuel consumption monitoring system** on the ferry Piret to provide captains and mates with a better real-time overview of the vessel's fuel consumption and an opportunity to easily compare past fuel consumption data. This will allow them to improve their navigation techniques for reducing fuel consumption and, thus, reduce the negative environmental impacts of marine fuel. The expected fuel economy is 4% of the vessel's fuel consumption. If the pilot project is a success, the system will also be installed on other ferries.

[5] ESI is based on the emissions of nitrogen compounds (NOx), sulphur compounds (SOx), particulate matter (PM) and carbon dioxide. It also takes into account whether the ship is connected to the onshore electricity network and uses electricity while in port. https://www.environmentalshipindex.org/Public/Home

3.2 A CLEAN BALTIC SEA

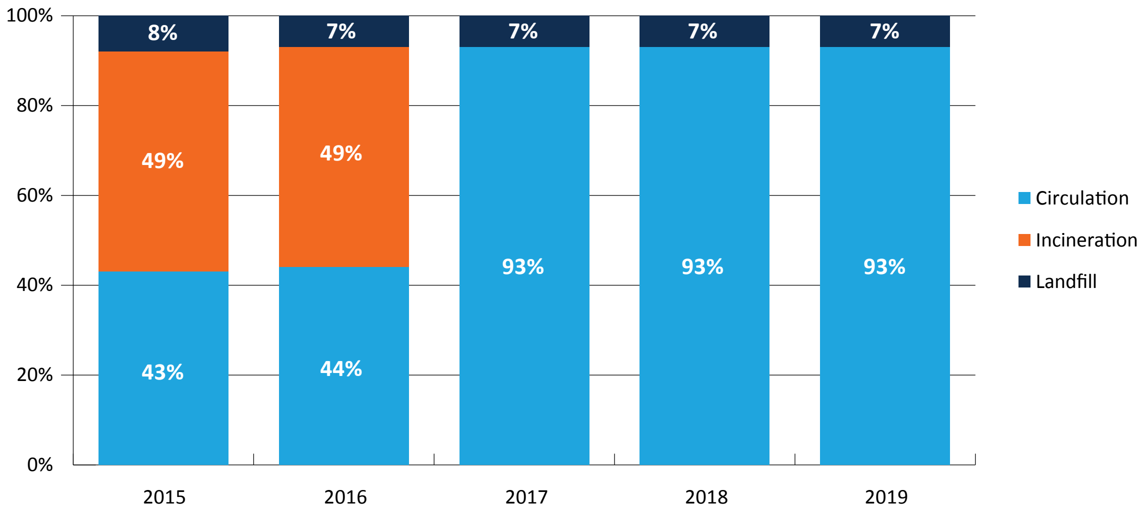
Tallinna Sadam works hard to ensure that the ecological footprint of its activities is kept to a minimum. We recognise that the marine ecosystem of the Baltic Sea is among the most vulnerable ones in the world. The harbours of Tallinna Sadam have adequate capacities for receiving bilge water, sewage, garbage, and waste containing oil products and oil from all ships calling at our harbours. The volumes of ship-generated waste received by Tallinna Sadam have increased year by year.

Ship-generated waste received by Tallinna Sadam in 2015–2019 by type (m³)



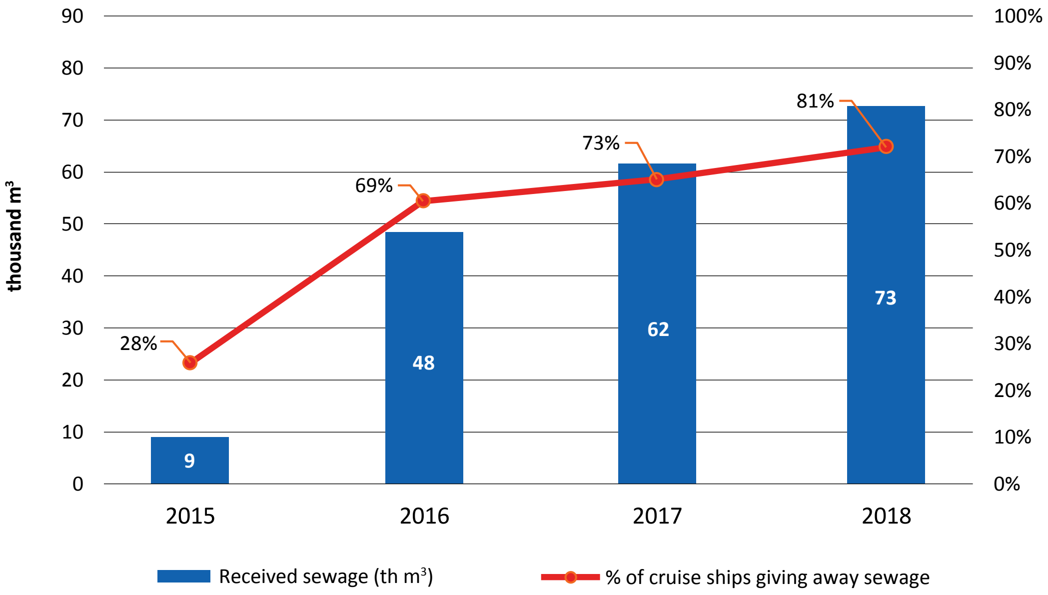
In contrast to many other European ports, we support ships that have invested in scrubber systems in order to reduce sulphur compounds (SOx) in their emissions and accept scrubber waste without any additional charge. In 2019, 93% of ship-generated waste was reused in the circular economy.

Reuse of ship-generated waste in the circular economy in 2015–2019



Tallinna Sadam contributes to improving the purity of the Baltic Sea by helping prevent the discharge of ship sewage into the sea. In previous years, we built a sewage pipeline for cruise berths and a micro-tunnel at the Old City Harbour, which have increased our sewage reception capacity from 100 m^3 to 1,200 m^3 per hour. Thanks to the new sewer system, cruise ships calling at the Old City Harbour can dispose of unlimited amounts of sewage without any additional charge. In 2019, we completed the expansion of the onshore sewer system for passenger ships to meet our long-term environmental goal of allowing all ships calling at the Old City Harbour to dispose of unlimited amounts of sewage. To protect the marine environment of the Baltic Sea by enabling passenger ships to dispose of sewage at port, we decided that from January 2020 we will receive unlimited quantities of sewage from ferries visiting the Old City Harbour (previously the limit was 7 m^3) and cover the cost with waste fees charged.

Volume of sewage received from cruise ships (in thousands of m³) and the share of port calls made by cruise ships that disposed of sewage at port in 2016–2019



In 2019, we contributed to waste recycling and the development of the circular economy by improving separate waste collection in our offices and passenger terminals and on board the ferries of TS Laevad.

3.3 ENERGY EFFICIENCY AND SUSTAINABLE USE OF NATURAL RESOURCES

Tallinna Sadam has set itself the goal of increasing energy efficiency and the use of renewable energy, while keeping an eye on the sustainable use of all natural resources. In planning buildings and infrastructure, we use Digital Building Information Modelling (BIM), which enables us to improve the functionality of the facilities and implement sustainable solutions in the design phase already. For example, the cruise terminal, to be completed in 2021, will use sea water for heating and cooling and obtain additional electricity from solar panels.

In 2019, we continued to implement innovative solutions initiated in previous years with a view to increasing energy efficiency and the use of renewable energy. The solutions include using solar panels for heating and generating domestic water at the Muuga Harbour, using automated building management systems at all our passenger terminals and offices (Smart Building), increasing the use of LED lights in our indoor and outdoor lighting and reducing energy consumption at night.

Buildings' electricity and heat consumption in 2017–2019 (MWh)

ENERGY EFFICIENCY OF BUILDINGS	2017	2018	2019
Thermal energy consumption of buildings in the use of Tallinna Sadam (adjusted for degree days[6])	3 044	3 073	3 599
Thermal energy consumption of premises rented out (adjusted for degree days)	635	579	601
Electricity consumed by Tallinna Sadam	7 417	6 446	5 281
Electricity consumed on premises rented out	2 292	2 050	1 746

[6] A degree day is a measure, which represents the difference between the inside temperature of a building and the outside temperature; its unit is a 1°C difference between the reference inside temperature and the mean outside temperature (within a 24-hour period).

Thermal energy consumption increased in 2019 because passenger terminal D in the Old City Harbour was renovated and significantly expanded and its electric heating system was replaced by district heating. Electricity consumption decreased in 2019, mainly because the air conditioning systems of the Old City Harbour passenger terminals were renovated and automated building management systems were upgraded.

The measures aimed at reducing energy consumption and increasing energy saving on the icebreaker Botnica include using onshore electricity, less lighting in areas where the crew is not constantly present and more energy-efficient equipment in port. In 2019, those measures reduced energy consumption by 87.6 MWh in total.

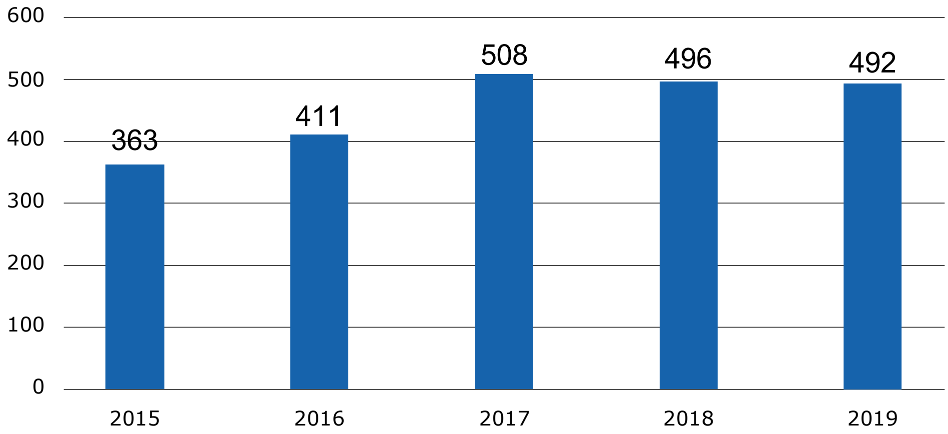
TS Laevad improved energy efficiency mostly by replacing the ferries' old lighting systems with LED lights. This helped save an estimated 9 MWh of energy per year.

Setting environmental goals and linking them to sustainable development goals helps Tallinna Sadam move towards achieving its long-term climate neutrality goal.

People and occupational safety

4 People and occupational safety

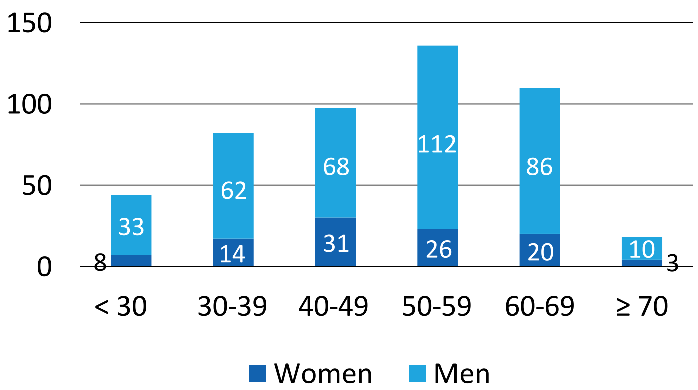
Tallinna Sadam employs almost 500 people. In 2019, the Group's average number of employees was 492 (2018: 496). The dynamics of the number of staff are presented in the graph below.

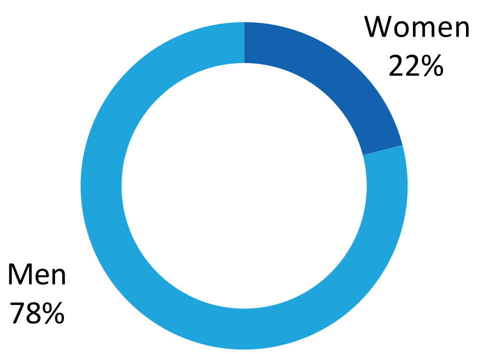


The Group's headcount has mainly been influenced by two factors: more effective work arrangement and the addition of new business lines. In recent years, we have streamlined harbour administration and implemented digital planning and scheduling tools. As a result, we have been able to optimize the workforce in the harbour business. On the other hand, we have created new business lines. In 2016, we started providing ferry service between Estonia's mainland and two biggest islands. Related positions were fully filled in 2017.

The company's sustainable success is underpinned by its **diverse and competent workforce.**

Workforce by gender and age at 31 December 2019:





To make sure that the positions of older specialists will be filled by young talent, in 2019 we signed an agreement with the Estonian Maritime Academy, which will support our collaboration in the field of internship and research.

Employees involved in the harbour business have been with us for 16 years on average. The average length of employee service at the subsidiaries is 2.4 years for TS Laevad and 4.6 years for TS Shipping. The gender balance (ratio of men to women) is related to the nature of our main business lines: harbour operations and shipping. Men are more interested in becoming crew members, dockers and repairmen. Out of the 34 members of the Group's management team 11 are women.

In 2019, we complemented the strategy of Tallinna Sadam with the human resource strategy. Our focus areas for the coming years are: unity and good cooperation, learning and development, smart work processes and effective work arrangement, and innovation. The focus areas are maintained and developed in our daily work through specific action plans and an inclusive management culture. The main performance indicators for the human resource strategy are the employee engagement index and the voluntary turnover rate.

We monitor employee engagement with annual employee engagement surveys. In 2019, 68% of our people responded to the survey and the engagement index rose to 3.4 points on a 4-point scale (2018: 3.2 points). The voluntary employee turnover rate for 2019 was 10.8% (2018: 7.5%). Employee turnover increased the most at TS Laevad where typically for a service company the rate for 2019 was 19.2% (2018: 15.5%). To reduce employee turnover, we have analysed the competitiveness of our salaries by business lines. Where necessary, we have adjusted the salaries and added a performance-related element for certain positions.

Once a year we ask employees to provide ideas for improving and updating the company's activities and processes. During the traditional cooperation seminar held for management and industry experts in 2019 we arranged a brainstorming session to select the best employee ideas for further development. We agreed and implemented improvement suggestions in four areas, which included reducing management levels, delegating decision-making powers to lower levels, reviewing all procedures that regulate our main activities and simplifying processes to reduce bureaucracy and waste.

Tallinna Sadam supports the learning and professional development activities of its employees and invests in systematic employee engagement. The most important training areas of 2019 were IT and digitalisation, equipment and technology handling, management and leadership, the environment and occupational safety. Altogether, half of the Group's employees participated in at least one professional training event. During the year, we launched the new employee staff day, which is organised quarterly to make sure that new joiners know the company's goals, business lines and management structure.

We maintain a common information environment by organising regular staff days, which can be followed online. At staff days, we provide an overview of the company's performance and important projects and discuss developments in the business environment. We organise regular job shadowing days to raise awareness of the work of others and to improve teamwork. As our employees work in different locations (at 8 harbours and on 6 vessels) and at different times, we use different internal communication channels: live broadcasts of staff days and internal training events, the intranet, the Microsoft Teams application, an internal newsletter (published both on paper and in electronic format) and social networks.

To achieve our common goals, we have implemented a performance management system, which ensures that the company's strategic objectives are communicated to each team and team member. Our goal-setting approach is that expected results should be clearly agreed and measurable. Based on the achievement of agreed goals, employees are eligible to either annually or quarterly provided performance-related pay.

Tallinna Sadam cares about the health and wellbeing of its people. To raise awareness of the importance of health, we organise annual health weeks, where we invite interesting speakers to talk on health topics and introduce new opportunities for keeping and improving one's health through sports, physical activity, a healthy diet and stress management. To help employees stay healthy, we cover their sport expenses within an agreed limit, give them an extra week off in the winter and support team sports. The teams of Tallinna Sadam participate in Estonian Companies' Bowling Tournament and the Baltic Sea Ports' Basketball Tournament.

Occupational safety is a priority for Tallinna Sadam. Out of all our employees, 57% are office staff whose work environment risk factors include lack of exercise (forced position) and work with a computer. 43% of employees have jobs with increased risk because they have to work at night or at height. Occupational safety risk is also higher for those who perform work with fire, use dangerous equipment (landing bridges, ramps), or work on ferries or quays or in passenger terminals. Tallinna Sadam analyses work environment risks and improves its work environment continuously, taking into account employee proposals for improving their working conditions. We send employees to regular health checks, ensure that they are aware of work environment risks and protective measures, provide protective and special equipment and promote healthy lifestyles. In 2019, there were no accidents at work that resulted in a fatality or a serious injury and in previous years there were only a few.

In 2019, we carried out a Group-wide risk analysis in the course of which we mapped the risks specific to all positions, assessed our risk mitigation measures and updated our safety guidelines.

Giving back to society

5 Giving back to society

5.1 PARTICIPATION IN ORGANISATIONS

Tallinna Sadam works with the following organisations:

- International Harbour Masters Association IHMA
- Institute of Internal Auditors Estonia
- Cruise Baltic
- Cruise Europe
- Logistics and Transit Association
- Estonian Logistics and Freight Forwarding Association
- Estonian Ports Association
- European Sea Ports Organisation (ESPO)
- Baltic Ports Organization (BPO)
- Estonian Association for Environmental Management
- EcoPorts (an environmental protection organisation of European ports)
- Estonian Employers' Confederation
- Estonian Chamber of Commerce and Industry Estonian Human Resource Management Association
- Estonian Taxpayers Association
- Paldiski Association of Entrepreneurs
- British-Estonian Chamber of Commerce
- German-Baltic Chamber of Commerce
- AmCham Estonia
- VisitSaaremaa
- NGO Keep The Estonian Sea Tidy
- World Association for Waterborne Transport for Infrastructure (PIANC)
- Estonian Responsible Business Forum
- Estonian Power Plants and District Heating Association
- NGO Digital Construction

GREEN CRUISE PORT CONFERENCE 2019
IN OLD CITY HARBOUR

5.2 SUSTAINABLE DEVELOPMENT COOPERATION

In our business activities and making plans for the future, we prioritise awareness of sustainable development principles and sharing our knowledge and insights.

In April 2019, Tallinna Sadam and 23 other companies in which the state is a shareholder signed an agreement, undertaking to observe the principles of responsible business and to promote the importance of those principles in entrepreneurship and society at large by setting a good example.

In February 2019, the representatives of ports and cruise companies in the Baltic Sea and North Sea region signed an agreement and an action plan until 2030 to implement measures for mitigating environmental impacts and thus ensuring sustainable development of the cruise business. In May, Tallinna Sadam along with 29 other ports signed an ambitious Cruise Baltic Sustainability Manifesto aimed at reducing air pollution and congestion at the ports and cities of the Baltic Sea region and thereby also the sector's ecological footprint.

In 2019, we launched a new research project in cooperation with the Estonian Academy of Arts: "Tallinn Old Town: Sustainable Management and Presentation". The objective is to obtain academic input on how to manage Tallinn's Old Town, which is a UNESCO World Heritage Site, in a dignified and sustainable manner, how to improve tourist movement patterns between the harbour and the old town and how to develop new services, which would ensure sustainable development of the passenger service business line of Tallinna Sadam and create opportunities to increase the number of passengers.

In partnership with the Estonian Maritime Academy, we contribute to improving the education of seafarers and ensuring the availability of future specialists as well as projects addressing cyber security on board vessels and digitalisation of the logistic chain. We also collaborate with other research institutions in Estonia and abroad in developing digital solutions and analysing innovative engineering techniques. Our people introduce Tallinna Sadam to students, offer internship opportunities and give lectures in their areas of expertise.

We organise events for the local community, such as Tallinn Maritime Days. Our wish is to bring the sea and harbour operations closer to the community through different maritime activities. It has become a tradition for Tallinna Sadam to participate in the Viimsi Security Day and Maardu Fair, where we can communicate, and hold a dialogue, with people living near the Muuga Harbour, and to present the harbour as well as our safety and security activities.

We work closely with the City of Tallinn in executing Masterplan 2030, created for developing the Old City Harbour into a modern and vibrant city centre with attractive public areas. In 2019, we organised a competition to find temporary ideas and solutions that would attract people to spend time in the Old City Harbour and would also be beautiful to look at.

Business review

6 Business review

6.1 KEY PERFORMANCE INDICATORS

Figure	Unit	2019	2018	Change	%
Revenue	EUR ‘000	130,536	130,635	–99	–0.1
Operating profit	EUR ‘000	51,679	52,075	–396	–0.8
Adjusted EBITDA[7]	EUR ‘000	74,292	74,380	–88	–0.1
Depreciation, amortisation and impairment	EUR ‘000	–23,037	–22,345	–692	3.1
Income tax	EUR ‘000	–5,764	–26,199	20,435	–78.0
Profit for the period	EUR ‘000	44,404	24,423	19,981	81.8
Investment	EUR ‘000	29,484	14,251	15,233	106.9
Number of employees (average)		492	496	–4	–0.9
Cargo volume	t ‘000	19,931	20,608	–677	–3.3
Number of passengers	‘000	10,639	10,619	20	0.2
Number of vessel calls		7,855	7,652	203	2.7
Total assets at period-end	EUR ‘000	625,532	623,639	1,893	0.3
Net debt at period-end	EUR ‘000	172,663	171,049	1,614	0.9
Equity at period-end	EUR ‘000	377,018	367,674	9,344	2.5
Number of shares at period-end	‘000	263,000	263,000	0	0.0
Operating profit/revenue		39.6%	39.9%		
Adjusted EBITDA/revenue		56.9%	56.9%		
Profit for the period/revenue		34.0%	18.7%		
EPS: Profit for the period/ weighted average number of shares	EUR	0.17	0.11	0.06	58.1
Equity/ number of shares	EUR	1.43	1.40	0.03	2.5
Profit for the period/ total assets		7.1%	3.9%		
Profit for the period/ equity		11.8%	6.6%		
Share price at period-end	EUR	1.99	2.04	–0.05	–2.5
P/E: Share price/ earnings per share		11.8	19.1	–7.3	–38.2

[7] Adjusted EBITDA = profit before depreciation, amortisation and impairment losses, finance income and costs (net), and income tax expense, adjusted for amortisation of government grants

6.2 ECONOMIC ENVIRONMENT

According to estimates, the global economy grew by 2.9% in 2019. Once again the growth rate fell short of the figure expected a year ago (3.5%) as well as the rate for the year before (3.6%). In 2020, global growth is projected to rise modestly to 3.3%. The improvement is projected against the backdrop of a weaker-than-anticipated result for the second half of 2019. It is assumed that the boost from the fiscal stimulus measures adopted in late 2019 will continue and the improved business confidence indicators will remain stable. The main risks include the exhaustion of advanced economies' monetary policy measures for supporting demand in the face of slowing growth, the return of risk aversion to the financial markets in the event of trade or geopolitical tensions, and the economic and cross-border migration impacts of natural disasters and climate change.[8]

According to preliminary estimates, Estonia's GDP grew by 3.5–4% in 2019. Despite a deteriorating external environment, growth was surprisingly strong, boosted by rising real wages and employment growth, which bolstered consumer confidence. In 2020, economic growth is projected to slow to around 2–2.5%, as exports dependent on European partners are expected to decline, private consumption is expected to cease growing, and investment is expected to be held back by signs that the economy is cooling. Consumer prices rose by 2.3% in 2019, remaining in the expected range, which favoured private consumption together with growth in real wages and low interest rates. Inflation is expected to remain at 2% in 2020.[9]

The favourable consumption environment of 2019 was also reflected in the Group's passenger traffic indicators: the number of passengers travelling on regular routes remained stable and the number of traditional cruise passengers grew. The number of regular route passengers was supported by the lowering alcohol excise duty rates from the second half of the year and the work done by tourism organizations in the Finnish market. As regards cargo, the volume of ro-ro cargo, which mainly moves between Estonia and Finland, remained stable. The volumes of the Group's other cargo types are less dependent on general economic indicators. Wage growth influenced the Group's expenses and was one of the factors, which prompted organisational streamlining. On the other hand, the rise in inflation indices also meant an increase in the fees charged for the provision of ferry service and the services of the icebreaker Botnica.

6.3 OVERVIEW OF THE MARKET: PASSENGERS

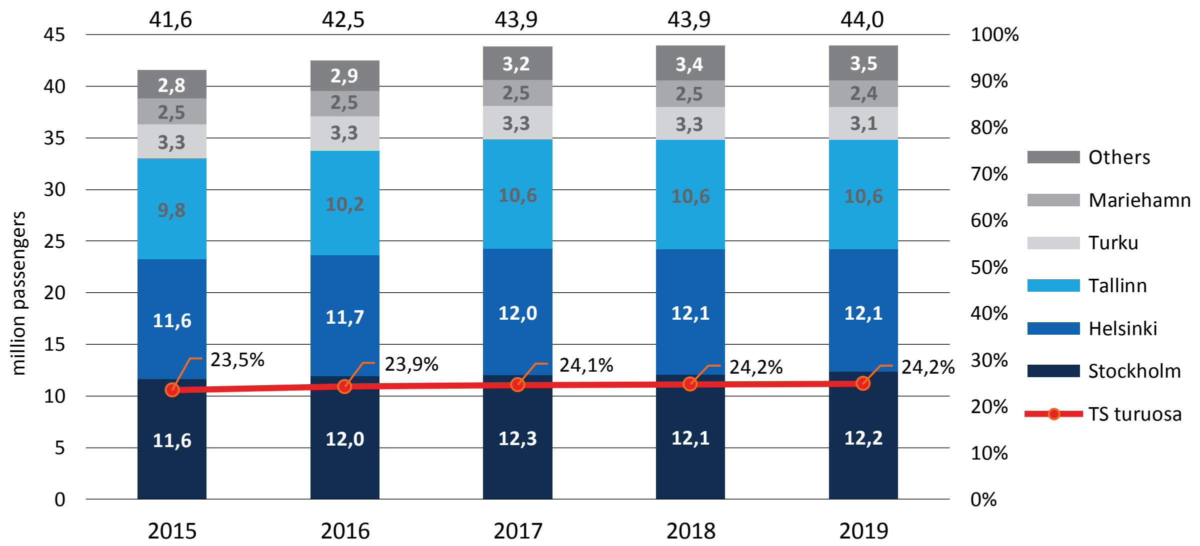
In terms of vessel traffic, the Baltic Sea is one of the busiest inland seas in the world. Almost 85 million people live in the catchment area of the Baltic Sea and vessels are one of the main means of transport for internal tourists in the area. It is estimated that over 40 million passengers a year use vessels to travel across the eastern part of the Baltic Sea, which is why international ferry traffic in this area is the busiest in the Baltic Sea region. Tallinn is the third-largest passenger port in the area after Helsinki and Stockholm. The largest ferries of the Baltic Sea, mostly designed for passenger traffic, also travel between those ports.

Compared to other areas around the Baltic Sea, busy vessel traffic between Estonia, Finland and Sweden is supported by the facts that the distance between the destination ports is optimal for ferry traffic and most of the traffic is between the countries' capitals which are all located on the coast.

Other contributing factors are close economic relations between Estonia and Finland, and the region's growing attractiveness as a destination for Asian tourists who after arriving by airplane increasingly travel between the countries of the Baltic Sea region by ferry. Accordingly, international ferry traffic between Tallinn and its main destination ports – Helsinki and Stockholm – accounts for a significant share of the business of Tallinna Sadam.

[8] IMF "World Economic Outlook Update", January 2020
[9] Statistics Estonia, Swedbank, SEB

Number of passengers of the ports in the eastern part of the Baltic Sea*

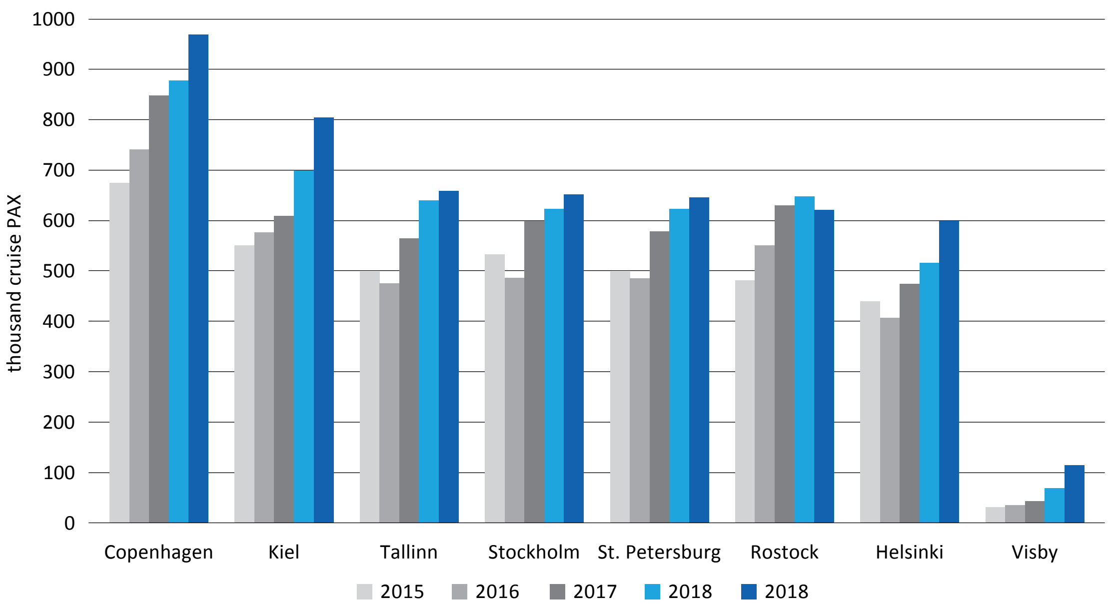


* Excluding ports where most of the number of passengers results from short trips (lasting <1h)

In the past five years, the reference group's number of passengers grew by 2.4 million (6%). During the same period, the number of passengers passing through the harbours belonging to Tallinna Sadam grew by 0.9 million (9%), i.e. at the fastest pace in the region, which increased the Group's share of the region's total number of passengers. In 2019, the largest port in terms of the number of passengers was Helsinki (12.2 million passengers), followed by Stockholm (12.1 million passengers) and Tallinn (10.6 million passengers). On the whole, in the past five years, the number of passengers passing through major ports in the eastern part of the Baltic Sea has seen relatively stable growth.

Also, the Baltic Sea region has a reputation for being rapidly developing and one of the fastest-growing global cruise tourism areas.

Largest cruise ports in the Baltic Sea



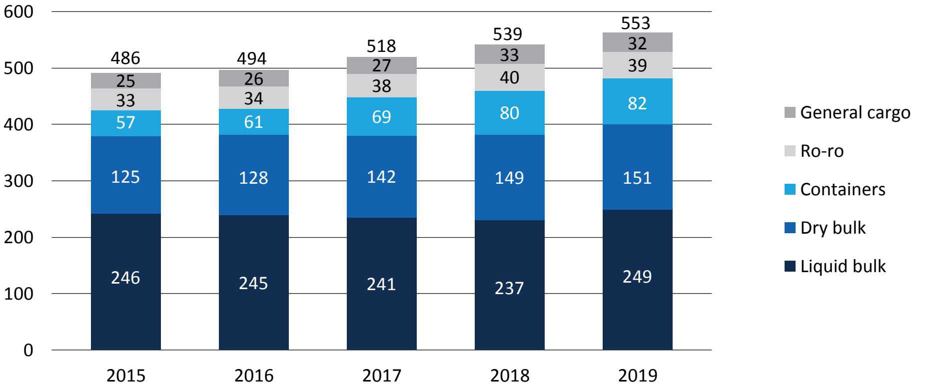
In 2019, traditional cruise passengers made a total of 5.4 million visits to the ports serving cruise ships on the Baltic Sea (an increase of 0.5 million passengers, i.e. 10%). The busiest cruise ports in terms of passengers are the ports of Copenhagen and Kiel, which are also the principal ports of commencing and ending for cruises in the Baltic Sea. During the period they saw the biggest growth in the number of cruise passengers in the Baltic Sea region. Tallinn was the third-busiest port but the difference with the following ones was small. The chart shows that the total number of cruise passengers in the reference group was 5.1 million.

6.4 OVERVIEW OF THE MARKET: CARGO

The cargo market overview comprises major ports of countries on the east coast of the Baltic Sea (Poland, Lithuania, Latvia, Estonia, and Russia) and large Finnish ports on the Gulf of Finland, many of which are also involved in handling east-west transit cargo flows. In recent years, the operations of major ports on the east coast of the Baltic Sea have been consistently growing. In 2019, the total cargo turnover of those ports was 553 million tonnes, an improvement of 15 million tonnes, i.e. around 3%, on the record-high level of 2018.

Together with the cargo throughput of smaller Estonian ports (8.7 million tonnes), the turnover of Tallinna Sadam and its competitors amounted to 562 million tonnes in 2019, 15 million tonnes (2.7%) up on 2018.

Cargo volume of the largest ports on the eastern coast of the Baltic Sea (million t)



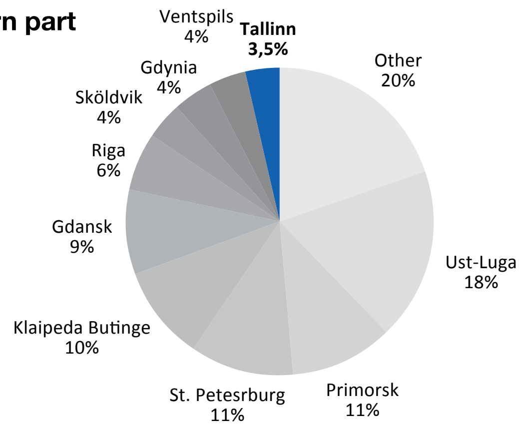
In terms of cargo types, the biggest change of 2019 was in the volume of liquid bulk cargo, which grew by 12 million tonnes (5%), mainly through growth in the volume of crude oil in Russian ports. The volume of container cargo grew by 3 million tonnes (3.2%) through growth at Russian and Polish ports. The volume of dry bulk cargo grew by 2 million tonnes (1.6%) due to the combined effect of a rise in grain and a fall in coal. The volume of coal grew significantly in the port of Ust-Luga in Russia and decreased in the port of Riga in Latvia. The volume of ro-ro cargo decreased by 1 million tonnes (–1.7%), mainly due to the impact of Russian ports. The volume of general cargo fell by 1 million tonnes (–4.2%), mainly through a decline in the volume of metal in Russian ports.

In terms of ports, the biggest growth in cargo volumes was achieved by the ports of Primorsk (growth of 7.5 million tonnes, i.e. 14%), Ust-Luga (5.2 million tonnes, i.e. 5%) and Gdansk (3.2 million tonnes, i.e. 7%), where the rise was mainly attributable to growth in the volume of liquid bulk and dry bulk (coal) cargo. Cargo volumes declined the most in the port of Riga (mainly due to coal) and in the port of Kaliningrad (due to grain within dry bulk cargo and liquid bulk cargo), by 3.7 million tonnes (–10%) and 3.0 million tonnes (–21%), respectively.

Because of the changes, in the comparison of Russian and Baltic ports, the market share of Russian and Estonian ports increased and the market shares of Latvian and Lithuanian ports decreased. The market shares were: Russian ports 62.3%, Estonian ports 9.5%, Latvian ports 14.7% and Lithuanian ports 13.4% (corresponding adjusted figures for 2018: 60.9%, 9.2%, 15.9% and 13.9%).

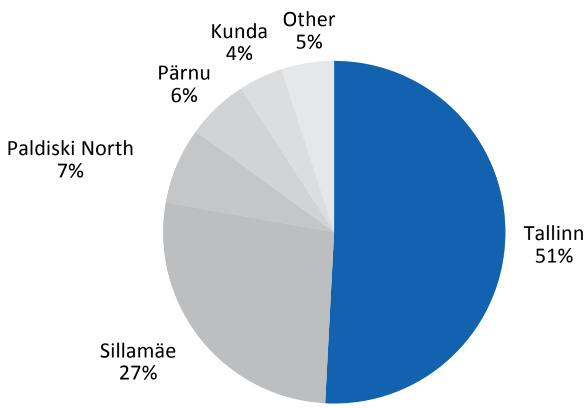
The largest ports on the east coast of the Baltic Sea were Russian ports: Ust-Luga (104 million tonnes, market share 18%), Primorsk (61 million tonnes, 11%) and St Petersburg (60 million tonnes, 11%). Tallinna Sadam was in the tenth position with a market share of 3.5% (2018: 3.8%).

Largest ports of the eastern part of the Baltic Sea



The volume of cargo handled in Estonian ports amounted to 39 million tonnes in 2019. Tallinna Sadam as the largest port accounted for 51% of the total volume.

Estonian ports



6.5 RESULTS OF OPERATIONS

On the whole, 2019 was a stable year for Tallinna Sadam despite divergent intra-year changes in the volumes of harbour operations. Revenue, operating profit and EBITDA remained stable. The biggest change in harbour operations was a slight fall in cargo throughput. The number of passengers, on the other hand, hit a new record. The volume of cargo handled decreased by 0.7 million tonnes to 19.9 million tonnes (–3.3%). The fall was due to a decrease in liquid bulk cargo (–1.2 million tonnes), which was partly offset by growth in dry bulk cargo (+0.6 million tonnes). For the 12th consecutive year, the number of passengers hit a new record, rising to 10.64 million. In terms of routes, annual changes were insignificant. The Finland-bound routes (Tallinn-Helsinki and Muuga-Vuosaari) saw slight growth, while the Sweden-bound route (Tallinn- Stockholm) experienced a slight decrease. The number of traditional cruise passengers grew somewhat and set a new record.

The year was successful for the multifunctional icebreaker Botnica. When the icebreaking season in Estonian waters ended, the vessel was again chartered out for the summer to provide escort and ice management services in the Arctic waters around the Baffin Island in Northern Canada. In 2019 the charter period lasted somewhat longer, resulting in year-on-year growth in the result of the segment (Other).

The volume of ferry service between Estonia's mainland and the biggest islands remained stable. The result of the Ferry segment improved through changes in the contractual fee rates, which are linked to the Estonian consumer and fuel price indices and wage inflation, a change in the concept of on-board services and lower costs.

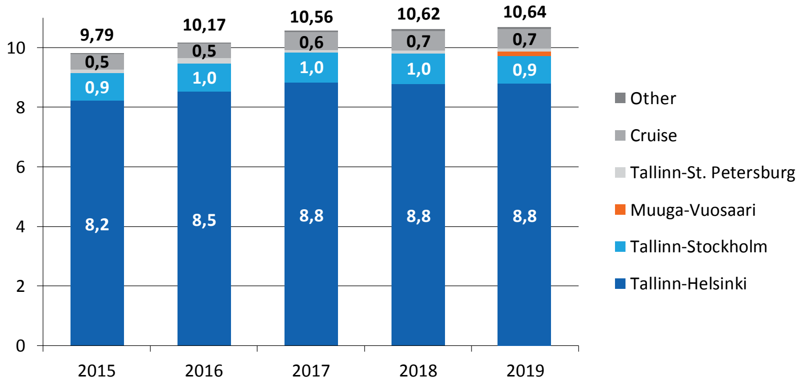
In terms of segments, revenue and the net result improved in the segment Other and the Ferry segment, decreased in the Cargo harbours segment and changed the least in the Passenger harbours segment.

The Group's revenue did not change significantly (–0.1%), totalling EUR 130.5 million in 2019. In terms of revenue streams, the largest fall occurred in vessel dues, which dropped because of a decline in the volume of liquid bulk cargo. The decrease was offset by growth in revenues generated by the icebreaker Botnica and the ferry business. Expenses resulting from operating activities increased somewhat (by EUR 0.4 million, i.e. 0.6%), operating profit decreased by EUR 0.4 million (–0.8%) and profit grew by EUR 20.0 million. The increase in profit is attributable to the change in income tax expense, which decreased by EUR 20.4 million due to a smaller dividend distribution (EUR 35 million) compared to a record dividend in 2018 (EUR 105.0 million).

6.5.1 Number of passengers

In 2019, the number of passengers passing through our harbours grew to a record-high 10.64 million. However, for the second year in a row the rise remained relatively modest. In 2019, growth occurred in the second half of the year, following a decline in the first half due to the scheduled dry dock maintenance of several ferries serving regular routes. A steady rise in the number of passengers reflects the increasingly closer connections between Estonia and Finland, both in the field of tourism and economy, which in recent years have not been significantly affected by changes in the economic environment. Frequent and increasingly more available and convenient international ferry service also contributes by making travelling easier.

Number of passengers by routes (million)



In 2019, growth in the number of passengers resulted mainly from the Finland-bound Muuga-Vuosaari route and was supported by a slight increase in the number of cruise passengers, which reached a new annual record of 660 thousand. In the second half of the year, Eckerö Line's new cargo vessel Finbo Cargo was added to the Muuga-Vuosaari route and the route, which was previously for cargo transport only, was also opened to customers with vehicles, whose number reached 114 thousand (2018: 35 thousand). The number of cruise passengers grew by 22 thousand (3.4%), although the number of cruise vessel calls did not grow (–1%, 345 in total). Passenger traffic on the largest and busiest Tallinn-Helsinki route decreased in the first half of the year due to the dry dock maintenance of several ferries. The route's annual number of passengers recovered to the level of the previous year thanks to growth in the second half-year. It was the second year in a row in the past ten years when the number of passengers on this route did not increase. The number of passengers on the Tallinn-Stockholm route declined by 76 thousand (–7.5%) to 0.93 million due to the dry dock maintenance of vessels carried out at the beginning of the year.

The stabilisation in the number of passengers on the Helsinki route may be attributed to the continuing rise in prices of goods and services in Estonia, which influences passengers' choices in terms of the destination and the purpose of the trip.

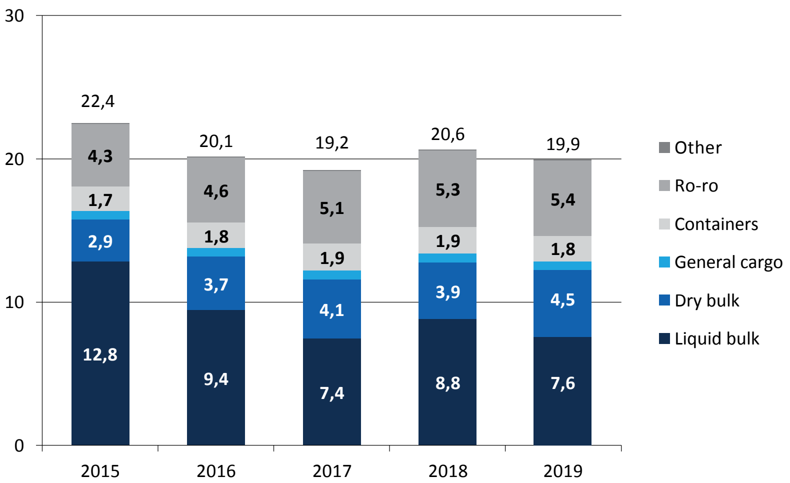
On international ferry routes, one of the biggest changes of 2019 was the addition of Eckerö Line's new vessel to the Muuga-Vuosaari route in late June. This increased the capacity to serve trucks outside the Old City Harbour located in the centre of Tallinn and increased the capacity to serve passengers with vehicles on routes between Estonia and Finland, as both Eckerö Line's new vessel and Tallink's Seawind, already on the route, began serving customers with vehicles. Altogether, the number of ferry calls on international routes increased by 3.9%

The high season for cruise ship calls lasts from May to September. The seasonality in the number of passengers is regular by nature and, therefore, has no particular impact on the financial performance of Tallinna Sadam.

6.5.2 Cargo volume

In 2019, the volume of cargo handled decreased by 0.7 million tonnes (–3.3%) to 19.9 million tonnes, remaining at the level of recent years. In terms of cargo types, the fall resulted from a decrease in liquid bulk cargo (–1.2 million tonnes, i.e. 14%), which was offset by growth in dry bulk cargo (0.6 million tonnes, i.e. 15%).

Cargo volume by cargo types (million t)



The quarterly volumes of liquid bulk cargo were quite volatile, particularly in the second half of the year. This may be attributed to both a temporary fall in demand for Russian products due to the detection of contamination at some of Russia's refineries in the first half of the year and a rise in demand for terminal services towards the end of the year due to stricter IMO requirements for marine fuels taking effect in 2020. The volume of dry bulk cargo grew, mostly through growth in the handling of grain and crushed stone.

The volumes of other cargo types remained more or less stable. The volume of ro-ro cargo increased slightly (19 thousand tonnes, i.e. 0.4%), rising to a record level of 5.4 million tonnes. Most of the ro-ro cargo moved in the north-south direction on the Tallinn-Helsinki and Muuga-Vuosaari routes, reflecting close trading relations between the neighbouring countries and a favourable economic cycle. The volumes of container cargo (–44 thousand tonnes, i.e. –2.4%) and general cargo (–44 thousand tonnes, i.e. –6.9%) decreased slightly. In terms of TEUs, the volume of container cargo remained stable at 223 thousand TEUs.[10] In terms of transport directions, the biggest change was that the volume of transit cargo declined by 1.3 million tonnes (–11%) while Estonia's export and import cargo volumes grew by 0.1 and 0.4 million tonnes (2.7% and 9.7%), respectively. Since most of the ro-ro cargo moves on the Tallinn-Helsinki ferry route, passing through the Old City Harbour, relevant revenue is recognised in the Passenger harbours segment.

In terms of the main cargo types, liquid bulk accounted for 38%, ro-ro for 27%, dry bulk for 23% and container cargo for 9% of the total cargo volume (2018: 43%, 26%, 19%, and 9% respectively).

In terms of transport directions, transit accounted for 51%, exports for 26% and imports for 23% of the total cargo volume (2018: 56%, 24%, and 20% respectively).

Cargo throughput at our harbours is not seasonal by nature. Typically, fluctuations in cargo volumes result from changes in market conditions (including changes in the world market prices of the cargo).

6.5.3 Ferry service

In October 2016, TS Laevad entered a new business: providing domestic ferry service between Estonia's mainland and biggest islands (Saaremaa and Hiiumaa) under a public transport service contract with the state (effective from 1 October 2016 to 30 September 2026). The service must be provided according to the schedule approved by the state with up to four ferries at a time. Most of contract revenue is fixed but some fixed revenue components are adjusted for price indices reflecting changes in the cost of living. A minor part of contract revenue is variable, depending on the number of trips made. Variable revenue is also adjusted for movements in indices. Contract revenue comprises ticket sale revenue and public transport support received from the state to cover the difference between ticket sale revenue and the service revenue agreed in the contract.

In 2019, our ferries made 21,010 trips, which is 0.6% more than in the year before, and served 2.4 million passengers (+4.1%) and 1.05 million vehicles (+4.8%). Out of the trips, 520 were made with an additional ferry put in service during the summer (June-August) to increase service capacity at the request of the state, which is the customer of the ferry service.

6.5.4 Multifunctional icebreaker Botnica

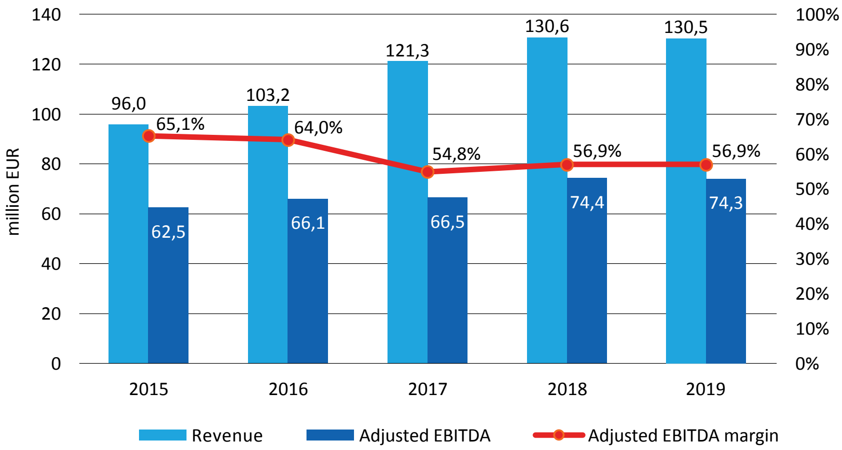
Since the beginning of 2013, we have been providing Estonian ports on the Gulf of Finland with icebreaking service during the icebreaking period, which lasts from December to April. The service is provided under a ten-year contract with the state, which pays a fixed fee for a season of 120 days that is adjusted for changes in the consumer price index. Outside the icebreaking season, we charter the multifunctional icebreaker Botnica out for different maritime support operations. The availability and profitability of summer work depends on the situation on the charter market for offshore support vessels. The price and demand levels are strongly influenced by oil producers, which have been historically the main buyers of relevant services. After the crash of the oil price in 2015, demand for the services of offshore support vessels plummeted and relevant charter fees dropped to the lowest level of the past ten years where they have more or less remained to date.

To secure work for Botnica outside the icebreaking season, in June 2018 TS Shipping signed a five-year frame agreement with the Canadian company Baffinland Iron Mines. The customer confirms its need at the beginning of each year and, where necessary, commissions additional days during the season. The charter period of 2019 was somewhat longer than that of 2018 and the fee was adjusted for changes in the consumer price index.

[10] TEU (*Twenty-foot Equivalent Unit*) – Standard unit for counting containers and describing the capacities of container ships or terminals. One 20-foot container equals one TEU.

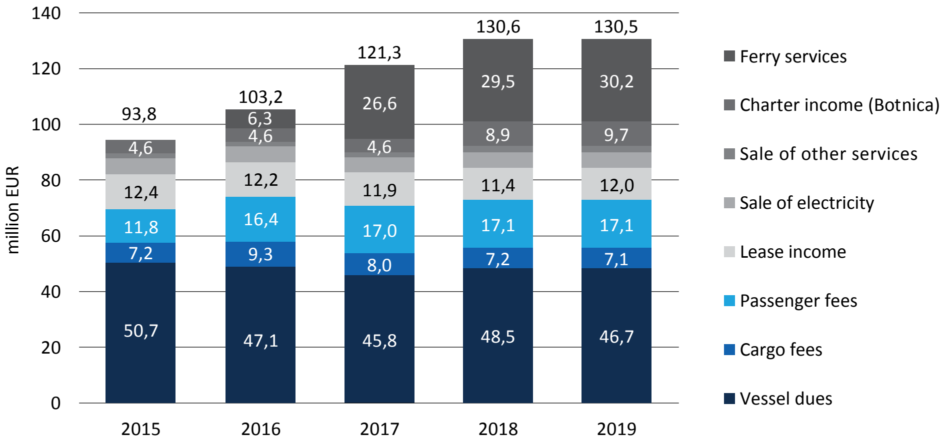
6.6 REVENUE AND EXPENSES

Revenue and adjusted EBITDA



Revenue generated by Tallinna Sadam in 2019 amounted to EUR 130.5 million, remaining at the level of the year before (EUR –0.1 million, i.e. –0.1%). Adjusted EBITDA and EBITDA margin also remained stable. In October 2016, the Group's business lines were supplemented with ferry service, which increased both revenues and expenses.

Revenue streams

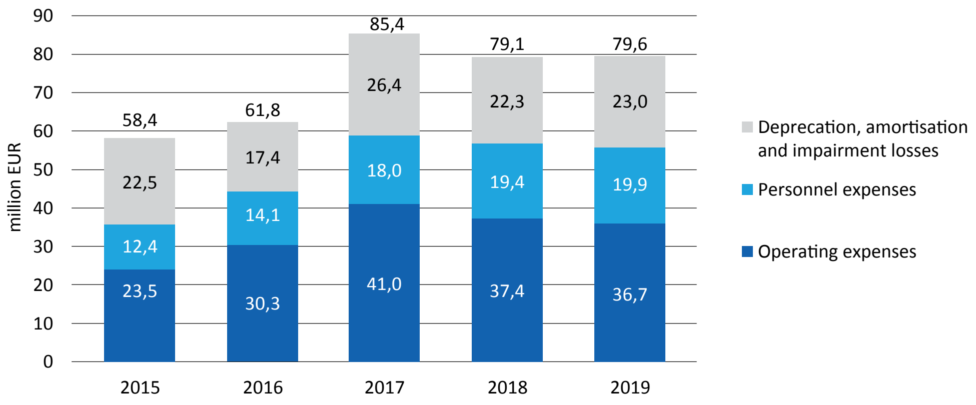


In terms of revenue streams, the biggest change occurred in **revenue from vessel dues**, which fell by EUR 1.8 million to EUR 46.7 million, mainly because the volume of liquid bulk cargo decreased, resulting in a fall in the number of tanker calls and their gross tonnage. The fall in revenue from liquid bulk cargo was somewhat offset by growth in revenue from cruise ships (due to a rise in the size of the ships) and dry bulk carriers (due to growth in cargo volumes). **Charter fee revenue from the icebreaker Botnica** grew by EUR 0.8 million to EUR 9.7 million, mostly thanks to a longer charter period and the indexation of fees. **Revenue from the provision of domestic ferry service** grew by EUR 0.7 million to EUR 30.2 million, primarily through the indexation of contractual fees.

Lease income increased by EUR 0.6 million to EUR 12.0 million through growth in premises leased out at the Old City Harbour (parking lots and roads) and additional premises leased to operators at the Muuga Harbour (partly already since 2018). **Revenue from the sale of electricity** decreased by EUR 0.4 million, i.e. 6.5%, to EUR 5.4 million, mostly because demand at cargo harbours declined due to a fall in liquid bulk cargo and the volume of electricity sold by the Group as an agent decreased. Cargo charge revenue and passenger fee revenue decreased somewhat (by EUR 97 thousand and EUR 30 thousand, i.e. –1.3% and –0.2%, respectively). Cargo charge revenue decreased less than cargo volume because the volume of liquid bulk cargo, whose cargo charge revenue is lower, decreased and the volume of dry bulk cargo, whose cargo charge revenue is higher, increased. Revenue from passenger fees decreased somewhat although the number of passengers grew slightly because the number of cruise passengers, whose passenger fees are lower, increased.

Other income grew by EUR 0.2 million in 2019, mostly through growth in income from the amortisation of the co-financing of investments received from the TEN-T programme.

Expenses of operating activities



Expenses related to operating activities (operating expenses, personnel expenses, and depreciation, amortisation and impairment losses) totalled EUR 79.6 million, EUR 0.45 million up on 2018 (0.6%).

In terms of the expense structure, the largest increase occurred in **depreciation, amortisation and impairment losses** (EUR 0.7 million, i.e. 3.1%). This is mainly attributable to growth in depreciation and amortisation in the harbour business where the volume of non-current assets increased through the implementation of the Smart Port project and the completion of investments made in improving traffic areas and phase 1 in the reconstruction of passenger terminal D at the Old City Harbour. Another factor that increased depreciation and amortisation was the completion of the street Reidi tee, which resulted in the accelerated depreciation and/or write-down of assets retired at the Old City Harbour. Depreciation and amortisation expenses were also increased by growth in depreciable assets, which resulted from the dry dock maintenance of the icebreaker Botnica.

Personnel expenses grew by EUR 0.4 million, i.e. 2.3% due to slight growth in salaries.

Operating expenses for the year decreased by EUR 0.7 million, i.e. 1.8%, due to the combined effect of various expense items. The main decreases occurred in fuel and energy costs and tax expenses. Fuel costs decreased because the average fuel cost in the Ferry segment declined due to the optimisation of operating modes. Energy costs dropped mainly because in the harbour business the volume of electricity sold as an agent decreased along with relevant revenue. Tax expenses declined, mostly because from 2019 electricity excise expenses are reported within fuel and energy costs. Expenses on the maintenance and repair of non-current assets and consulting expenses also decreased. In 2018, the latter included consulting expenses related to the initial public offering of the Group’s shares. Expenses on the write-down of receivables grew in connection with the recognition of provisions for expected credit losses. In 2018, this expense item had a negative value because reversals of previously recognised impairment losses exceeded expenses on the recognition of new provisions.

Other expenses remained relatively stable (EUR +0.05 million).

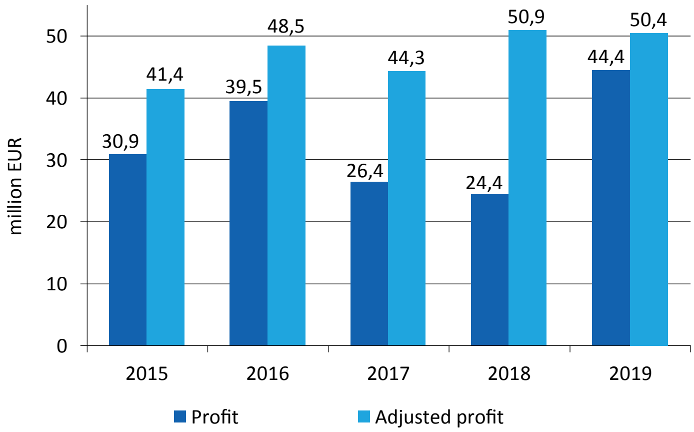
Operating profit for 2019 amounted to EUR 51.7 million. Compared to 2018, operating profit decreased by EUR 0.4 million (–0.8%) due to growth in depreciation, amortisation and impairment expenses and personnel expenses, which exceeded the combined effect of a decrease in operating expenses and growth in other income. Because of the decrease in operating profit, operating margin for the period declined slightly, dropping from 39.9% to 39.6%. Operating profit decreased mostly in the harbour business, particularly due to the impact of the Cargo harbours segment, which was partly offset by a growth in the Ferry segment and the segment Other.

Adjusted EBITDA (profit before depreciation, amortisation and impairment losses, finance income and costs, and income tax expense, adjusted for amortisation of government grants) remained at the level of 2018, decreasing by EUR 0.1 million to EUR 74.3 million, i.e. by 0.1%, because the decrease in the Cargo harbours segment was offset by improvements in other segments. The decrease in adjusted EBITDA was smaller than the one in operating profit because the growth in depreciation, amortisation and impairment expenses does not affect EBITDA. The adjusted EBITDA margin remained stable at 56.9%.

6.7 PROFIT

The development of profit was also influenced by finance income and costs, and income tax on dividends. Finance income did not change but finance costs decreased by EUR 0.2 million (–10%), mostly due to a decrease in the average volume of interest-bearing liabilities and expenses on derivative financial instruments. Profit before income tax amounted to EUR 50.2 million, a decrease of EUR 0.5 million (–0.9%) compared to 2018.

Profit



The Group's profit for 2019 amounted to a record-high EUR 44.4 million, a rise of EUR 20.0 million on 2018. Profit grew through lower income tax expense. Tax expense declined because in 2018 the Group declared a record dividend of EUR 105 million compared with EUR 35.2 million in 2019.

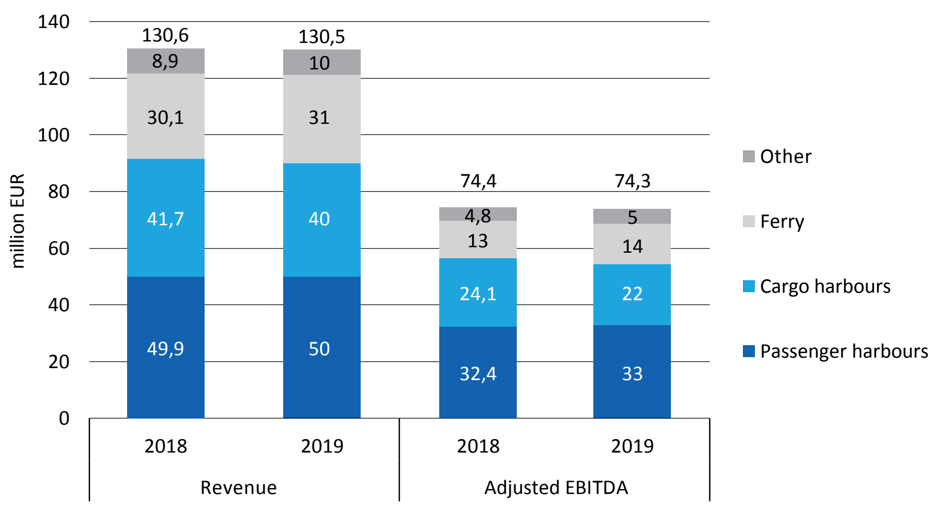
In the comparison of the Group's profit for different years, profit is adjusted for significant one-off income and expenses and income tax expense on dividends.

After adjustments for income tax on dividends of EUR 5.8 million and one-off impairment losses of EUR 0.2 million, adjusted profit for 2019 amounts to EUR 50.4 million. Profits for 2018, 2017 and 2016 have been adjusted for income tax expense on dividends of EUR 26.2 million, EUR 12.0 million and EUR 8.75 million, respectively, and one-off impairment losses of EUR 0.3 million, EUR 5.95 million and EUR 0.27 million, respectively. The decrease in adjusted profit (by EUR 0.5 million) resulted mainly from the combined effect of a decrease in operating profit (as described above), a decline in interest expense and a decrease in profit recognised under the equity method.

6.8 SEGMENT REPORTING

The Group's segments are Passenger harbours, Cargo harbours, Ferry and Other. Further information on segments is provided in note 3 to the financial statements.

Revenue and EBITDA by segments



In terms of segments, revenue decreased in 2019 in the Cargo harbours segment (EUR –1.6 million, i.e. –3.8%), which was counterbalanced by growth in the segment Other (EUR 0.8 million, i.e. 9.5%) and the Ferry segment (EUR 0.7 million, i.e. 2.4%). The revenue of the Passenger harbours segment remained more or less stable (EUR –0.07 million, i.e. –0.1%). The segments' adjusted EBITDA changed similarly to revenue.

2019

EUR '000	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	49,826	40,113	30,825	9,772	130,536
Adjusted EBITDA	32,792	22,248	13,932	5,320	74,292
Operating profit	26,367	14,151	8,289	2,872	51,679
Adjusted EBITDA margin	65.8%	55.5%	45.2%	54.4%	56.9%

2018

EUR '000	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	49,897	41,718	30,095	8,925	130,635
Adjusted EBITDA	32,397	24,096	13,041	4,846	74,380
Operating profit	26,403	15,970	7,438	2,263	52,075
Adjusted EBITDA margin	64.9%	57.8%	43.3%	54.3%	56.9%

Change 2019/2018

EUR '000	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	–71	–1,605	730	847	–99
Adjusted EBITDA	395	–1,848	891	474	–88
Operating profit	–36	–1,819	851	609	–396
Adjusted EBITDA margin	0.9%	–2.3%	1.9%	0.1%	0.0%

The revenue of the **Passenger harbours segment** remained at the same level as in 2018 due to items with divergent impacts. Revenue was reduced by the scheduled dry docking of several ferries at the beginning of the year, which reduced the number of port calls.

Revenue was increased by growth in the gross tonnage and number of passengers of cruise ships, and a rise in lease income generated by the Old City Harbour. Cargo charge revenue decreased because Eckerö Line's new vessel, which was added to the Muuga-Vuosaari route in the middle of the year, reduced the volume of cargo passing through the Old City Harbour.

The revenue of **the Cargo harbours segment** was reduced by a decrease in vessel dues, attributable to a decline in the volume of liquid bulk cargo. The effect was mitigated by additional revenue related to Eckerö Line's new cargo vessel Finbo Cargo, which was added to the Muuga-Vuosaari route in the second half of the year. Revenue from the sale of electricity decreased, reflecting a decline in the provision of network service due to decreases in the volume of liquid bulk cargo and the volume of electricity sold as an agent. Lease income increased through growth in harbour premises rented out (partly since 2018).

The revenue of **the Ferry segment grew**, mainly due to changes in the contractual fee rates, which are linked to the Estonian consumer and fuel price indices and wage inflation. The number of trips made grew by 0.6%.

The revenue of **the segment Other** increased, mostly due to the summer revenue of the icebreaker Botnica, which was chartered out for a longer period than in 2018. Revenue growth was also supported by the indexation of the ice-breaking and charter fees to the inflation index.

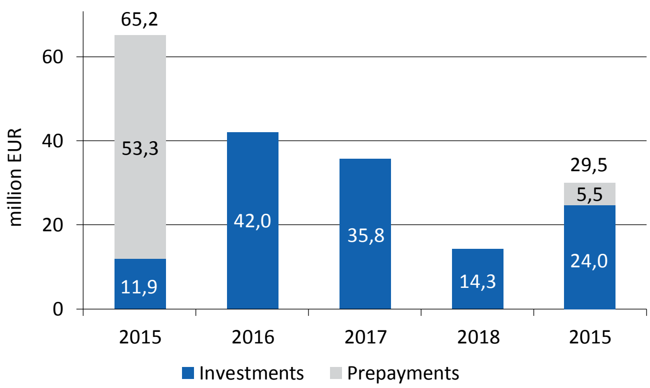
In terms of segments, **adjusted EBITDA** for 2019 changed the most in the Cargo harbours segment (EUR –1.8 million, i.e. –8%). The decrease was offset by growth in other segments, primarily in the Ferry segment and the segment Other (EUR 0.9 million and EUR 0.5 million, i.e. 7% and 10%, respectively) and, to a lesser extent, in the Passenger harbours segment (EUR 0.4 million, i.e. 1%). Adjusted EBITDA for the Cargo harbours segment decreased, mainly due to revenue decline. In the Ferry segment, adjusted EBITDA grew through revenue growth, which was supported by lower expenses. Adjusted EBITDA for the segment Other grew through revenue growth, which was partly offset by slight growth in expenses and a decrease in profit from the associate Green Marine, which is accounted for using the equity method. Adjusted EBITDA for the Passenger harbours segment increased through a decrease in operating expenses.

The adjusted EBITDA margin remained stable at 56.9% as the decrease in the Cargo harbours segment was offset by growth in other segments.

6.9 INVESTMENTS AND DEVELOPMENT PROSPECTS

The Group's capital investments totalled EUR 29.5 million in 2019. This is more than twice the amount invested in 2018, when investments amounted to EUR 14.3 million. Out of the total, EUR 26.7 million was spent on harbour infrastructure assets, acquisition of non-current assets and improvements to existing infrastructure assets. Investments in the icebreaker Botnica totalled EUR 1.0 million and investments in the provision of ferry service totalled EUR 1.7 million.

Investments



The largest investments were again made in the Old City Harbour, where work continued on the reconstruction of passenger terminal D and the installation of on-shore power supply systems for passenger ships, and co-financing was provided for the construction of the street Reidi tee. Dredging works were carried out in the approach canal and waters of the Paldiski South Harbour, quays and utility networks were reconstructed at Muuga harbour, machinery and technical systems were renewed on the icebreaker Botnica, and scheduled dry docking work was done and service areas were renovated on the ferries.

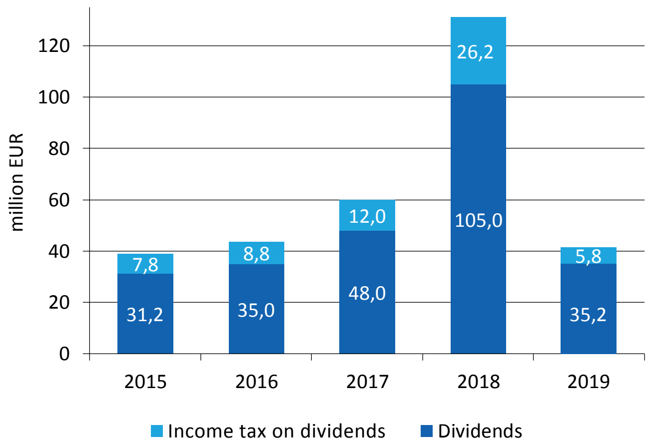
The investments planned for 2020 are primarily designed to improve services provided to passengers and ferries in the Old City Harbour. The largest projects include completing phase 2 of the reconstruction of passenger terminal D, and the installation of on-shore power supply systems and the construction of auto-mooring equipment for ferries. We will begin the construction of a footbridge for connecting passenger terminals across the Admiralty canal and the construction of a cruise terminal. The purpose is to create a modern, environmentally friendly and comfortable environment for growing ferry traffic and develop the harbour area into an attractive urban space. At Muuga Harbour, we will continue to invest in the quay equipment and parking and access controls to increase our ro-pax traffic service capacity. Dredging works will be carried out in the approach canal and waters of the Paldiski South Harbour to enable it to receive larger vessels. We will also continue to renew machinery and technical systems on the icebreaker Botnica. Ferries will undergo scheduled dry docking, which is carried out every 2.5 years, and their ticket sale and cash register software will be updated.

In addition to making capital investments, every year we incur substantial research and development expenditures which in 2019 amounted to EUR 0.3 million (2018: EUR 0.7 million). Research and development expenditures were mainly related to surveying the technical condition of berths and hydro-technical assets, analysing business opportunities, preparing the necessary preliminary and detailed plans, carrying out environmental studies and observation activities, and assessing and monitoring other impacts of harbour operations. In 2019, we continued the planning activities required for executing the different phases of Masterplan 2030 at the Old City Harbour. The City of Tallinn initiated the proceedings required for the adoption of detailed plans for the areas that are going to be developed (4 detailed plans). We are planning to develop the areas in stages (within 10–15 years), in a manner that will improve busy passenger traffic and integrate the harbour area more closely with the city.

6.10 DIVIDENDS

The dividend policy of AS Tallinna Sadam sets the target to pay the shareholders regular post-tax dividends, which in the period 2019–2020 should amount to at least EUR 30 million per year and from 2021 onward to at least 70% of the preceding year's profit, subject to market conditions, the company's growth and development plans, taking into account the need to maintain a reasonable level of liquidity and excluding the impact of non-recurring transactions.

Dividends paid



In 2019, we paid our shareholders a dividend of EUR 35.2 million on which we paid income tax of EUR 5.8 million, i.e. EUR 41.0 million in total. We withheld income tax from payments to individuals, making a net distribution of EUR 30.0 million. In 2018, we paid the former sole shareholder, the Republic of Estonia, a record dividend of EUR 105 million plus income tax on dividends of EUR 26.2 million, i.e. EUR 131.2 million in total. For further information, see note 19 to the financial statements.

6.11 SHARE AND SHAREHOLDERS

Tallinna Sadam was listed in the Baltic Main List of the Nasdaq Tallinn Stock Exchange on 13 June 2018. The ticker symbol of the share is TSM1T and the ISIN code is EE3100021635. The company has 263,000,000 ordinary shares of which 176,295,032, i.e. 67.03%, are held by the Republic of Estonia. The par value of a share is EUR 1. Each share carries one vote at the general meeting of the shareholders.

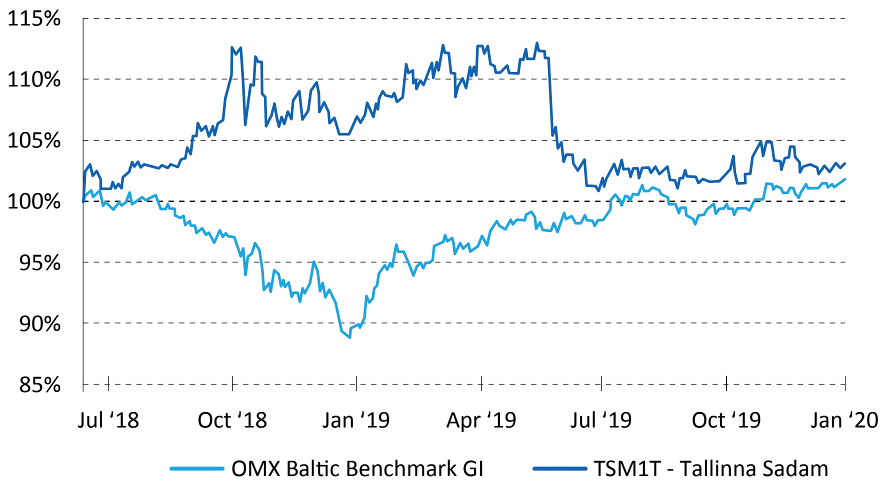
The dynamics of the closing price of the AS Tallinna Sadam share and the volume of shares traded since listing on the Nasdaq Tallinn Stock Exchange, i.e. from 13 June 2018 to 31 December 2019, is presented in the graph below:

Source: nasdaqbaltic.com

The opening price of the share at the beginning of 2019 was EUR 2.04. The closing price of the share at 31 December 2019 was EUR 1.99. At 31 December 2019, the company's market capitalisation was EUR 522.1 million.

The dynamics of the price of the Tallinna Sadam share in comparison with the OMX Baltic Benchmark GI index is presented in the graph below:

13.06.2018 – 31.12.2019



Source: nasdaqbaltic.com

In 2019, there were 9,412 transactions (2018: 8,985) with the Tallinna Sadam share in which 15.5 million shares changed hands (2018: 23.1 million). The total turnover of the transactions was EUR 31.1 million (2018: EUR 46.3 million). Compared to the previous year, the volume of transactions declined significantly. This was expected because after the IPO the shares received through subscription were redistributed among funds and the trading volume in the month following the IPO was half of the total volume and turnover for 2018.

At 31 December 2019, the company had 12,796 shareholders (31 December 2018: 12,373) but only the Republic of Estonia had an ownership interest exceeding 5% (through the Ministry of Economic Affairs and Communications). The five largest shareholders at 31 December 2019 were:

Name of shareholder	Number of shares	Interest, %
Ministry of Economic Affairs and Communications	176,295,032	67.0
JP Morgan Chase Bank	9,600,930	3.7
European Bank for Reconstruction and Development (EBRD)	9,350,000	3.6
SEB Progressiivne Pensionifond	6,484,365	2.5
LHV Pensionifond L	5,174,314	2.0

There have been some changes in **the shareholder structure** since the end of 2018. The holdings ofinternational institutional investors have fallen from 18% to 14% (–8.2 million shares), Estonianretail investors have increased their holdings from 7% to 10% (+5.2 million shares), and Estonian investment and pension funds have increased their holdings from 6% to 7% (+2.3 million shares).

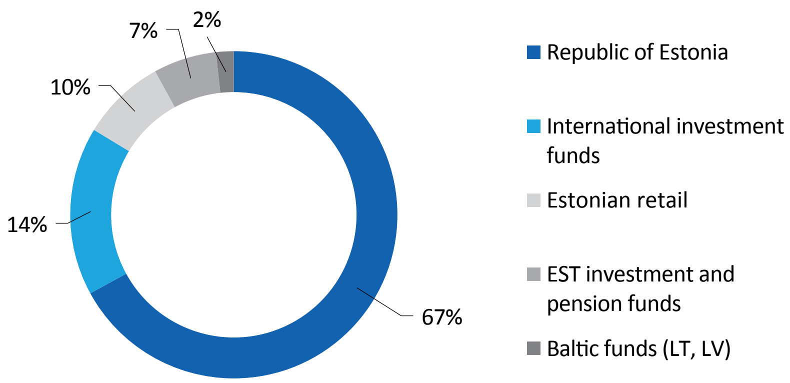


Chart: Shareholder structure as at 31 December 2019.

Corporate governance

7 Corporate governance

The governing bodies of Tallinna Sadam are the general meeting, the supervisory board and the management board. The supervisory board and the management board of Tallinna Sadam are guided in their activities by the company's strategy, values, applicable legislation and the principles of the Corporate Governance Code (CGC) promulgated by the Nasdaq Tallinn Stock Exchange. Instances of non-compliance are disclosed and explained in section 7.10 of this report.

The controlling shareholder is the Republic of Estonia, which holds an interest in Tallinna Sadam mainly to:

- Earn optimal and stable shareholder return through the company's profitable and efficient operation in each of its chosen business lines
- Involve the company in achieving national strategic objectives, taking into account the company's field of activity and business interests as well as applicable laws and regulations
- Apply and promote good corporate governance, corporate social responsibility and business culture

7.1 GENERAL MEETING

The general meeting is the highest governing body of Tallinna Sadam whose primary responsibilities include changing the articles of association; increasing and decreasing share capital; appointing, recalling and remunerating members of the supervisory board (based on the proposal of the nomination committee); approving the annual report and allocating the company's profit; approving a share option programme; appointing and recalling the auditor(s); establishing the rules of procedure of the supervisory board; deciding the acquisition or disposal of a significant interest in another company; establishing the management and reporting principles of the subsidiaries; and adopting other decisions within its power in accordance with the law and the company's articles of association.

A general meeting is called by the company's management board. The annual general meeting is held once a year, where possible within four months but not later than within six months after the end of the financial year. The agenda, the proposals of the management and supervisory boards, any draft resolutions and other relevant materials are made available to shareholders at least three weeks before the general meeting on the company's website. Shareholders entitled to participate in a general meeting are determined based on the share register seven days before the meeting. Each share carries one vote at a general meeting. No shares with special controlling or voting rights have been issued.

In 2019, the company had one annual general meeting and no extraordinary general meetings. At the annual general meeting on 14 May 2019, Tallinna Sadam's annual report for 2018 was approved and profit for 2018 was allocated (including a dividend distribution), a new wording for the rules of procedure of the supervisory board was approved and the nomination committee of AS Tallinna Sadam (the committee for nominating the members of the supervisory board of AS Tallinna Sadam) was formed.

The general meeting was chaired by attorney at law Sten Luiga from the law firm Cobalt. The general meeting of 2019 was attended by the chairman of the management board Valdo Kalm, members of the management board Marko Raid and Margus Vihman, the chairman of the supervisory board Aare Tark and members of the supervisory board Ahti Kuningas, Raigo Uukkivi and Urmas Kaarlep. The auditor of Tallinna Sadam was represented by Andris Jegers from the audit firm KPMG. The general meeting was attended by 149 shareholders whose shares represented 214,935,132 votes, i.e. 81.72% of the company's share capital. The controlling shareholder (the state) was represented by the Minister of Economic Affairs and Communications Taavi Aas.

Tallinna Sadam has made available on its website at www.ts.ee the resolutions adopted by general meetings since July 2017 and the invitations, materials and minutes of general meetings since the general meeting of 14 May 2019.

The state (through the Ministry of Economic Affairs and Communications) holds a 67.03% interest. 32.97% of the shares are held by Estonian and international investment funds, banks, pension funds and Estonian retail investors. The shareholder structure and the largest shareholders as at 31 December 2019 are presented in section 6.11 of this report.

7.2 SUPERVISORY BOARD

The supervisory board is responsible for planning the company's activities, organising the company's management and supervising the activities of the management board. The supervisory board is accountable to the general meeting. The supervisory board of Tallinna Sadam has six to eight members, who are appointed for a term of up to five years. At least half of the members of the supervisory board (31 December 2019: 4 out of 6) are independent as required by the CGC. The work of the supervisory board is managed by the chairman of the supervisory board.

The members of the supervisory board are appointed by the general meeting based on the proposal of the nomination committee of Tallinna Sadam (through a committee formed by the government for nominating members of the supervisory boards of companies in which the state has an ownership interest), which also makes proposals regarding the number of the members of the supervisory board and their remuneration. Further information on the nomination committee is provided in section 7.4.

The supervisory board has the power to approve the Group's annual budget and annual report as well as the Group's strategy, goals and development directions. In addition, the supervisory board discusses in its meetings the risks associated with the Group's operating activities, legal and regulatory topics, investments, large-scale financing projects, and other significant matters related to the Group's business.

At 31 December 2019, the composition of the supervisory board was as follows:






Aare Tark (chairman), **Urmas Kaarlep**, **Üllar Jaaksoo**, **Ahti Kuningas**, **Raigo Uukkivi** and **Maarika Liivamägi**.

The members that meet the definition of independence as provided in the annex to the CGC are Aare Tark, Urmas Kaarlep, Üllar Jaaksoo and Maarika Liivamägi. The term of office of all the above members of the supervisory board lasts until 8 September 2020. The composition of the supervisory board did not change in 2019.

The members of the supervisory board do not include former members of the management board of Tallinna Sadam or its subsidiaries.

The work of the supervisory board is organised in accordance with the rules of procedure of the supervisory board approved by the general meeting. Meetings of the supervisory board are generally held every two months. In 2019, there were 8 meetings (2018: 13 meetings). The number of meetings decreased compared to the year before, mostly because in 2018 there was the company's listing process. The rules of procedure of the supervisory board and the supervisory board's reports to the general meeting (on the annual report of Tallinna Sadam and the activities of the supervisory board) have been made available on the website of Tallinna Sadam since 2017.

The appointment and remuneration of a member of the supervisory board is regulated by section 85 of the State Assets Act. The amount of the remuneration of a member of the supervisory board is established by the general meeting based on the proposal by the nomination committee. The remuneration of a member of the supervisory board is EUR 1,000 per month and the remuneration of the chairman of the supervisory board is EUR 2,000 per month. Remuneration is paid out once a month. A member of the supervisory board is not remunerated for the month in which a meeting of the supervisory board was held but the member did not participate in adopting resolutions. Additional remuneration is paid to the members of the supervisory board who are also members of the audit committee, which is a body set by the supervisory board. In 2019, the compensation provided to the members of the supervisory board totalled EUR 82.9 thousand (2018: EUR 75.7 thousand), including the remuneration of the members of the supervisory board of EUR 81 thousand (2018: EUR 73.9 thousand). The members of the supervisory board of Tallinna Sadam are not entitled to termination benefits or any additional remuneration (besides the remuneration for participating in the activities of the audit committee).

Name	Term of office	Participation in meetings		Remuneration in euros	
		Supervisory board	Audit committee	Supervisory board	Audit committee
Aare Tark	3 Oct 2015–8 Sept 2020	8/8	–	24,000	0
Urmas Kaarlep	3 Oct 2015–8 Sept 2020	8/8	6/6	12,000	798
Üllar Jaaksoo	3 Oct 2015–8 Sept 2020	5/8	–	9,000	0
Ahti Kuningas	8 Sept 2017–8 Sept 2020	8/8	–	12,000	0
Raigo Uukkivi	8 Sept 2017–8 Sept 2020	8/8	6/6	12,000	532
Maarika Liivamägi	17 April 2018–8 Sept 2020	8/8	6/6	12,000	532
				81,000	**1,862**

Tallinna Sadam has conducted a limited number of minor transactions with the members of its supervisory board and management board, which are disclosed in note 24 to the financial statements. All transactions have been ordinary business transactions conducted on an arm's length basis. At the date of release of this annual report, the members of the supervisory board have not notified Tallinna Sadam of any conflicts of interest during the financial year. Where there has been a risk of a conflict of interest, the exposed member of the supervisory board has refrained from discussing, and adopting resolutions on, the relevant agenda item. The members of the supervisory board are subject to the Group's procedure for preventing conflicts of interest (including the obligation to declare their business interests) and the prohibition on competition set forth in the Commercial Code.

An overview of the shares in Tallinna Sadam held by the members of the supervisory board and persons closely associated with them[11] at 31 December 2019 is provided in the table below.

Member of the supervisory board	Number of shares in Tallinna Sadam held at 31 December 2019	
	Personally	Through closely associated persons
Aare Tark	44,171	2,140
Urmas Kaarlep	24,039	0
Raigo Uukkivi	6,626	1,486
Maarika Liivamägi	0	1,100
Üllar Jaaksoo	148	0
Ahti Kuningas	0	0

7.3 AUDIT COMMITTEE AND INTERNAL AUDIT UNIT

Consistent with the requirements of the Auditors Activities Act, the company has set up an audit committee, which is a body that advises the supervisory board and is responsible for monitoring and analysing the processing of financial information, the effectiveness of the development and operation of the risk management and internal control system, the process of the audit of the consolidated financial statements, and the independence of the audit firm and the certified public accountant representing the audit firm and their compliance with the requirements related to auditors' activities. The audit committee makes proposals and recommendations to the supervisory board. The committee has three members that are appointed by the supervisory board. From 15 May 2018, the audit committee comprises: Urmas Kaarlep (chairman), Raigo Uukkivi and Maarika Liivamägi. The term of office of all members of the audit committee is three years.

The audit committee conducts its activities in accordance with the requirements of the Auditors Activities Act and the rules of procedure approved by the supervisory board. The audit committee carries out its work in meetings and in 2019 six meetings were held. All members of the audit committee attended all meetings.

The rates of the remuneration provided to the members of the audit committee are based on a resolution adopted by the shareholder on 24 November 2011. When a member of the audit committee does not participate in a meeting, the member is not remunerated for the month in which the meeting was held.

In 2019, the members of the audit committee were paid EUR 89 per month and the chairman of the audit committee was paid EUR 133 per month for participating in the work of the committee. Further information on the remuneration of the members of the audit committee for 2019 is provided in the table presented in section 7.2 of this report.

Tallinna Sadam has also formed a Group-wide internal audit unit. Functionally, the internal audit unit reports to the company's supervisory board. The composition of the unit is approved and the head of the unit is appointed and recalled by the supervisory board. In conducting its activities, the internal audit unit observes the requirements of the Auditors Activities Act, International Standards for the Professional Practice of Internal Auditing and the rules of procedure of the internal audit unit approved by the supervisory board. The activities of the unit are based on a risk-based work plan approved by the supervisory board. Reports on internal audits or advisory and consultative work are submitted to the audit committee and more significant findings and recommendations are communicated on an ad hoc basis at meetings of the supervisory board. At least once a year, the head of the internal audit unit provides the supervisory board with a summarised overview of the activities of the unit. The head of the internal audit unit is invited to all meetings of the supervisory board and the audit committee of Tallinna Sadam. In addition, the head of the unit participates in regular meetings of the management team and, where possible and necessary, at other important meetings of Group entities. The internal audit unit consists of three employees: the head of the internal audit unit, an internal auditor and from 2019 also an information security manager, who is responsible for supervising the Group's compliance with information security requirements. Where necessary, the unit engages external experts. The unit also takes into account the results of other external audits and control procedures.

[11] In accordance with the definition of the market abuse regulation (Article 3, 1.25) of EU 596/2014)

7.4 NOMINATION COMMITTEE

Based on the resolution of the general meeting of 14 May 2019, the nomination committee of the members of the supervisory board of AS Tallinna Sadam was formed for the first time. The committee is responsible for evaluating the suitability of candidates to the supervisory board and making proposals to the general meeting regarding the election and removal of the members of the supervisory board, the composition of the supervisory board, and the duration of the mandate and remuneration of the members of the supervisory board. The nomination committee comprises the secretary general of the Ministry of Finance, the secretary general of the Ministry of Economic Affairs and Communications and the chairman of the nomination committee formed by the Republic of Estonia who were appointed as representatives of the Republic of Estonia based on the office they hold, and two representatives of small shareholders whose term of office is five years. At 31 December 2019, the nomination committee comprised the chairman Veiko Tali (the Secretary General of the Ministry of Finance) and the members Erkki Raasuke[12] (the chairman of the nomination committee formed by the Republic of Estonia), Ando Leppiman (the Secretary General of the Ministry of Economic Affairs and Communications), Elena Kiseleva Principal Banker of Transport Team of European Bank of Reconstruction and Development) and Sven Kunsing (a member of the management board of AS SEB Varahaldus).

In 2019, the nomination committee had two meetings where the rules of procedure of the committee were specified and the principles for electing candidates to the supervisory board were prepared. The term of office of the members of the supervisory board expires on 8 September 2020. Thus, the nomination committee must make its proposals to the general meeting (through the nomination committee formed by the government of Estonia) in 2020.

7.5 MANAGEMENT BOARD

The management board is a governing body that represents and manages the day-to-day operations of Tallinna Sadam in accordance with the law and the articles of association of Tallinna Sadam. The management board must act in a manner that is most reasonable from the economic point of view and make sure that risk management and internal control are effective. In conducting its activities, the management board observes the long-term strategy and annual operational targets approved by the supervisory board. In accordance with the articles of association, the management board has two to five members, who are appointed by the supervisory board for up to five years.

At 31 December 2019, the composition of the management board was as follows:

- **Valdo Kalm**, chairman of the management board, appointed to the board until 28 February 2021. Valdo Kalm has been the chairman of the management board of Tallinna Sadam since March 2016. Prior to this, he was the chief executive of EMT (now Telia Eesti) for over 20 years. In May 2007, Valdo Kalm was appointed the chairman of the management board of AS Eesti Telekom. He has a master's degree in automation and telemechanics from Tallinn University of Technology.

- **Marko Raid**, member of the management board, chief financial officer, appointed to the board until 17 April 2021. Marko Raid has been working for Tallinna Sadam since 1997 and has been the chief financial officer since 2006. He was appointed to the management board in 2015. Marko Raid has a master's degree in business administration (MBA) from Concordia International University Estonia.

- **Margus Vihman**, member of the management board, chief commercial officer, appointed to the board until 31 October 2021. Margus Vihman has been on the management board of Tallinna Sadam since 2016. He is responsible for the company's commercial activities, i.e. customer relations and sales. Previously, Margus Vihman was head of sales at Krimelte OÜ, regional sales manager at the construction company Ruukki and regional manager at the construction company Hilti. He has a degree in international business administration (MBA) from the Estonian Business School.

The company may be represented by the chairman of the management board and a member of the management board acting together. All members of the management board have signed service contracts with the company.

No member of the management board is a member of the management board or the chairman of the supervisory board of another listed company. Information about the appointment of members of the management board to the supervisory boards of the subsidiaries and associates of Tallinna Sadam is provided in section 7.6 of this report.

[12] Kaido Padar replaced Erkki Raasuke as a member of the nomination committee as from 7 February 2020.

Remuneration provided to the management board (in thousands of euros):

	Remuneration for 2019	Remuneration for 2018	Bonus for 2018
Valdo Kalm	132,0	112,2	37,4
Marko Raid	108,0	96	29,9
Margus Vihman	103,2	90	28,0
TOTAL	343,2	298,2	95,3

In addition to remuneration paid for 2019, the members of the management board may be eligible to a bonus for the results for 2019, which is decided by the supervisory board after the approval of the annual report. The limits to additional remuneration and termination benefits payable to members of the management board are provided in section 86 (subsections 2 and 3) of the State Assets Act. Accordingly, the total additional remuneration paid to a member of the management board of Tallinna Sadam may not exceed fourfold average monthly remuneration paid to the member of the management board in the previous financial year and termination benefits paid to a member of the management board may not exceed three months' remuneration effective at the time the contract is terminated.

Based on the service contracts in force, at 31 December 2019 Tallinna Sadam had the obligation to pay the members of its management board termination benefits in an amount equal to their three months' remuneration (service fees). A member of the management board is eligible to termination benefits only when Tallinna Sadam terminates the service contract without due cause, i.e. if the member of the management board breaches the contract, no termination benefits will be paid. For complying with the non-compete clause, the company has to pay a member of the management board monthly compensation equal to 50% of the board member's service fee for a period of 12 months.

The company's short-term bonus system is based on the performance management system described in section 4. The system was adopted in 2017 for both the members of the management board and employees in order to monitor the achievement of strategic goals. According to the system, every year three main goals (revenue, EBITDA and the implementation of the most important projects) and some subsidiary goals (business volumes, business projects, changes in processes, etc.) are set whose achievement determines the person's eligibility to a performance-related pay (a bonus). 40% of an employee's performance-related bonus depends on the achievement of the company's overall goals (the main goals) and 60% depends on the achievement of personals goals (subsidiary goals). The achievement of the goals of the management board is assessed by the supervisory board once a year on the approval of the annual report for the relevant year. The company has currently no long-term bonus programmes and the short-term bonus system is not linked to the company's shares.

In the reporting period, Tallinna Sadam conducted a limited number of minor transactions with the members of its management board, which are disclosed in note 24 to the financial statements. All transactions have been ordinary business transactions conducted on an arm's length basis. At the date of release of this annual report, members of the management board have not notified Tallinna Sadam of any conflicts of interest during the financial year.

From among the members of the management board, Valdo Kalm and Marko Raid hold shares in Tallinna Sadam (2,828 shares and 5,000 shares respectively). Margus Vihman and persons closely associated with the members of the management board do not hold any shares in Tallinna Sadam.

7.6 SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES AND ASSOCIATES

As a rule, the supervisory boards of Tallinna Sadam's 100% subsidiaries have three members: two are members of the management board of Tallinna Sadam and one is a civil servant from the ministry that represents and administers the shareholding of the controlling shareholder.

At the end of 2019, the members of the supervisory board of TS Shipping were Valdo Kalm, Marko Raid and Ahti Kuningas (Ministry of Economic Affairs and Communications).The management board of TS Shipping had one member: Ülo Eero.

At 31 December 2019, the members of the supervisory board of TS Laevad were Valdo Kalm, Marko Raid and Tiit Rebane[13] (Ministry of Economic Affairs and Communications). The management board of TS Laevad had three members: Jaak Kaabel (chairman of the management board), Guldar Kivro and Pille Kauber[14].

At 31 December 2019, the members of the supervisory board of Green Marine, an associate of Tallinna Sadam, were Ahti Kuningas, Andres Lukin, Innar Susi, Valdo Kalm and Marko Raid. The management board of the associate has two members: Carl-Jüri Piht (chairman of the management board) and Aivar Sülla.

[13] Johann Peetre replaced Tiit Rebane as a member of the supervisory board of OÜ TS Laevad as from 6 February 2020

[14] The term of office of Pille Kauber expired on 3 January 2020 and the supervisory board appointed Ave Metsla was appointed as a new member of the management board effective from 12 March 2020.

7.7 COOPERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The management and supervisory boards collaborate closely in developing and executing the goals and strategy of Tallinna Sadam. The two bodies mainly exchange information at meetings of the supervisory board and the audit committee. The management board observes the strategic instructions of the supervisory board and notifies the supervisory board of any significant risks and other matters arising in the course of business that may affect the financial performance and the achievement of the goals of Tallinna Sadam. At meetings, the supervisory board is provided with regular overviews of the Group's operating and financial results.

7.8 DISCLOSURE OF INFORMATION

Since its listing on the Nasdaq Tallinn Stock Exchange on 13 June 2018, Tallinna Sadam observes the rules of the stock exchange and the requirements of the EU market abuse regulation and discloses information in accordance with the principle of fair and equal treatment of all investors and the rules for handling and disclosing inside information.

The main information channels of Tallinna Sadam are stock exchange announcements, press releases, newsletters and the corporate website www.ts.ee. On the website, we have made available information about the company and the governing bodies, the articles of association and the strategy, the dividend policy, the IPO documents, the contacts of analysts and the auditor, the current year's financial calendar with the dates on which our operating results and financial statements are released, quarterly operational statistics, and interim and annual reports. The management board of Tallinna Sadam presents the company's results on a quarterly basis at interactive webinars (on the disclosure of interim reports). The recordings and presentations of the webinars are available on the website. We organise meetings and teleconferences with investors according to need and at the request of investors. In communicating with investors and analysts, we use only such information which has previously been disclosed.

Resolutions of the general meeting and the reports of the supervisory board are available on the website of Tallinna Sadam at www.ts.ee.

7.9 FINANCIAL REPORTING

The preparation of financial statements is the responsibility of the company's management board. The consolidated financial statements are prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The auditor of Tallinna Sadam is KPMG Baltics OÜ and the signatory of the independent auditors' report is Andris Jegers. The contract with the auditor has been made for three years (for the audit of the financial statements for 2018–2020). The audit firm has not provided the company with any services that could jeopardise the auditor's independence. In 2019, the fees paid or payable for services provided by audit firms totalled EUR 55 thousand (2018: EUR 447 thousand). The fees comprise fees for financial audit, business process review, translation of the reports and in 2018 also IPO-related and other advisory services.

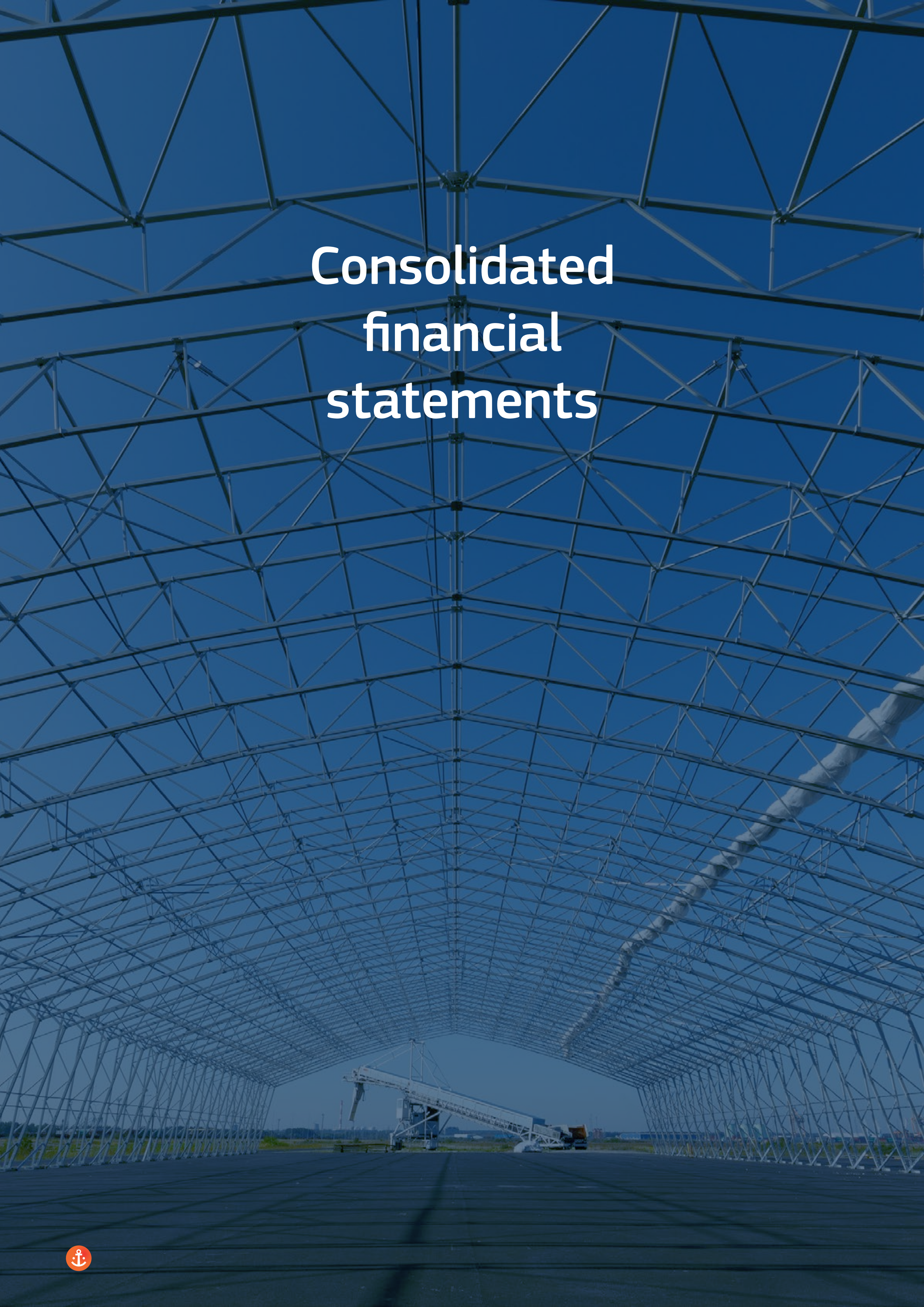
7.10 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Tallinna Sadam did not observe the following sections of the Corporate Governance Code (CGC), which relate to the calling of general meetings:

- Section 1.3.3 – The Issuer shall make participation in the general meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so does not cause undue costs for the Issuer.
- In 2019, observing and participating in the general meeting was not made available by means of communication, as there was no need and no cost-effective technical solution for it.
- Section 6.2.2 – Before signing a contract with the auditor the management board has to submit a draft of the contract for approval by the supervisory board. /…/

The management board of Tallinna Sadam does not consider it necessary to have the draft contract for audit services to be approved by the supervisory board because the auditor is chosen through public procurement proceedings. The contract is signed based on the procurement results and all significant terms and conditions of the contract (including the terms for the qualification of the bidders and the evaluation of the bids, the term of the contract and the scope of the work) are agreed with the audit committee, which is a body that advises the supervisory board, before a procurement is announced. In accordance with the regulation of the Estonian Financial Supervision Authority regarding the rotation of auditors of certain entities subject to public financial supervision, dated 24 September 2003, we organise the rotation of auditors and thus ensure the independence of the auditor.

Consolidated financial statements



Management's confirmation and signatures

By authorising the consolidated annual financial statements as at and for the period ended 31 December 2019 for issue, the management board confirms that the information about AS Tallinna Sadam and its subsidiaries, as set out on pages 56 to 127[15], is correct and complete and that:

1. the consolidated financial statements have been prepared in accordance with the Estonian Accounting Act and 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, cash flows and financial performance of the Group;
3. all significant events that occurred until the date on which the financial statements were authorised for issue (13 March 2020) have been properly recognised and disclosed in the consolidated financial statements; and
4. AS Tallinna Sadam and its subsidiaries are going concerns.

13 March 2020

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

[15] In the Estonian original report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros	Note	31 December 2019	31 December 2018
ASSETS			
Current assets			
Cash and cash equivalents	7	35,183	42,563
Trade and other receivables	8	10,614	8,017
Inventories		408	305
Total other current assets		*46,205*	*50,885*
Non-current assets held for sale	10	142	0
Total current assets		**46,347**	**50,885**
Non-current assets			
Investment in an associate	9	1,609	1,569
Other long-term receivables	8	294	196
Property, plant and equipment	10	575,267	568,965
Intangible assets	11	2,015	2,024
Total non-current assets		**579,185**	**572,754**
Total assets		**625,532**	**623,639**
LIABILITIES			
Current liabilities			
Loans and borrowings	16	16,266	15,766
Derivative financial instruments	17	243	425
Provisions	13	1,915	1,957
Government grants	18	193	174
Taxes payable	15	893	5,844
Trade and other payables	14	11,755	9,517
Total current liabilities		**31,265**	**33,683**
Non-current liabilities			
Loans and borrowings	16	191,580	197,846
Government grants	18	24,754	23,418
Other payables	14	915	1,018
Total non-current liabilities		**217,249**	**222,282**
Total liabilities		**248,514**	**255,965**
EQUITY			
Share capital		263,000	263,000
Share premium		44,478	44,478
Statutory capital reserve		18,520	18,520
Hedge reserve		–243	–425
Retained earnings (prior periods)		6,859	17,678
Profit for the period		44,404	24,423
Total equity	19	**377,018**	**367,674**
Total liabilities and equity		**625,532**	**623,639**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Consolidated statement of profit or loss

In thousands of euros	Note	2019	2018
Revenue	**20**	130,536	130,635
Other income	**22**	1,017	816
Operating expenses	**21**	–36,669	–37,360
Personnel expenses	**21**	–19,867	–19,420
Depreciation, amortisation and impairment	**10, 11**	–23,037	–22,345
Other expenses		–301	–251
Operating profit		**51,679**	**52,075**
Finance income and costs			
Finance income		42	33
Finance costs	**23**	–1,797	–2,003
Finance costs – net		**–1,755**	**–1,970**
Share of profit of an associate accounted for under the equity method	**9**	244	517
Profit before income tax		**50,168**	**50,622**
Income tax expense	**19**	–5,764	–26,199
Profit for the period		**44,404**	**24,423**
Attributable to: Owners of the Parent		44,404	24,423
Basic earnings and diluted earnings per share (in euros)	**19**	0.17	0.11
Basic earnings and diluted earnings per share – continuing operations (in euros)		0.17	0.11

Consolidated statement of other comprehensive income

In thousands of euros	Note	2019	2018
Profit for the period		**44,404**	**24,423**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss: Net fair value gain on hedging instruments in cash flow hedges	**17**	182	184
Total other comprehensive income		**182**	**184**
Total comprehensive income for the period		**44,586**	**24,607**
Attributable to: Owners of the Parent		44,586	24,607

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros	Note	2019	2018
Cash receipts from sale of goods and services		138,690	138,746
Cash receipts related to other income		193	104
Other receipts	**10**	0	2,600
Payments to suppliers		–47,210	–46,260
Payments to and on behalf of employees		–16,892	–16,461
Payments for other expenses		–377	–366
Income tax paid on dividends	**19**	–10,985	–21,250
Cash from operating activities		**63,419**	**57,113**
Purchases of property, plant and equipment	**26**	–27,965	–11,941
Purchases of intangible assets	**26**	–550	–618
Proceeds from sale of property, plant and equipment		39	12
Dividends received	**9**	204	204
Interest received		28	18
Cash used in investing activities		**–28,244**	**–12,325**
Contributions to share capital		0	119,883
Redemption of debt securities	**16**	–9,000	–12,650
Proceeds from loans received	**16**	10,000	0
Repayments of loans received	**16**	–6,766	–6,766
Change in overdraft (liability)	**16**	0	–2,565
Payments of lease principal		0	–7
Dividends paid	**19**	–34,970	–105,000
Interest paid	**16**	–1,769	–2,023
Other payments related to financing activities		–50	–51
Cash used in financing activities		**–42 555**	**–9,179**
NET CASH FLOW		–7,380	35,609
Cash and cash equivalents at beginning of the period	**7**	42,563	6,954
Change in cash and cash equivalents		–7,380	35,609
Cash and cash equivalents at end of the period	**7**	35,183	42,563

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Note	Share capital	Share pre-mium	Sta-tutory capital reserve	Hedge reserve	Retained earnings	Total equity attributable to owners of the Parent
Equity at 31 December 2017		**185,203**	**0**	**18,520**	**–609**	**122,678**	**325,792**
Profit for the period		0	0	0	0	24,423	**24,423**
Other comprehensive income for the period	**17, 19**	0	0	0	184	0	**184**
Total comprehensive income for the period		*0*	*0*	*0*	*184*	*24,423*	***24,607***
Contributions to share capital		77,797	44,478	0	0	0	**122,275**
Dividends declared	**19**	0	0	0	0	–105,000	**–105,000**
Total transactions with owners		*77,797*	*44,478*	*0*	*0*	*–105,000*	***17,275***
Equity at 31 December 2018		**263,000**	**44,478**	**18,520**	**–425**	**42,101**	**367,674**
Profit for the period		0	0	0	0	44,404	**44,404**
Other comprehensive income for the period	**17, 19**	0	0	0	182	0	**182**
Total comprehensive income for the period		*0*	*0*	*0*	*182*	*44,404*	***44,586***
Dividends declared	**19**	0	0	0	0	–35,242	**–35,242**
Total transactions with owners		*0*	*0*	*0*	*0*	*–35,242*	***–35,242***
Equity at 31 December 2019		**263,000**	**44,478**	**18,520**	**–243**	**51,263**	**377,018**

Notes to the consolidated financial statements

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as the "Parent" or the "Company") is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The consolidated financial statements of AS Tallinna Sadam as at and for the year ended 31 December 2019 comprise the Parent and its subsidiaries (together referred to as the "Group"). The Group's core business lines are rendering of port services in the capacity of a landlord port, organising passenger ferry service between Estonia's mainland and biggest islands and operating the multifunctional icebreaker Botnica.

The Group owns five harbours: Old City, Saaremaa, Muuga, Paljassaare, and Paldiski South. The Old City Harbour in the centre of Tallinn together with the Old City Marina for small vessels (opened in 2010) and the Saaremaa Harbour designed for receiving cruise ships provide mainly passenger harbour services. The Muuga Harbour, which is Estonia's largest cargo harbour, the Paldiski South Harbour and the Paljassaare Harbour that serves mostly ship repair companies provide mainly cargo harbour services. The Group has ceased active operations in the Paljassaare Harbour and has started the disposal of the harbour's assets, which will be carried out in stages.

The Group's subsidiaries as at 31 December 2019 and 31 December 2018:

Subsidiary	Domicile	Ownership interest (%) 2019	Ownership interest (%) 2018	Core business line
OÜ TS Shipping	Republic of Estonia	100	100	Rendering icebreaking and other offshore support services with the multi-functional icebreaker Botnica
OÜ TS Laevad	Republic of Estonia	100	100	Rendering domestic ferry service between the mainland and the biggest islands

In addition, the Group has a 51% interest in the associate AS Green Marine but it does not have control over the entity's decision-making. In the Group's financial statements, the interest in the associate is accounted for using the equity method.

The address of the Parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The ultimate controlling party of AS Tallinna Sadam is the Republic of Estonia (ownership interest of 67.03% through the Ministry of Economic Affairs and Communications).

The management board authorised these consolidated financial statements for issue on 13 March 2020. Under the Commercial Code effective in the Republic of Estonia the annual report must also be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the annual report prepared by the management board and approved by the supervisory board and may demand the preparation of a new annual report.

2. ACCOUNTING POLICIES

Basis of measurement

The Group's consolidated financial statements as at and for the year ended 31 December 2019 has been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities (including derivatives), which are carried at fair value.

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 an estimate is recognised prospectively or in the period the change in an estimate relates to. Most significant estimates made by management are disclosed in note 5 to these consolidated financial statements.

Impact of new standards, interpretations and amendments to standards on the financial statements

IFRS 16 *Leases*

The Group began to apply the accounting policies under IFRS 16 from 1 January 2019. A number of other amendments to IFRS standards became effective from that date but did not have a material impact on the Group's financial statements.

The Group made the transition to IFRS 16 using the modified retrospective approach. Comparative data for 2018 has not been restated and is presented as in previous periods under the requirements of IAS 17 and related interpretations. Detailed information concerning the changes to accounting policies is disclosed below. In addition, the disclosure requirements of IFRS 16 have not been applied to comparative data

Definition of a lease

Previously the Group determined at contract inception whether a contract contained a lease using the guidance of IFRIC 4 Determining whether an Arrangement Contains a Lease. Now the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in the Leases section of these accounting policies.

On transition to IFRS 16, the Group elected to apply the practical expedient, which permits to apply the definition of a lease in IAS 17 and IFRIC 4 to contracts entered into at the date of transition and to apply the new definition of a lease only to new contracts and contract modifications. This means that contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed using the definition of IFRS 16. The definition of a lease provided in IFRS 16 was applied only to contracts entered into or modified on or after 1 January 2019.

The Group as a lessee

Previously the Group classified a lease as an operating or finance lease based on its assessment of whether the lease transferred all the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16 the Group recognises right-of-use assets and lease liabilities for most leases.

In applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group used practical expedients. In particular, the Group elected not to recognise right-of-use assets and lease liabilities for:

- leases expiring within 12 months after the date of transition;
- leases for which the underlying asset is of low value. Underlying assets of low value mostly comprise office equipment.

The Group as a lessor

On transition to IFRS 16 the Group was not required to make any adjustments to leases for which it was a lessor. The Group applied IFRS 15 to allocate consideration in the contracts to lease and non-lease components.

Impact of IFRS 16 on the Group's financial statements

On transition to IFRS 16 the Group did not recognise right-of-use assets or lease liabilities. Lease expenses on leases which did not qualify as short-term leases or leases for which the underlying asset is of low value amounted to EUR 566 thousand in the reporting period.

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

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2019 and have therefore not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*

Effective for annual periods beginning on or after 1 January 2020.

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that the IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to

- 'highly probable' requirement
- risk components
- prospective assessments
- retrospective effectiveness test (for IAS 39)
- recycling of the cash flow hedging reserve.

The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

New standards and amendments that have been published by the IASB but not yet adopted by the EU

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The European Commission has decided to defer the endorsement indefinitely.

The amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group expects that the amendments, when initially applied, will have a material impact on its financial statements as it currently recognises the full gain on the loss of control irrespective of whether the transaction involves the transfer of an asset constituting a business or not. However, the quantitative impact of the adoption of the amendments can only be assessed in the year of their initial application and when the transactions have taken place as this will depend on the transfers of assets or businesses to the associate or joint venture that take place during that reporting period.

Amendments to IFRS 3 *Business Combinations*

Effective for annual periods beginning on or after 1 January 2020.

These amendments are not yet endorsed by the EU.

The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Basis of consolidation

The consolidated financial statements comprise the financial statements of AS Tallinna Sadam and its subsidiaries, consolidated line by line.

a) Subsidiaries

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Parent gains control of the subsidiary and ceases when the Parent loses control of the subsidiary. The income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Parent gains control until the date the Parent loses control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent and to non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Parent and non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group owns 100% of each of its subsidiaries, therefore no non-controlling interest has been recognised for the period ended 31 December 2019.

Where necessary, the financial information of subsidiaries is adjusted to ensure conformity with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expenses, and cash flows relating to transactions between Group entities are eliminated in full in consolidation.

b) Associates

An associate is an entity over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. In the consolidated financial statements, investments in associates are accounted for using the equity method. Under the equity method, the initial investment is subsequently adjusted for the profits/losses and dividend distributions received from the investee. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. When the Group's share of losses equals or exceeds its interest in an equity-accounted associate, the carrying amount of the investment is reduced to zero and further losses are accounted for off the statement of financial position. When the Group has incurred legal or constructive obligations or made payments on behalf of the associate, both the liability and loss under the equity method are recognised in the statement of financial position. Where necessary, associates' accounting policies are adjusted so that they comply with the Group's accounting policies.

Any reversal of an impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Foreign currency

a) Functional and presentation currency

Items included in the financial statements of Group entities are measured in the currency of the primary economic environment in which the entities operate – the euro (the functional currency of all Group entities).

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

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

In preparing the financial statements of the Group, transactions in currencies other than the functional currency (foreign currencies) are recognised at exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value in a foreign currency are translated at the exchange rate prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated at the end of the reporting period.

Exchange differences on monetary items are recognised in profit and loss in the period which they arise. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and finance costs; other foreign exchange gains and losses are presented as other income and other expenses. Non-monetary items measured in terms of historical cost in a foreign currency are not re-translated at the end of the reporting period.

Revenue

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

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

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

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

Vessel dues

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

- Tonnage charge (on the basis of the gross tonnage of the vessel for each port call of the vessel);
- Waste fee (on the basis of the gross tonnage of the vessel for each port call of the vessel; in the case of ferries for one port call per day);
- Mooring charge (for each mooring operation based on the gross tonnage of the vessel);

An entrance of a vessel into any of the Group's harbours is considered a port call. Vessel dues are charged for each port call.

Tonnage charges are fees charged from customers, i.e. shipping companies, in exchange for a vessel's entry into any of the Group's harbours and the use of a quay (tonnage service). Waste reception and mooring services are rendered in exchange for waste fees and mooring charges.

A contract with a customer can either include a vessel schedule in which a number of port calls is determined in advance or it may be a contract for a non-recurring tramp vessel call.

Tonnage service, and waste reception and mooring services, when elected, form separate performance obligations. Additionally, the Group grants volume discounts on tonnage service to certain types of vessels based on the accumulated number of port calls by the vessel during the calendar year. Such volume discounts represent options to purchase additional tonnage service in the future (but only up to the end of the calendar year) at a discount, thus granting a material right to the customer. Therefore, each port call that contributes to the cumulative number of port calls, and hence to probable future discounts on tonnage service, consists of between two and four performance obligations – (1) tonnage service, (2) grant of an option to the customer to acquire discounted tonnage service in the future, (3) waste reception (if elected), and (4) mooring service (if elected).

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

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

Cargo charges

Cargo charges are levied for using the general harbour infrastructure. Contracts with customers, i.e. cargo operators, are normally signed for 20 to 50 years but sometimes for a longer period. Cargo charges are normally calculated and collected monthly based on the cargo volumes handled by the cargo operator during the period.

The Group's performance obligation is to provide the cargo operator with access to the harbour infrastructure throughout the duration of the contract. The performance obligation is made up of a series of distinct services that are considered a single performance obligation over the duration of the contract. Revenue from cargo charges charged from a customer is based on the cargo handling tariff(s) stipulated in the contract, which generally decrease based on the cargo volume handled by the cargo operator within a calendar year. The agreements signed with cargo operators generally set out a minimum annual cargo volume. If the cargo operator handles less than the minimum, the Group is entitled to charge the customer at the end of the calendar year based on the minimum cargo volume.

To estimate the amount of variable consideration for cargo charges, the Group uses the most likely amount method. The most likely amount is measured by reference to minimum contractual cargo volumes as well as actual and expected cargo volumes, which requires estimates and judgments by management. These estimates are complex because cargo volumes are volatile. The estimates of variable consideration are revised at each reporting date.

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

Passenger fees

Passenger fees are charged in exchange for services provided to passengers embarking and disembarking at the harbour, such as the use of passenger terminals, connecting walkways, traffic areas, etc. The fees are paid by the customer, i.e. the ferry operator, based on the actual number of passengers (no fee is charged for passengers under 12 years). Passenger fees are based on a public price list, which sets out the rates, and fees are collected after each port call or twice a month. Revenue from passenger fees is recognised over time, as the service is delivered to the customer (as the passengers arrive to or depart from the harbour), which typically happens in a single day.

Sale of electricity

The Group derives revenue from the sale of electricity and network services. Fees from the sale of electricity and network services are collected monthly, in the month following the month of consumption. Prices are fixed per unit of electricity consumed. As the customers simultaneously receive and consume the benefits provided, the delivery of these services takes place over a period of time. The Group is responsible for maintaining the electricity network required to deliver electricity to customers and has full discretion to establish network prices. Thus, it acts as a principal in providing this service.

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

Sale of ferry services – revenue from ticket sales

The Group earns revenue from the sale of tickets to domestic ferry routes operated by it. Consideration is received when a ticket is sold (for customers who do not buy tickets against their credit limit or prepayments made), when a prepayment is received or once a month (based on the ticket, in the month following the month in which the ferry service was used). Ticket prices are fixed and set by the state. No volume or other discounts are granted. Revenue from ticket sales is recognised over time, as the ferry transfers the passengers and/or vehicles, which happens in a single day, or at the time when the ticket expires.

Consideration for tickets sold to trips not yet performed is deferred and recognised as a contract liability within current liabilities. Income from additional services (ticket information sent by SMS, return of tickets and similar services) is recognised when the service has been rendered.

REVENUE FROM OTHER SOURCES

Rental income

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

Charter fees

Charter revenue is derived under time charter agreements which specify the charter period (the period for which the vessel is rented out) and the consideration receivable (normally a fixed rate per day). Charter income is recognised on a straight-line basis over the term of the charter period.

Sale of ferry services – government support

Government grants received by the Group include public transport support received for operating ferries at the fee rates stated in the passenger transport public service contract (PTPSC) minus revenue from ticket sales (the item *Sale of ferry services – revenue from ticket sales*). Government support for PTPSC comprises fixed fee components and a trip (voyage) component, which make up the total PTPSC fee. The fixed components are recognised on a straight-line basis over the term of the PTPSC and the trip component is recognised based on the number of trips made during the period. Revenue recognised from the sale of passenger and/or vehicle tickets during the accounting period is deducted from the total PTPSC total fee and the difference is recognised and paid out as government support for public transport (a government grant).

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial asset.

Classification

The classification and subsequent measurement depend on the business model for managing the financial assets and the contractual cash flow characteristics. Management determines the classification of its financial assets at initial recognition.

a) Financial assets measured at amortised cost

Debt instruments are subsequently measured at amortised cost using the effective interest rate method only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies cash and cash equivalents, and trade and other receivables as financial assets measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised in profit or loss in *Finance income*.

b) Financial assets measured at fair value through other comprehensive income (FVTOCI)

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group does not have any financial assets at fair value through other comprehensive income.

c) Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- debt instruments that do not meet the amortised cost or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

The Group measures derivative financial assets at fair value through profit or loss unless they are designated as effective hedging instruments (see below).

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in Finance income and Finance costs, respectively, in the period in which they arise.

The allocation of financial assets and liabilities to categories is presented in note 6.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and lease receivables. The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since the initial recognition of the financial instrument.

The Group applies the simplified approach provided in IFRS 9 for recognising lifetime ECL for trade receivables and lease receivables (see note 4). The Group always recognises lifetime ECL for trade receivables and lease receivables. Expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast conditions and trends at the reporting date, including the time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

For all other financial instruments whose credit risk has increased significantly since initial recognition the Group recognises lifetime ECL. If, on the other hand, the credit risk of the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months' ECL.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

Irrespective of the above, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been put into liquidation or declared to be bankrupt and the Group's management estimates that collection is improbable. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, with the assistance of legal advice where appropriate. Any recoveries of amounts previously written off are recognised in profit or loss.

Financial liabilities

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (trade and other payables and loans and borrowings) or at FVTPL (negative value of interest rate swaps). Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date or if the Group does not have an unconditional right to defer settlement for more than 12 months after the reporting date. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contract terms are also classified as current.

Offsetting financial instruments

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

Derivative instruments and hedge accounting

Derivatives are measured at fair value both at the date the derivative contract is entered into and subsequently. The Group has designated several long-term interest rate swap contracts as cash flow hedges in order to fix interest expense on floating rate borrowings.

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 as at the end of each financial year, of whether the derivatives that are used in hedging transactions are highly effective in mitigating the changes in the fair values or cash flows of the hedged items.

The fair values of derivatives used for hedging purposes and movements in the hedge reserve in equity are disclosed in the statement of other comprehensive income and notes 17 and 19 to these consolidated financial statements.

Cash flow hedge

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

Fair value measurement

In estimating the fair value of an asset or liability, the Group uses observable market data to the extent it is available. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value or an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Cash and cash equivalents

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of inventories does not include borrowing costs as inventories of the Group do not represent qualifying assets. The cost of raw and other materials comprises the purchase price, transport costs and other costs directly attributable to the acquisition of inventories.

The Group recognises fuel, lubricants and food products purchased for its ferries and icebreaker as inventories.

Non-current assets held for sale

An item of property, plant and equipment or an intangible asset is classified as held for sale if the sale of the asset is highly probable within the next 12 months and it is being actively marketed for sale at a sales price reasonable in relation to its fair value.

Non-current assets held for sale are not depreciated. They are presented separately in the statement of financial position within *Non-current assets* held for sale and measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the Group's operations, are expected to be used for more than one year and have a cost exceeding EUR 5 thousand. 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 acquisition which are necessary for bringing the asset to its operating condition and location. Expenditures on subsequent improvements are added to the carrying amount of the asset 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. Current repair and maintenance expenditures are expensed as incurred.

The Group's items of property, plant and equipment also include several vessels (an icebreaker and ferries), which are subject to periodic major overhauls (dry-dockings) during their useful lives (normally at intervals of 2.5-5 years). Using the component approach, the Group at initial recognition and subsequently (a) identifies the non-physical component that represents a major overhaul, (b) estimates the cost of the non-physical component (if possible, with reference to current market prices), (c) depreciates the non-physical component separately over its useful life (i.e. the dry-docking component separately from the vessel), and (d) derecognises the remaining carrying amount of a non-physical item when the next overhaul (dry-docking) is performed and recognised as a new non-physical component.

b) Borrowing costs

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

c) Depreciation

Depreciation of property, plant and equipment is calculated on the difference between 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 period of use (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 management's estimates and standard practice in the shipping sector, a vessel's two significant parts – the vessel itself and dry docking expenses – that have different useful lives are depreciated separately.

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 to 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 prospectively, resulting in a change in the asset's depreciation charge for subsequent periods.

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

- Quays and berths 10–50 years
- Dredging areas in port basins 20 years
- Buildings and other structures 5–50 years
- Plant and equipment 3.3–10 years
- Vessels 10–25 years
- Capitalised dry docking 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 to *Non-current assets held for sale*. The appropriateness of the useful life and residual value of the asset is assessed at each reporting date.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which do not exceed 5 years. Estimated useful lives and amortisation methods are reviewed at the end of each reporting period and any changes in estimates are recognised prospectively. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally generated intangible assets such as assets arising from software development expenditures are recognised when the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete development and use or sell the asset;
- its ability to measure reliably the expenditure incurred during development.

Other research and development expenditures that do not meet the criteria for classification as intangible assets are recognised as an expense as incurred.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that its non-financial assets may be impaired. The Group assesses impairment indicators from both external and internal sources, including significant changes in the global market specifically as they relate to the political environments of neighbouring countries such as Russia and Finland, significant changes in global trade in oil and other liquid bulk cargo as well as dry bulk cargo, significant changes in the travel industry, and significant changes in weather patterns that could impact the use of the Group's multifunctional icebreaker. Non-financial assets include property, plant and equipment and intangible assets. Impairment losses can be estimated for an individual asset or a group of assets (a cash-generating unit). A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If there is indication of impairment, the recoverable amount of the asset is assessed and compared to its carrying amount in the statement of financial position. An 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. Value in use is determined by using discounted cash flow projections that are based on financial estimates reviewed by the management board and made for a period corresponding to the expected lifespan of the asset but normally not more than 50 years. The amount of the impairment loss of a cash generating unit is allocated to more significant non-current items of the unit on a pro rata basis so that their value does not fall below their fair value less cost of disposal.

Impairment losses are recognised as an expense in the period in which they are incurred.

Assets that have been previously written down to their recoverable amount are reviewed at each reporting date to assess whether there is any indication that an impairment loss recognised in a prior period may no longer exist or may have decreased. A reversal of an impairment losses is recognised in the statement of profit or loss as a reduction of impairment losses on non-current assets.

Corporate income tax

According to the Income Tax Act in force in Estonia, corporate profit earned in the reporting period is not subject to income tax unless it is distributed. Income tax (dividend tax) is levied on profits and/or retained earnings when they are distributed to shareholders. This has the same effect as if the corporate income tax rate were nil for retained taxable profits, but higher for part or all of profit and/or retained earnings distributed as dividends. Therefore, in accordance with IAS 12, the Company's deferred tax assets and liabilities are measured at the tax rate applicable to retained earnings in Estonia, which is 0%.

Dividends distributed from retained earnings are generally subject to income tax calculated as 20/80 of the net dividend distribution (equals a 20% tax rate on the gross profit distribution). From 2019, regular dividend distributions are subject to income tax calculated as 14/86 of the net dividend distribution (14% of the gross profit distribution). Dividend distributions are considered regular if the amount of the distribution does not exceed the entity's last three years' average profit distribution on which income tax has been paid in Estonia. The 14/86 tax rate can be applied prior to 2021 as follows: (i) in 2019 to one-third of profit distributed in 2018 on which income tax has been paid; and (ii) in 2020 to one-third of profit distributed in 2018 and 2019 on which income tax has been paid.

Dividend distributions to shareholders are recognised as a liability in the period in which the dividends are declared by the shareholders. Income tax on dividends (dividend tax) is to be paid when profits and/or retained earnings are distributed. The tax effect is recognised as income tax expense in the period in which the dividends are declared because the consequences of dividend tax are more directly related to past events and transactions that gave rise to the liability, than to the distribution to owners. The dividend tax liability is recognised in the period in which the dividends are declared, irrespective of the period in which the dividends are actually distributed. The taxable period in Estonia is a calendar month and income tax payments are calculated and remitted on that basis.

Employee benefits

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. Short-term employee benefits include wages, salaries, bonuses and social security contributions; short-term compensated absences (such as paid annual leave) where the absence is expected to occur within 12 months after an employee has rendered the related service; and incentive payments that are due to be settled within 12 months after the end of the period in which an employee renders the related services. When an employee has rendered services during the accounting period in exchange for which a benefit may be expected to be paid (within next 12 months), the Group recognises a liability in the undiscounted amount of the benefit expected to be paid (accrued expense), less any amount already paid.

b) Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognises termination benefits as a liability and an expense when, and only when, the Group is clearly 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 to cover only those the expenditures for which it was originally recognised.

A contingent liability is a possible obligation that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that has arisen from a past event but is not recognised because it is either not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Statutory capital reserve

The statutory capital reserve is recognised to meet the requirements of the Commercial Code. Each financial year, 1/20 (5%) of profit is transferred to the statutory capital reserve until it amounts to 1/10 (10%) of share capital. The statutory capital reserve may be used for covering accumulated losses or for increasing share capital. No distributions may be made from the statutory capital reserve.

Earnings per share

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

Leases

The Group made the transition to IFRS 16 using the modified retrospective approach. Accordingly, comparative data has not been restated and is presented as in previous periods under the requirements of IAS 17 and related interpretations. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately from those under IFRS 16. The impact of transition to IFRS 16 is disclosed in the section *Impact of new standards, interpretations and amendments to standards on the financial statements.*

Accounting policies from 1 January 2019

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control and use an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control and use an identified asset, the Group applies the definition of a lease as set out in IFRS 16.

These accounting policies are applied to contracts entered into on or after 1 January 2019.

The Group as a lessee

When entering into or modifying a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, at an amount equal to the initial measurement of the lease liability. The amount of the initial measurement of the lease liability is adjusted for any advance lease payments, any direct costs incurred and any restoration costs to be incurred (in dismantling the asset and restoring the site or the asset). Any lease incentives received are deducted from this amount.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the expiry of the lease term unless the ownership of the underlying asset will transfer to the Group at the end of the lease term or the carrying amount of the right-of-use assets indicates that the Group plans to exercise the purchase option. In that case, the underlying asset is depreciated over its entire estimated useful life, which is determined using the same approach that is used for similar items of property, plant and equipment that are owned. Right-of-use assets are also adjusted for impairment losses, if any. In addition, right-of-use assets are adjusted to reflect certain remeasurements of the lease liabilities.

The lease liability is initially measured at the present value of the lease payments not paid by the commencement date of the lease, using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Group generally applies the incremental borrowing rate as the discount rate.

The incremental borrowing rate is determined by reference to different sources of financing. The inputs received are adjusted to reflect the terms of the lease and the type of underlying asset, to find the incremental borrowing rate appropriate for the asset.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments)
- Penalties for terminating the lease (if termination is reasonably certain)
- The exercise price of a purchase option (if the lessee is reasonably certain to exercise the option)
- Amounts expected to be payable by the lessee under residual value guarantees
- Lease payments that depend on an index or rate.

The lease liability is measured at amortised cost. It is remeasured if there is a change in future lease payments reflecting a change in the index or rate used to determine the payments, if the amounts expected to be payable under a residual value guarantee are reassessed or if the Group changes its assessment of whether it intends to exercise the option to purchase the underlying asset or the option to extend or terminate the lease. The lease liability is also remeasured to reflect changes in fixed payments (including in-substance fixed payments).

If the lease liability is remeasured due to the above reasons, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The effect of the change in the lease liability is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low value. The Group recognises these lease payments as an expense on a straight-line basis over the lease term.

The Group as a lessor

When entering into a contract that contains a lease component or modifies a lease, the Group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

For contracts under which the Group is the lessor, the Group determines at the commencement date whether the lease is an operating lease or a finance lease.

The Group assesses in each case whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If yes, the lease is classified as a finance lease. If not, the lease is classified as an operating lease. As part of this assessment, the Group also considers certain other indicators (e.g. whether the lease term is for the major part of the economic life of the underlying asset).

If the contract contains both lease and non-lease components, the Group applies the accounting policies of IFRS 15 to allocate the consideration in the contract to the components.

The Group applies the derecognition and impairment requirements of IFRS 9 to the lessor's net investment in the lease. The Group reviews regularly estimated unguaranteed residual values used in computing the lessor's gross investment in the lease.

For operating leases, the Group recognises lease payments as income in profit or loss on a straight-line basis over the lease term.

In general, the accounting methods applied by the Group as a lessor in the comparative period did not differ from those required under IFRS 16.

Accounting policies before 1 January 2019

For contracts entered into before 1 January 2019, the Group assessed whether the contract was or contained a lease based on whether the lease transferred substantially all the risks and rewards incidental to ownership of the underlying asset. Other leases were classified as operating leases.

The Group as a lessee

In the comparative period, a finance lease was initially recognised in the statement of financial position as an asset and a liability at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The amount of minimum lease payments equalled the amount of all lease payments payable by the lessee plus the price of an option, if any, to purchase the asset at a favourable price or any residual value guarantees provided by the lessee or a third party. Lease payments were apportioned between the finance charge and the reduction of the outstanding liability. The finance charge was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. An asset leased under a finance lease was depreciated over the shorter of its lease term and useful life.

The Group as a lessor

For contracts under which the Group was the lessor, the Group determined at the inception of the lease whether the lease was an operating lease or a finance lease.

The Group assessed in each case whether the lease transferred substantially all the risks and rewards incidental to ownership of the underlying asset. If yes, the lease was classified as a finance lease. If not, the lease was classified as an operating lease. As part of this assessment, the Group also considered certain other indicators (e.g. whether the lease term was for the major part of the economic life of the underlying asset).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with the grant and the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. A government grant that becomes repayable is accounted for as a change in accounting estimate.

Government grants related to assets

Government grants related to the acquisition of assets are presented in the statement of financial position by setting up the grant as deferred income (a liability), which is recognised in profit or loss on a systematic basis over the useful life of the asset. Assets acquired through government grants are initially recognised at full cost (i.e. using the gross method). Acquired assets are depreciated and the liability arising from the government grant is recognised in other income over the estimated useful life of the acquired asset. The liabilities arising from the grants related to non-depreciable assets (e.g. land) are recognised as income when the asset is ultimately retired or sold. Repayment of a grant related to an asset is recognised by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in the statement of profit or loss in the absence of the grant to date is recognised immediately in the statement of profit or loss.

Government grants related to income

Government grants related to income are recognised in the statement of profit or loss over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. In the statement of profit or loss, the costs to be compensated and income from the grant are recognised separately. Amounts received for which additional conditions are required to be met prior to recognition as other income are presented in the statement of financial position as deferred income (a liability).

Repayment of a grant related to income is applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is recognised immediately in the statement of profit or loss.

Government grants related to domestic ferry service

Government grants received in support of providing domestic ferry service are presented in the statement of profit or loss in Revenue. According to the passenger transport public service contract, the Group is paid the difference between the revenue calculated on the basis of the contract and revenue from ticket sales. As there are no other conditions besides the provision of ferry service, the grants are recognised as revenue as received. The policies for the recognition of income from government grants related to domestic ferry service are described in the same note under *Sale of ferry services - government support.*

Statement of cash flows

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

Related party transactions

For the purposes of these consolidated financial statements, related parties include the members of the supervisory and management boards of Group companies and their close family members, companies under the control or significant influence of the above persons, associates, government agencies, and companies under the control or significant influence of the Republic of Estonia.

3. OPERATING SEGMENTS

Services whose revenues make up segment revenues

The Group's business activities are organised and managed based on its core business lines. The information used by the chief operating decision maker to make decisions about resources to be allocated and assess segment performance focuses on its core business lines. The Group's chief operating decision maker is the management board. No operating segments have been aggregated in presenting reportable segments. The Group's reportable segments under IFRS 8 are as follows:

- Passenger harbours
- Cargo harbours
- Ferry
- Other

Passenger harbours segment comprises the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on providing services to passengers – the Old City Harbour and the Saaremaa Harbour. The segment's revenue includes all revenues of these harbours, consisting primarily of vessel dues collected from ferries and cruise ships, and passenger fees charged for using the buildings and structures designed for providing services to passengers and their vehicles. It also includes other revenue generated by harbours mainly involved in providing services to passengers and ferries such as rental income for leasing out premises (office and commercial premises), cargo charges, sale of electricity and various other services.

Expenses related to this segment are primarily the costs incurred in these harbours in connection with the revenue generating activities outlined above. Expenses also include allocated corporate expenses, based on the ratio of revenue from this segment to total revenue from harbour operations (the Passenger harbours and Cargo harbours segments combined). All corporate operating expenses are fully allocated between the Passenger harbours and Cargo harbours segments as the provision of landlord port operations is the main activity of the corporate head office (the port authority).

Cargo harbours segment comprises the rendering of port services in the capacity of a landlord port in the harbours belonging to the Group that are focused on cargo handling – the Muuga Harbour, the Paldiski South Harbour and the Paljassaare Harbour. The segment's revenues include all revenues of these harbours, consisting primarily of revenue from vessel dues for cargo vessels, revenue from cargo charges paid by cargo operators for using the harbour infrastructure, and rental income from the use of premises by cargo operators and other customers under contracts on the right of superficies and lease contracts. It also includes passenger fees and revenue from the sale of electricity and other services.

Expenses related to this segment are primarily the costs incurred in these harbours in connection with the revenue generating activities outlined above. Expenses also include allocated corporate expenses based on the ratio of revenue from this segment to total revenue from harbour operations (the Passenger harbours and Cargo harbours segments combined). All corporate operating expenses are fully allocated between the Passenger harbours and Cargo harbours segments as the provision of landlord port operations is the main activity of the corporate head office (the port authority).

Ferry segment comprises the rendering of ferry service by the subsidiary OÜ TS Laevad between Estonia´s mainland and two largest islands, Saaremaa and Hiiumaa, under a passenger transport public service contract signed with the state (in total two routes are operated). Revenues include revenues from ticket sales to the end-users of ferry service and government support to the extent that revenue from ticket sales does not cover the contract revenue agreed for rendering the ferry service. It also includes rental income and revenue from the provision of other services collected from tenants providing commercial services to passengers on board the ferries. The segment's expenses include all costs related to owning and operating the ferries required for the two routes. The segment's revenues and results comprise the revenues and results of the subsidiary OÜ TS Laevad that provides the service. No corporate expenses are allocated to the Ferry segment.

The segment Other comprises the business of the subsidiary OÜ TS Shipping that owns and operates the multifunctional icebreaker Botnica and the profit/loss on an investment in an associate accounted for under the equity method. The segment's revenues and expenses comprise the revenues and expenses of OÜ TS Shipping. No corporate expenses are allocated to the segment Other.

Segment revenues and results

Reportable segments apply the same accounting policies as the Group. Segment revenue comprises only revenue (does not contain *Other income*). Segment performance indicators reported to the chief operating decision maker comprise segment operating profit and segment adjusted EBITDA. Segment operating profit represents profit before finance income and costs (net), profit from an investment in an associate accounted for under equity method, and income tax expense. Segment adjusted EBITDA represents segment operating profit before depreciation and amortisation, impairment losses, and amortisation of government grants received, and profit from an investment in an associate accounted for under equity method. Compared to profit for the period, segment adjusted EBITDA represents profit for the period before depreciation and amortisation, impairment losses, amortisation of government grants received, finance income and cost (net), and income tax expense.

Segment results are reported to the chief operating decision maker for making decisions about allocating resources to the segment and assessing its performance on a monthly basis.

Geographical information

In 2019, the Group generated EUR 4,958 thousand, i.e. 4% of its revenue (2018: EUR 4,248 thousand, i.e. 3%) outside Estonia (in Canada) and 96% (2018: 97%) of its revenue in Estonia. Revenue generated outside Estonia consisted of services provided with the icebreaker Botnica (the segment Other) in Canada during the period June to November. All non-current assets of the Group were located in Estonia, with the exception described above.

Information about major customers

The Group's total revenue of EUR 130,536 thousand (2018: 130,635 thousand) includes revenue of EUR 24,695 thousand (2018: EUR 25,542 thousand) attributable to its largest customer, which is reported in the Passenger harbours and Cargo harbours segments. In 2019, the Group's second largest customer also contributed 10% or more to the Group's total revenue. Revenue attributable to this customer of EUR 23,357 thousand (2018: EUR 23,008 thousand) is reported in the Ferry segment and the segment Other. No other customer contributed 10% or more to the Group's total revenue for 2019 or 2018.

Segment revenues and results

2019

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	27,581	19,139	0	0	**46,720**
Cargo charges	1,475	5,666	0	0	**7,141**
Passenger fees	16,905	169	0	0	**17,074**
Sale of electricity	742	4,691	0	0	**5,433**
Sale of ferry services - revenue from ticket sales	0	0	11,583	0	**11,583**
Sale of other services	1,174	1,063	45	107	**2,389**
Operating lease income	1,949	9,385	626	0	**11,960**
Charter fees	0	0	0	9,665	**9,665**
Sale of ferry services - government support	0	0	18,571	0	**18,571**
Total segment revenue* (note 20)	**49,826**	**40,113**	**30,825**	**9,772**	**130,536**
Adjusted segment EBITDA	**32,792**	**22,248**	**13,932**	**5,320**	**74,292**
Depreciation and amortisation	–6,475	–8,468	–5,643	–2,204	**–22,790**
Impairment loss (note 10)	–154	–93	0	0	**–247**
Amortisation of government grants received (note 18)	204	464	0	0	**668**
Share of profit of an associate accounted for under the equity method	0	0	0	–244	**–244**
Segment operating profit	**26,367**	**14,151**	**8,289**	**2,872**	**51,679**
Finance income and costs, net					–1,755
Share of profit of an associate accounted for under the equity method					244
Income tax expense					–5,764
Profit for the period					**44,404**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 51 thousand and EUR 154 thousand for the Passenger harbours and Cargo harbours segments, respectively, which was eliminated during consolidation.

2018

In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Vessel dues	27,615	20,884	0	0	**48,499**
Cargo charges	1,551	5,687	0	0	**7,238**
Passenger fees	17,005	99	0	0	**17,104**
Sale of electricity	799	5,010	0	0	**5,809**
Sale of ferry services - revenue from ticket sales	0	0	11,150	0	**11,150**
Sale of other services	1,197	975	31	45	**2,248**
Operating lease income	1,730	9,063	583	0	**11,376**
Charter fees	0	0	0	8,880	**8,880**
Sale of ferry services - government support	0	0	18,331	0	**18,331**
Total segment revenue* (note 20)	**49,897**	**41,718**	**30,095**	**8,925**	**130,635**
Adjusted segment EBITDA	**32,397**	**24,096**	**13,041**	**4,846**	**74,380**
Depreciation and amortisation	–5,809	–8,585	–5,603	–2,066	**–22,063**
Impairment loss (note 10)	–282	0	0	0	**–282**
Amortisation of government grants received (note 18)	98	459	0	0	**557**
Share of profit of an associate accounted for under the equity method	0	0	0	–517	**–517**
Segment operating profit	**26,403**	**15,970**	**7,438**	**2,263**	**52,075**
Finance income and costs, net					–1,970
Share of profit of an associate accounted for under the equity method					517
Income tax expense					–26,199
Profit for the period					**24,423**

* Total segment revenue represents revenue from external customers and excludes inter-segment revenue of EUR 51 thousand and EUR 120 thousand for the Passenger harbours and Cargo harbours segments, respectively, which was eliminated during consolidation.

4. FINANCIAL RISK MANAGEMENT

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

Risk management is performed by the Group's risk management professionals in accordance with the policies approved by the management board. The management board establishes risk management policies and regulations governing specific risk areas in writing.

Market risk

a) Currency risk

Currency risk is exposure to any future fluctuation in the fair value of the Group's financial instruments or cash flows arising from movements in foreign exchange rates. The Group has no material liabilities or receivables denominated in any currency other than its functional currency (the euro). All outstanding long-term loans and borrowings are also denominated in euros. In 2019, 97.4% of receipts (2018: 98.5%) and 99.5% of payments (operating expenses, investments, finance costs, etc.) (2018: 99.7%) were denominated in euros. Since nearly all receipts and payments as well as loans and borrowings are denominated in euros, it may be concluded that the Group is not exposed to any significant currency risk.

b) Price risk

At 31 December 2019 and in the comparative period, the Group's statement of financial position did not include any investments in equity instruments exposing the Group to price risks resulting from financial instruments.

c) Interest rate risk

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

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

At 31 December 2019, the share of loans and borrowings with rates fixed through derivative transactions was 14% (31 December 2018: 16%) of the portfolio. Thus, 86% of loans and borrowings that are not hedged are exposed to interest rate risk. Further information on interest rate swaps acquired for the purpose of hedging interest rate risk is provided in note 17.

The exposure of the Group's loans and borrowings to the risk of changes in interest rates and the contractual re-pricing dates of loans and borrowings at the end of the reporting period are as follows:

In thousands of euros At 31 December	2019	% of total	2018	% of total
Variable rate borrowings	179,646	86.43	180,212	84.36
Fixed rate borrowings – remaining terms to repricing dates	28,200	13.57	33,400	15.64
< 6 months	*2,000*	*0.96*	*2,600*	*1.22*
6–12 months	*2,000*	*0.96*	*2,600*	*1.22*
1–5 years	*24,200*	*11.65*	*28,200*	*13.20*
Total loans and borrowings (note 16)	**207,846**		**213,612**	

The percentage of total shows the proportion of loans and borrowings that at the date presented had variable or fixed rates in relation to the total amount of loans and borrowings.

To assess the Group's exposure to interest rate risk, a sensitivity analysis is used which describes the impact of interest rate risk exposure on the Group's profit through an estimated fluctuation in the market interest rate. If the market interest rate as at 31 December 2019 had been higher/lower by 100 basis points, i.e. 1 percentage point, the Group's profit for the financial year would have increased/decreased by EUR 1,796 thousand (31 December 2018: EUR 1,802 thousand), assuming all other variables remained constant.

Credit risk

Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At 31 December 2019, the Group's maximum exposure to credit risk was EUR 42,181 thousand (31 December 2018: EUR 49,394 thousand).

In thousands of euros At 31 December	2019	2018
Current accounts and term deposits at banks with original maturities of less than 3 months (note 7)	35,159	42,531
Receivables from customers* (note 8)	6,689	6,616
Other receivables (note 8)	333	247
Total	**42,181**	**49,394**

* Impairment allowances have been deducted from receivables from customers.

Cash and cash equivalents were considered as financial assets with low credit risk at the reporting date, as they were held at reputable international banks.

To reduce customer-related credit risk exposure, advance payments or bank guarantees are required from customers whose solvency is doubtful. To mitigate credit risk, due diligence on the customer is performed prior to entering into any major contracts. Other methods for managing customer-related credit risk exposures include day-to-day monitoring of customers' settlement behaviour and prompt application of appropriate measures. Based on the Group's analysis, a loss allowance for credit-impaired receivables has been recognised. Further information on the credit quality of financial assets is disclosed in note 6.2.

Credit risk exposure from financial transactions is mitigated by using financial institutions with high credit ratings in performing investment or derivative transactions.

Receivables not past due as at the reporting date accounted for 70.3% (2018: 74.6%) of total trade receivables. Further information on trade receivables is disclosed in note 8.

For all trade receivables, the Group recognises expected credit losses (ECL) using the simplified approach provided in IFRS 9, which permits recognising an allowance for lifetime expected credit losses. The measurement principles are described in the Impairment of financial assets section of accounting policies (note 2).

Trade receivables – expected credit loss matrix

In thousands of euros	Not past due	DAYS PAST DUE				Total
		0–30	31–60	61–90	>90	
At 31 December 2019						
Expected credit loss rate	0.8%	1.5%	3.0%	80.0%	100.0%	
Total trade and other receivables	6,220	467	52	45	2,065	8,849
Lifetime expected credit loss (ECL)	–50	–7	–2	–36	–2,065	–2,160
						6,689
At 31 December 2018						
Expected credit loss rate	0.8%	1.5%	3.0%	80.0%	100.0%	
Total trade and other receivables	6,442	191	30	42	1,931	8,636
Lifetime expected credit loss (ECL)	–52	–3	0	–34	–1,931	–2,020
						6,616

The following table shows movements in lifetime ECL recognised for trade receivables.

Trade receivables lifetime expected credit loss (ECL)*

In thousands of euros	Collectively assessed receivables not credit-impaired	Credit-impaired receivables	Total
At 31 December 2017	**61**	**2,323**	**2,384**
Transfer to credit impaired	0	560	560
Amounts written off as uncollectible	0	–53	–53
Amounts recovered (previously written down/off)	0	–899	–899
Change in loss allowance due to new trade receivables	28	0	28
At 31 December 2018	**89**	**1,931**	**2,020**
Transfer to credit impaired	0	458	458
Amounts written off as uncollectible	0	–93	–93
Amounts recovered (previously written down/off)	0	–231	–231
Change in loss allowance due to new trade receivables	6	0	6
At 31 December 2019	**95**	**2,065**	**2,160**

* In 2019 and 2018, there were no individually assessed not-credit impaired trade receivables for which a lifetime ECL was recognised.

Other receivables are assessed using the 12 months' ECL method. At 31 December 2019, the credit risk of those financial assets had not increased significantly and therefore no additional provision was needed. At 31 December 2019, a major share of other receivables was made up of instalment plan receivables.

Liquidity risk

The Group manages its liquidity risk using a combination of the following solutions: available funds in current accounts, term deposits, overdrafts and other investment and working capital management solutions offered by banks, regular monitoring of cash flows and matching the maturities of financial assets and liabilities.

The liquidity buffer maintained and available upon short notice to be able to settle quickly liabilities arising in ordinary course of the Group's business amounts to EUR 5,000 thousand on average. The liquidity reserve comprises of cash and cash equivalents, term deposits with original maturities of less than 3 months and overdrafts where necessary. Based on cash flow forecasts, management monitors, on an ongoing basis, changes in the Group's liquidity reserve and if the reserve falls below the required level, short-term external financing in the form of various debt instruments is used. The minimum level of the liquidity reserve must be at least EUR 2,000 thousand at any time.

At 31 December 2019, current assets exceeded current liabilities by EUR 15.1 million (31 December 2018: by EUR 17.2 million). The Group continues to generate positive net cash flow. Thus, it does not need additional financing for its daily operations.

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 the principal and accrued interest of interest-bearing loans and borrowings. On calculating interest accrued on interest-bearing loans and borrowings (bank loans and issued debt securities), the forward-looking yield curves of interest rate swap transactions from market information providers have been used as the basis for the Euribor forecast as follows: as at 10 February 2020 for year-end 2019; as at 6 February 2019 for year-end 2018.

Liquidity analysis

In thousands of euros	Loans outstanding*	Debt securities issued**	Trade and other payables	Derivatives	Total
At 31 December 2019					
< 6 months	3,495	318	11,998	42	**15,853**
6–12 months	4,046	9,502	0	81	**13,629**
1–5 years	28,145	39,720	0	221	**68,086**
> 5 years	15,899	115,706	0	0	**131,605**
Total	**51,585**	**165,246**	**11,998**	**344**	**229,173**
At 31 December 2018					
< 6 months	3,475	367	11,150	44	**15,036**
6–12 months	3,543	9,599	0	127	**13,269**
1–5 years	28,186	41,090	0	343	**69,619**
> 5 years	13,047	127,871	0	0	**140,918**
Total	**48,251**	**178,927**	**11,150**	**514**	**238,842**

* Including principal outstanding of EUR 49,596 thousand (2018: EUR 46,362 thousand) and estimated total future interest payments of EUR 1,989 thousand (2018: EUR 1,889 thousand).

** Including principal outstanding of EUR 158,250 thousand (2018: EUR 167,250 thousand) and estimated total future interest payments of EUR 6,996 thousand (2018: EUR 11,678 thousand).

For intra-Group management of subsidiaries' liquidity, internal credit limits are applied, if necessary.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, seldom equal actual results. Management also needs to exercise judgement in applying accounting policies.

This note provides an overview of areas that involve a higher degree of judgement or complexity, and items which are more likely to be materially adjusted due to estimates and assumptions proving inaccurate.

Classification of assets leased out

The Group owns land and buildings in its harbours which it leases out to third parties under operating leases. Management has assessed whether the leased-out land and buildings should be classified as property, plant and equipment or investment property. The Group has classified all such assets as property, plant and equipment since the assets are held to earn revenue from its core harbour operations or activities supporting core operations by increasing cargo or passenger flows. Therefore, according to the Group's management, the main objective of holding such assets is not to earn rentals; they are primarily held to help increase revenue from core operating activities. Accordingly, the main revenue related to those assets does not result from rentals.

Property that cannot be directly attributable to the Group's core operations in increasing cargo or passenger flows or 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 2019, the Group did not have such assets.

Useful life of property, plant and equipment

The Group owns a large amount of high-value infrastructure assets classified as items of property, plant and equipment that have very long estimated useful lives (up to 50 years). The useful lives of such items of property, plant and equipment are based on management's best estimate of the period over which an asset is expected to be available for use. These estimates are based on historical experience with similar assets because even though construction technologies evolve the impact of new solutions on the physical and useful lives of such items of property, plant and equipment may not yet have been proved in practice.

At 31 December 2019, the carrying amount of the Group's property, plant and equipment was EUR 575,267 thousand; depreciation for the year amounted to EUR 22,266 thousand. At 31 December 2018, the respective figures were EUR 568,965 thousand and EUR 21,510 thousand (note 10). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and profit would increase by EUR 2,226 thousand (2018: EUR 2,151 thousand).

The useful lives of property, plant and equipment are reviewed at each reporting date. If new estimates differ significantly from the previous ones, the changes are accounted for as changes in accounting estimates.

Impairment of property, plant and equipment

The Group assesses whether there is any indication that an item of property, plant and equipment may be impaired. If such indications exist, the recoverable amount of the asset is estimated and compared to its carrying amount 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. Fair value can be derived from recent transactions conducted by the Group with similar assets or measured with the assistance of professional valuators using the market information available to them. If the fair value of an asset cannot be determined reliably or is likely to be lower, a future cash flow model is developed to calculate its value in use. Value in use calculations require estimates which are based on projections of general economic conditions, actual market trends, project-based cargo and/or passenger flows and the price level of services sold used as inputs to estimate future cash flows expected to arise from the asset or cash-generating unit and a suitable discount rate and growth rate to calculate present value. If circumstances change in future, either an additional impairment loss is recognised or the previously recognised impairment loss is reversed either in part or in full.

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

Revenue recognition

For recognising monthly and/or quarterly revenue, the Group needs to make significant estimates about the expected annual vessel calls and/or cargo volumes. Such estimates are made based on the latest information available from customers and the latest market information available to the Group. See note 2, the *Revenue* section for further details.

Classification of passenger transport public service contract

The Group owns four ferries which it uses to provide domestic ferry service to the state (Republic of Estonia) under a passenger transport public service contract signed after winning a public tender. According to the contract, the state has control over the volume and price of the ferry service provided by the Group with its ferries. Under the contract, the state also has the right to exercise an option to purchase one to four of the ferries used to provide the ferry service. However, as the majority interest in the Parent belongs to the state, in management's judgement the criteria for public-to-private service are not satisfied and the Group has not applied the accounting treatment for service concessions provided in IFRIC 12 and has instead recognised the ferries belonging to it has items of property, plant and equipment and classified the revenue received from the state as revenue from government grants.

Recognition of deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures

In 2018, a new income tax system entered into force in Latvia. The system resembles the Estonian one but upon its application Latvian entities began to recognise deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, deferred tax for investments in subsidiaries, branches, associates and joint ventures is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (e.g. Estonia and Latvia), except to the extent that the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the date of release of this report, there is no consensus in Estonia as to which treatment is correct. The Estonian Ministry of Finance has asked the IFRS Interpretations Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 Income Taxes. At the date of release of this report, IFRIC has not yet communicated its opinion.

The Group has decided to continue to account for deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (e.g. Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in such jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

In management's opinion, the potential change in treatment would not have a material impact on the Group's consolidated financial statements as at the reporting date. The Parent fully controls the dividend policy and decisions of its subsidiaries and can veto the distribution of dividends if necessary. As management considers it unlikely that a subsidiary or an associate will pay a dividend within the next 12 months, no income tax expense would be incurred and there would be no need to recognise a deferred tax liability.

The maximum tax liability which would arise if all of the available equity were distributed as dividends, is disclosed in note 19.

6. FINANCIAL INSTRUMENTS

6.1 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

In thousands of euros	2019	2018
At 31 December		
Financial assets carried at amortised cost	*44,515*	*49,711*
Cash and cash equivalents (note 7)	35,183	42,563
Trade and other receivables - financial assets (note 8)	9,332	7,148
Total financial assets	**44,515**	**49,711**

Financial liabilities

In thousands of euros	2019	2018
At 31 December		
Financial liabilities carried at amortised cost	*217,670*	*221,175*
Trade and other payables – financial liabilities (note 14)	9,824	7,563
Loans and borrowings (note 16)	207,846	213,612
Liabilities at fair value	*243*	*425*
Derivatives (note 17)	**243**	**425**
Total financial liabilities	**217,913**	**221,600**

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 2019, except for loans and borrowings. For the purposes of disclosure, the fair value of loans and borrowings is found by discounting future contractual cash flows at current market interest rates that would be available to the Group for similar financial instruments. The fair value of loans and borrowings was found by discounting future contractual cash flows at current market interest rates for similar financial instruments as at 31 December 2019 and 31 December 2018 available to companies with an S&P BBB rating (the rating indicated by the banks as the internal shadow rating for the Group).

A more detailed comparison of the carrying amounts and fair values of loans and borrowings is disclosed in note 16. The carrying amounts of trade receivables and trade payables, less any write-downs, is estimated to be equal to their fair value.

All derivatives are measured at fair value in the statement of financial position. The fair value of derivatives is estimated on monthly basis using pricing provided by banks based on the forward-looking yield curves of interest rate swap transactions from market information providers. In the value hierarchy, this qualifies as a level 2 measurement.

6.2 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets which are neither past due nor impaired are assessed by reference to ratings provided to creditors by independent rating agencies (if available for the counterparty).

Cash in current accounts and deposits by rating*

In thousands of euros	2019	2018
At 31 December		
Aa2	22,597	18,679
Baa1	12,562	23,852
Total amount reported in cash and cash equivalents	**35,159**	**42,531**

* The remaining portion of the balance of *Cash and cash equivalents* (EUR 24 thousand at 31 December 2019 and EUR 32 thousand at 31 December 2018) not included in the table above consists of cash on hand and in transit, i.e. funds that collecting agencies and other payment intermediaries have not yet transferred to the Group's current accounts.

7. CASH AND CASH EQUIVALENTS

In thousands of euros	2019	2018
At 31 December		
Cash on hand	13	21
Cash at banks	25,159	22,531
Short-term deposits	10,000	20,000
Cash in transit	11	11
Total cash and cash equivalents (notes 4 and 6)	**35,183**	**42,563**

All balances included in cash and cash equivalents are denominated in euros (as at 31 December 2019 and 31 December 2018).

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

8. TRADE AND OTHER RECEIVABLES

IN THOUSANDS OF EUROS	2019	2018
At 31 December		
Financial assets		
Receivables from customers (note 4)	8,849	8,636
Incl. from contracts with customers	*6,936*	*7,190*
Allowance for credit losses (note 4)	–2,160	–2,020
Incl. from contracts with customers	*–1,324*	*–1,113*
Government grants receivable (note 18)	2,287	283
Receivables from an associate (note 24)	36	25
Other receivables	320	223
Total financial assets (note 6)	**9,332**	**7,147**
Incl. receivables for non-current assets	*143*	*260*
Non-financial assets		
Prepaid taxes (note 15)	1,093	633
Other prepayments	470	409
Other receivables	13	24
Total non-financial assets	**1,576**	**1,066**
Total trade and other receivables	10,908	8,213
Of which short-term receivables	10,614	8,017
long-term receivables	294	196

All long-term receivables will fall due within 2 years after the reporting date.

9. INVESTMENT IN AN ASSOCIATE

AS Green Marine

The company is a waste management entity established at the end of 2003. Its principal place of business and country of incorporation is Estonia.

Although AS Tallinna Sadam holds 51% (both as at 31 December 2019 and 31 December 2018) of the ownership interest and voting rights in AS Green Marine and two other shareholders hold the remaining interest, to have control of AS Green Marine, the Group's voting or contractual rights should be substantive and provide the Group with the ability to direct AS Green Marine's activities. The articles of association of AS Green Marine specify that at least 75% of voting rights are required to make decisions about the entity's activities. Even though AS Tallinna Sadam can block any decision, it does not have control of AS Green Marine because it needs the consent of other shareholders for the adoption of a decision. Thus, the Group does not have control of the company.

The business lines of AS Green Marine include management of waste generated in harbours; management, administration and operation of hazardous ship-generated waste and wastewater treatment plants; and cleaning and maintenance of port basins and harbour premises.

The investment in the associate is accounted for using the equity method in these consolidated financial statements.

The financial statements of AS Green Marine have been prepared in accordance with the Estonian Accounting Act and the Estonian Financial Reporting Standard. According to management's 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 an investment in an associate

In thousands of euros At 31 December	2019	2018
Carrying amount at beginning of period	1,569	1,256
Share of profit under the equity method	244	517
Dividends paid	–204	–204
Carrying amount at end of period	**1,609**	**1,569**

Associate AS Green Marine

In thousands of euros At 31 December	2019	2018
Current assets	1,335	1,771
Non-current assets	3,974	2,429
Current liabilities	915	444
Non-current liabilities	1,240	681
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	543	844
Current loans and borrowings	300	140
Non-current loans and borrowings	1,240	681

In thousands of euros At 31 December	2019	2018
Revenue	5,279	4,826
Profit from continuing operations	500	1,018
Profit for the period	500	1,018
Total comprehensive income for the period	**500**	**1,018**
The above profit for the period includes the following:		
Depreciation and amortisation	345	309
Interest expense	23	14
Income tax expense	88	100

In thousands of euros At 31 December	2019	2018
Net assets of the associate	3,154	3,076
The Group's ownership interest in the associate, %	51%	51%
Carrying amount of the Group's investment in the associate	1,609	1,569

AS Tallinna Sadam has no obligation to provide further financial or other support to AS Green Marine.

10. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction**	Prepayment	Total
At 31 December 2017						
Cost	591,570	234,605	6,887	9,053	15	**842,130**
Accumulated depreciation and impairment losses	–199,964	–59,904	–5,137	0	0	**–265,005**
Carrying amount at 31 December 2017	**391,606**	**174,701**	**1,750**	**9,053**	**15**	**577,125**
Movements in 2018						
Acquisition and reconstruction (note 26)	3,029	914	503	9,170	16	**13,632**
Depreciation charge (note 5)	–11,028	–10,032	–450	0	0	**–21,510**
Impairment losses (note 3)	–143	–38	0	–101	0	**–282**
Reclassified at carrying amount	10,002	2,378	94	–12,474	0	**0**
At 31 December 2018						
Cost	604,312	236,509	6,983	5,648	31	**853,483**
Accumulated depreciation and impairment losses	–210,846	–68,586	–5,086	0	0	**–284,518**
Carrying amount at 31 December 2018 (note 5)	**393,466**	**167,923**	**1,897**	**5,648**	**31**	**568,965**
Movements in 2019						
Acquisition and reconstruction (note 26)	128	2,236	747	20,385	5,473	**28,969**
Disposal at carrying amount	0	0	–12	0	0	**–12**
Depreciation charge (note 5)	–11,370	–10,402	–494	0	0	**–22,266**
Impairment losses (note 3)	–233	–14	0	0	0	**–247**
Transferred to non-current assets held for sale at carrying amount*	–128	–14	0	0	0	**–142**
Reclassified at carrying amount	15,848	2,403	83	–18,334	0	**0**
At 31 December 2019						
Cost	614,182	240,253	7,399	7,699	5,504	**875,037**
Accumulated depreciation and impairment losses	–216,471	–78,121	–5,177	0	0	**–299,769**
Carrying amount at 31 December 2019 (note 5)	**397,711**	**162,132**	**2,221**	**7,699**	**5,504**	**575,267**

*At 31 December 2019, non-current assets held for sale comprised some non-current assets located at the Paljassaare Harbour, which had been sold through a public auction. By the date of release of this report, the sales transaction has been finalised.

**At 31 December 2019, assets under construction of EUR 7,699 thousand included the following significant items:
- On-shore power supply systems for ferries of EUR 2,562 thousand
- Dredging works in the approach canal and harbour waters of EUR 1,039 thousand
- Extension to passenger terminal D of EUR 1,026 thousand
- Design and construction of the Pikksilma promenade of EUR 1,006 thousand

**At 31 December 2018, assets under construction of EUR 5,648 thousand included the following significant items:
- Extension to passenger terminal D of EUR 3,685 thousand
- Construction of a street, Reidi tee, of EUR 745 thousand
- Construction of a footbridge of EUR 414 thousand

The Group's assets have not been pledged.

At 31 December 2019, the carrying amount of fully depreciated items still in use was EUR 29,524 thousand, at 31 December 2018 EUR 31,843 thousand.

At 31 December 2019 and 31 December 2018 the Group had ownership of assets erected on the land areas which were previously used by a former lessee (AS Coal Terminal (bankrupt)) under the right of superficies contracts. The assets consist of structures and machinery necessary for the operation of the coal terminal that is now bankrupt – roads, railways, storage areas, electricity and water networks, etc. which reverted to the Group following the termination of the right of superficies contracts due to lessee's bankruptcy. In 2018, the Group sold (through public auctions) several assets of the former coal terminal that had been transferred to it (conveyor systems, cargo unloading and loading equipment). Proceeds from the sale of assets of EUR 2.6 million have been recognised as a liability (note 14). Further information is provided in note 27.

Commitments related to property, plant and equipment are disclosed in note 25.

Under the passenger transport public services contract signed on 11 December 2014, the Republic of Estonia, represented by the Ministry of Economic Affairs and Communications, has the right to acquire any of the four passenger ferries (Leiger, Tiiu, Tõll and Piret) that are in the possession of the Group. The ministry has the right to exercise the option to purchase one to four of the ferries by giving four years' notice before expiry of the contract (i.e. on 30 September 2022 at the latest). The acquisition price of each ferry is EUR 26.6 million. The ministry has no obligation to exercise the option to purchase the ferries.

In 2019, write-downs of EUR 50 thousand and write-offs of EUR 197 thousand were recognised in impairment losses within Depreciation, amortisation and impairment in the statement of profit or loss, including:

- Write-down of a property of EUR 50 thousand
- Write-off of buildings of EUR 14 thousand
- Write-off of a connection gallery of EUR 91 thousand
- Write-off of other facilities of EUR 78 thousand
- Write-off of other equipment of EUR 14 thousand

According to the segment information provided in note 3, assets written down or off belonged to the Passenger harbours segment (EUR 154 thousand) and the Cargo harbours segment (EUR 93 thousand).

In 2018, write-downs of EUR 164 thousand and write-offs of EUR 118 thousand were recognised in impairment losses within Depreciation, amortisation and impairment in the statement of profit or loss, including:

- Write-down of buildings of EUR 164 thousand
- Write-off of power lines and electrical equipment of EUR 63 thousand
- Write-off of a service building of EUR 39 thousand
- Write-off of other equipment of EUR 16 thousand

According to the segment information provided in note 3, assets written down or off of EUR 282 thousand belonged to the Passenger harbours segment.

In 2019, management did no test the icebreaker Botnica for impairment because there was no indication of impairment (also, the circumstances, which required prior write-downs had ceased to exist).

In connection with a five-year agreement signed in 2018 for the provision of services in Northern Canada outside the icebreaking season and related revenue growth there was indication that Botnica's value could have changed compared to the previous year. Therefore, management decided to test Botnica's recoverable amount as at the end of 2018. One option for determining Botnica's recoverable amount is to have its fair value measured by relevant independent experts. However, taking into account the limited liquidity of the market for the purchase and sales of such vessels at the time of the valuation and consequently the high degree of subjectivity of the valuation result, Botnica was also measured by applying the value in use method. To verify the carrying amount of the Group's multifunctional icebreaker Botnica (with all accessories and components) as at the reporting date, management measured the vessel's recoverable amount by reference to its value in use. The value in use identified was at the level of Botnica's carrying amount as at the reporting date. Thus, there was no need to write Botnica down or reverse its previously recognised impairment. Value in use was found using long-term discounted cash flow projections which were based on the following key assumptions:

- The length of the forecast period was set at 14 years, until the end of Botnica's estimated useful life.
- A long-term revenue forecast was prepared based on three scenarios with different weights. Thus, instead of using one most likely cash flow scenario, a long-term forecast was prepared based on three likely cash flow scenarios. The outcome of the measurement of Botnica's value in use is the most sensitive to revenue forecasts used in the scenarios, depending, above all, on how likely it is to find service contracts for Botnica in the period from May to December. Revenue forecasts are based on the assumption that the revenue similar to the contract signed with the Maritime Administration will be received until the end of Botnica's useful life. In addition, different scenarios were projected for additional revenue from the use of the icebreaker Botnica during the summer. According to the first scenario, no revenue will be generated in the summer. According to the second scenario, the same amount of revenue will be generated as under the contract in force in 2018 (may be extended by the customer). According to the third scenario, with the smallest weight, the same amount of revenue will be generated as in 2014 when revenue was the highest to date.
- For each revenue scenario, a corresponding expense forecast was prepared based on historical actual expenses for each revenue scenario.
- Revenue and expense levels were forecast by applying a growth rate of 1.5% per year.
- The present value of cash flows was found using as the discount rate a pre-tax weighted average cost of capital of 8.1%.
- The cash flows from the ultimate sale of Botnica (after the end of its useful life) were assumed to be equal to its scrap metal value less transport costs.

Possible impact of changes in estimates

Botnica's value in use is an estimate and changes in inputs may increase or reduce it. If there are events in the next financial year that significantly differ from the assumptions used in determining the recoverable amount, there may arise a need to change the assumptions applied and, as a result, to adjust Botnica's carrying amount.

11. INTANGIBLE ASSETS

In thousands of euros	Computer software	Internally developed software under construction	Total
At 31 December 2017			
Cost	3,674	0	**3,674**
Accumulated amortisation and impairment losses	–1,716	0	**–1,716**
Carrying amount at 31 December 2017	**1,958**	**0**	**1,958**
Movements in 2018			
Acquisitions and upgrades (note 26)	423	196	**619**
Amortisation charge	–553	0	**–553**
Reclassified from assets under construction	196	–196	**0**
At 31 December 2018			
Cost	4,293	0	**4,293**
Accumulated amortisation and impairment losses	–2,269	0	**–2,269**
Carrying amount at 31 December 2018	**2,024**	**0**	**2,024**
Movements in 2019			
Acquisitions and upgrades (note 26)	194	321	**515**
Amortisation charge	–524	0	**–524**
At 31 December 2019			
Cost	4,486	321	**4,807**
Accumulated amortisation and impairment losses	–2,793	0	**–2,793**
Carrying amount at 31 December 2019	**1,694**	**321**	**2,015**

12. LEASES

12.1 THE GROUP AS A LESSOR

Carrying amount of property, plant and equipment leased out under operating leases

In thousands of euros At 31 December	2019	2018
Land	42,320	41,569
Incl. with the right of superficies	*36,537*	*36,322*
Buildings	7,698	7,404
Plant and equipment	21	25
Other items of property, plant and equipment	642	765
Total carrying amount of property, plant and equipment leased out under operating leases	**50,681**	**49,763**

Depreciation charge on property, plant and equipment leased out under operating leases

In thousands of euros	2019	2018
Buildings	509	531
Plant and equipment	3	4
Other items of property, plant and equipment	144	143
Total depreciation charge on property, plant and equipment leased out under operating leases	**656**	**678**

Rental income from property, plant and equipment leased out under operating leases

In thousands of euros	2019	2018
Land	7,867	7,744
Buildings	3,254	2,812
Plant and equipment	709	675
Other items of property, plant and equipment	130	145
Total rental income from property, plant and equipment leased out under operating leases (note 20)	**11,960**	**11,376**

Rental income in subsequent periods under non-cancellable operating lease contracts: 2019 under IFRS 16

In thousands of euros At 31 December	2019
< 1 years	9,856
1–2 years	9,307
2–3 years	9,530
3–4 years	9,335
4–5 years	9,111
> 5 years	332,585
Total rental income in subsequent periods under non-cancellable operating lease contracts	**379,724**

Rental income in subsequent periods under non-cancellable operating lease contracts: 2018 under IAS 17

In thousands of euros At 31 December	2018
< 1 year	10,014
1–5 years	37,361
> 5 years	338,462
Total rental income in subsequent periods under non-cancellable operating lease contracts	**385,837**

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 a signed contract. Operating lease contracts are entered into for periods ranging from 2 years to 20 years. Operating lease rentals can generally be increased once a year based on changes in the consumer price index for the previous year (depending on the contract, either the relevant index in Estonia, the euro area, or Germany). Improvements to a leased asset made by a lessee are normally not compensated by the lessor at the end of the lease term.

Under the right of superficies contracts, many significant risks and rewards from the possession of the asset (land) are transferred to the lessees. However, as land has an unlimited economic life, there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. Therefore the right of superficies contracts are accounted for as operating leases.

The right of superficies contracts entered into by the Group and its customers set out payments for right of superficies and the duration of the contract (usually ranging from 36 years to 50 years). Payments for the right of superficies are generally subject to an increase after a certain period has passed based mostly either on changes in the assessed value of land (for older contracts) or changes in the consumer price index (for more recent contracts). Contractual payments for rights of superficies are generally not covered by guarantees. At expiry of a contract the lessee generally has the right to remove the construction erected on the land under the right of superficies; apply for an extension of the term of the right of superficies contract up until the end of the construction's remaining life; or the constructions are subject to compensation by the lessor for the usual value of the constructions (see also note 27).

13. PROVISIONS

Provision for bonuses

In thousands of euros	2019	2018
At beginning of period	**1,440**	**945**
Recognised	1,233	1,441
Reversed	–121	–74
Used	–1,323	–872
At end of period	**1,229**	**1,440**

Other provisions

In thousands of euros	2019	2018
At beginning of period	**517**	**558**
Recognised	169	334
Used	0	–375
At end of period	**686**	**517**
Total provisions	1,915	1,957

Provision for bonuses

The provision for bonuses is accrued for estimated bonuses payable to Group companies' management board members and employees for the results of the reporting period. The provision also includes social security charges and unemployment insurance contributions. The payment of bonuses is decided after the annual reports of relevant companies for the year ended 31 December 2019 have been approved.

Other provisions

Other provisions at 31 December 2019 include expected costs of EUR 459 thousand (31 December 2018: EUR 314 thousand) related to various ongoing court cases which the Group has lost in the county and/or circuit courts. Due to unfavourable decisions by lower-level courts, the Group believes that it is probable that the final outcome may also be unfavourable and has recognised provisions of EUR 459 thousand to cover the expected costs.

In connection with the obligation to pay compensation to members of Tallinna Sadam's management board under the non-compete clauses of their service contracts, an additional provision of EUR 25 thousand was recognised in 2019 to cover relevant expenses. At 31 December 2019, the provision amounted to EUR 228 thousand (31 December 2018: EUR 203 thousand).

14. TRADE AND OTHER PAYABLES

In thousands of euros At 31 December	2019	2018
Financial liabilities		
Trade payables	5,281	3,775
Interest payable (note 16)	405	446
Payables to an associate (note 24)	127	134
Other payables*	4,011	3,208
Total financial liabilities (note 6)	**9,824**	**7,563**
Incl. liabilities for property, plant and equipment (note 26)	*2,162*	*1,216*
liabilities for intangible assets (note 26)	*26*	*65*
Non-financial liabilities		
Payables to employees	1,092	1,054
Accrued taxes payable on remuneration	596	572
Payables related to contracts with customers	946	971
Advances for goods and services	212	375
Total non-financial liabilities	**2,846**	**2,972**
Total trade and other payables	**12,670**	**10,535**
Of which current liabilities	11,755	9,517
non-current liabilities	915	1,018

* At 31 December 2019, other payables included a liability related to the sale of assets of EUR 2,600 thousand (note 10) and a liability related to overpayments received from a customer of EUR 1,284 thousand (31 December 2018: other payables included a liability related to the sale of assets of EUR 2,600 thousand).

15. TAXES PAYABLE

In thousands of euros At 31 December	2019	2018
Value added tax	0	111
Personal income tax	266	233
Corporate income tax*	33	4,973
Pollution charge	6	5
Social security tax	512	446
Unemployment insurance contributions	28	26
Funded pension contributions	18	18
Excise duty	30	32
Total taxes payable	**893**	**5,844**
** Incl. income tax on dividends (note 19)*	*0*	*4,949*

At 31 December 2019, the Group's prepaid taxes amounted to EUR 1,093 thousand (31 December 2018: EUR 633 thousand). Prepaid taxes are disclosed in note 8.

As at 31 December 2019 and 31 December 2018, the Group did not have any deferred income tax assets or liabilities. Further information is disclosed in note 2 in the section *Corporate income tax* and in note 5 in the section *Recognition of deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures.*

16. LOANS AND BORROWINGS

In thousands of euros At 31 December	2019	2018
Current portion		
Loan liabilities	7,266	6,766
Debt securities	9,000	9,000
Total current portion	**16,266**	**15,766**
Non-current portion		
Loan liabilities	42,330	39,596
Debt securities	149,250	158,250
Total non-current portion	**191,580**	**197,846**
Total loans and borrowings (note 6)	207,846	213,612

Issue and redemption of debt securities

At 31 December 2019, AS Tallinna Sadam had two debt security issues with final maturities in 2026 and 2027. The debt securities have been issued in euros with a floating interest rate (with the base interest rate of 3 month or 6 month Euribor plus a fixed risk margin). None of the debt securities issues is listed on the stock exchange.

The Group has met all obligations set out in the terms of the bonds, including those which relate to complying with covenants, providing information and meeting the requirements set to financial ratios.

In 2019, principal payments of EUR 9,000 thousand (2018: EUR 12,650 thousand) were made in accordance with the payment schedules.

At 31 December 2019 the weighted average interest rate of the bonds was 0.629% (31 December 2018: 0.684%). The interest rate risk of bonds issued has not been hedged with interest rate swaps.

Loans

All loan agreements are denominated in euros and have floating interest rates (the base rate is 6-month Euribor). At 31 December 2019, the weighted average interest rate on drawn loans was 0.685% (31 December 2018: 0.703%). Considering the effect of derivative transactions used to hedge interest rate risk, at 31 December 2019 the average interest rate of loans was 1.376% (31 December 2018: 1.440%).

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

Principal repayments made in 2019 amounted to EUR 6,766 thousand (2018: EUR 6,766 thousand). In the fourth quarter of 2019, a new loan of EUR 10,000 thousand was taken to finance investments in non-current assets in the Old City Harbour. The base rate of the new loan is 6-month Euribor. Taking into account the term of the new loan, the final maturities of outstanding loan liabilities fall in the period 2024 to 2029.

Contractual maturities of loans and borrowings

In thousands of euros At 31 December	2019	2018
< 6 months	3,383	3,383
6–12 months	12,883	12,383
1–5 years	63,064	63,064
> 5 years	128,516	134,782
Total loans and borrowings (note 4)	**207,846**	**213,612**

Carrying amount of loans and borrowings and their fair values*

In thousands of euros At 31 December	2019	2018
Carrying amount		
Debt securities	158,250	167,250
Loan liabilities	49,596	46,362
Total carrying amount	**207,846**	**213,612**
Fair value		
Debt securities	153,755	157,987
Loan liabilities	39,112	44,816
Total fair value	**192,867**	**202,803**

* Due to inputs used, all measurements qualify as level 2 measurements in the fair value hierarchy.

The discounted cash flow method was used to calculate the fair value of loans and borrowings. Future cash flows were estimated based on forward interest rates (extrapolated from observable corporate yield curves and 3-month and 6-month Euribor swap rates at the end of the reporting period) and contractual interest rates, discounted at a rate that reflected the credit risk of the Group.

As at 31 December 2019, the fair value of financial liabilities calculated using the discounted cash flow method was 7.2% lower than their carrying amount (31 December 2018: 5.0% lower). The Group's loan agreements and bonds set certain limits to the Group's consolidated financial indicators. As at 31 December 2019 and 31 December 2018 the Group was in compliance with all the financial covenants.

Reconciliation of liabilities arising from financing activities

In thousands of euros	01 January 2019	Cash used in financing activities	NON-CASH CHANGES		31 December 2019
			Interest expense (note 23)	Fair value adjustments (note 17)	
Loan liabilities	46,362	3,234	0	0	49,596
Debt securities	167,250	–9,000	0	0	158,250
Derivatives (note 17)	425	0	0	–182	243
Interest payable (note 14)	446	–1,769	1,728	0	405
Total	**214,483**	**–7,535**	**1,728**	**–182**	**208,494**

In thousands of euros	01 January 2018	Cash used in financing activities	NON-CASH CHANGES		31 December 2018
			Interest expense (note 23)	Fair value adjustments (note 17)	
Loan liabilities	55,693	–9,331	0	0	46,362
Debt securities	179,900	–12,650	0	0	167,250
Finance lease liability	7	–7	0	0	0
Derivatives (note 17)	609	0	0	–184	425
Interest payable (note 14)	534	–2,023	1,935	0	446
Total	**236,743**	**–24,011**	**1,935**	**–184**	**214,483**

17. DERIVATIVE INSTRUMENTS

In thousands of euros	2019	2018
Notional amount at 31 December	28,200	33,400
Fair value at beginning of period (liability)	**-524**	**-777**
Incl. market value of derivative	*-425*	*-609*
interest payable	*-99*	*-168*
Change in derivative's market value (notes 16 and 19)	182	184
Change in interest payable	4	69
Fair value at end of period (liability)	**-338**	**-524**
Incl. market value of derivative (notes 16 and 19)	*-243*	*-425*
interest payable	*-95*	*-99*

At 31 December 2019, AS Tallinna Sadam had interest rate swap instruments to hedge the interest rates of long-term loans in the total notional amount of EUR 28,200 thousand (31 December 2018: EUR 33,400 thousand). All terms, conditions and maturities of the interest rate swap instruments follow the repayment schedule of the hedged loans and the interest rate swap instruments are designated as hedging instruments under cash flow hedging relationships.

At 31 December 2019, AS Tallinna Sadam had two interest rate swaps to hedge the interest rate risk of two long-term loans with maturities from 5 to 7 years and with the remaining maturity of 1.5 years. The floating interest rate to be swapped by all derivative instruments is 6-month Euribor. The fair value of derivative instruments is based on the quotes of the relevant transaction parties (banks). The payments related to derivative instruments are made in euros.

The effectiveness of derivative instruments is assessed using the qualitative Critical Terms Match Method. The Group assesses the existence of an economic relationship between the hedged item and the hedging instrument which is based on interest rates, maturities, currencies and payment schedules. At 31 December 2019 the underlying amounts of all hedging instruments equalled the outstanding balances of the hedged instruments and the amortisation schedules of the instruments were in line; the hedged interest payments were calculated on the same basis (6-month Euribor); the payments were denominated in the same currency (in euros) and were made at the same dates. Therefore, it was assumed that hedging had been and would be effective.

Counterparty credit risk and the Group's credit risk are the sources of ineffective hedging. Due to the impact of credit risk the economic relationship between a hedged item and a hedging instrument may become imbalanced and there may arise a situation where the values of the hedged item and the hedging instrument no longer move in the opposite direction.

At 31 December 2019, the weighted average fixed interest rate of derivatives was 0.572% (31 December 2018: 0.576%); the floating interest rate is based on 6-month Euribor. Gains and losses on interest rate swap transactions included in the hedge reserve in equity are recognised in the statement of profit or loss on the expiry of derivative contracts or when hedging is deemed ineffective.

18. GOVERNMENT GRANTS

Non-current government grant liabilities

In thousands of euros At 31 December	2019	2018
Cohesion Fund	*21,105*	*21,555*
"Extension of the eastern part of the Muuga Harbour" (2006-2011)	16,625	16,853
"Connecting the eastern part and the Industrial Park of the Muuga Harbour" (2010-2014)	4,480	4,702
TEN-T	*3,560*	*1,759*
"The Baltic Sea hub and spokes project" (2010-2013)	7	11
TWIN-PORT (2012-2015)	1,021	1,157
TWIN-PORT 2 (2014-2018)	2,340	591
TWIN-PORT 3 (2018-2023)	192	0
State budget of the Republic of Estonia	*89*	*104*
"Grant for small ports" (2010)	60	68
"Atmospheric air protection programme" (2011-2013)	29	36
Total non-current government grant liabilities	**24,754**	**23,418**
Incl. non-depreciable assets	*13,902*	*13,902*

Recognised as income

In thousands of euros	2019	2018
Grants related to assets		
Cohesion Fund	449	447
TEN-T	204	95
State budget of the Republic of Estonia	15	15
Total grants related to assets (note 3)	**668**	**557**
Grants related to income		
European Regional Development Fund	1	4
Other foreign aid	140	84
State budget of the Republic of Estonia (note 20)	18,571	18,331
Total grants related to income	**18,712**	**18,419**
Total recognised as income	**19,380**	**18,976**
Incl. Revenue from other sources (note 20)	*18,571*	*18,331*
Other income (note 22)	*809*	*645*

TEN-T PROGRAMME “MOTORWAYS OF THE SEA”

TWIN-PORT 2 (2014–2020)

TWIN-PORT 2 is a follow-up project to TWIN-PORT. Within the framework of the project the Port of Helsinki built a new Western Terminal, AS Tallink Grupp brought a new LNG vessel “Megastar” to the Tallinn–Helsinki route, and AS Tallinna Sadam invests in the development of various infrastructure assets in the Old City Harbour.

In 2019, investments amounted to EUR 2,481 thousand and expenses amounted to EUR 29 thousand (2018: investments amounted to EUR 3,904 thousand and expenses amounted to EUR 9 thousand).

Short-term project receivables amounted to EUR 2,079 thousand (2018: EUR 283 thousand). The grant amount is related to investments of 2017-2019, which at 31 December 2019 had not yet been paid.

In 2018, a request was submitted to the European Commission for extending the project by two years. The new end date of the project is 31 December 2020. The project was extended because in the preparatory phase there arose unforeseeable circumstances that deferred several activities both in the Old City Harbour in Tallinn and the Helsinki West Harbour.

TWIN-PORT 3 (2018-2023)

TWIN-PORT 3 is a follow-up project to TWIN-PORT and TWIN-PORT 2. The project began in 2018 and is planned to be completed on 31 December 2023. The participants of the project are AS Tallinna Sadam, the Port of Helsinki, the City of Helsinki and three ferry operators (Tallink, Viking Line and Eckerö Line). AS Tallinna Sadam is the coordinating partner of the project. The purpose of the project is to build onshore power supply systems (OPS) in both harbours and for the ferries travelling between Tallinn and Helsinki to enable the ferries (while at the quay) to use electricity from the mainland electricity network and switch off their diesel engines. In addition, an auto-mooring system will be built in both harbours, which offers faster and safer mooring for ferries. In Tallinn, the security systems in the Old City Harbour will be upgraded and in Helsinki, in the harbour area, new street lanes will be added, the throughput capacity of intersections will be improved, a tramway leading to the harbour will be relocated and a new bridge will be built.

In 2019, investments amounted to EUR 2,797 thousand and expenses amounted to EUR 127 thousand (2018: EUR 114 thousand and EUR 15 thousand, respectively).

Short-term project receivables amounted to EUR 208 thousand (2018: no short-term receivables).

DREDGING WORKS IN THE APPROACH CANAL AND WATERS OF THE PALDISKI SOUTH HARBOUR

The purpose of the project is to increase the depth of the approach canal and waters of the Paldiski South Harbour by 1 meter so that the minimum depth would be 15.5 metres in place of the previous 14.5 metres. The length of the canal that is being dredged is approx. 1,800 metres. Also, the width of the canal will be increased from the current 120 metres to 180 metres. When the works have been completed, the harbour will be able to receive large cargo carriers and tankers (60-70 thousand GT). The use of larger vessels for cargo transport will allow transporting the same quantity of cargo with fewer vessel calls and thereby to reduce CO2 emissions per unit of cargo. Moreover, if the canal is deeper, navigation to the port is safer.

Investments made in 2019 amounted to EUR 1,033 thousand.

STATE BUDGET OF THE REPUBLIC OF ESTONIA

Public transport support (2016-2026)

In December 2014 a passenger transport public service contract was signed with the Ministry of Economic Affairs and Communications (currently administered by Road Administration) for providing ferry service on the Kuivastu–Virtsu and Rohuküla–Heltermaa ferry routes in the period from 1 October 2016 to 30 September 2026. The final amount of the contractual support depends on the difference between the revenue base calculated annually on the basis of tariff rates fixed in the contract and ticket sales revenue recognised in the same period.

In 2019, support was calculated in the amount of EUR 18,571 thousand (2018: EUR 18,331 thousand) and received in the amount of EUR 18,590 thousand (2018: EUR 18,256 thousand).

The public transport support is treated as part of the Group's ordinary activity and recognised as revenue (sale of ferry services - government support) (note 20).

At 31 December 2019, the Group had a short-term prepaid government grant for public transport support provided from the state budget of EUR 193 thousand (31 December 2018: EUR 174 thousand).

OTHER FOREIGN AID - INTERREG BALTIC SEA REGION PROGRAMME

Project *"Green Cruise Port – Sustainable Development of Cruise Port Locations"* (2016–2019)

The project was aimed at enhancing the cooperation of cruise ports in the Baltic Sea region in developing port facilities and services, with a focus on the aspects of environmentally friendly and economically beneficial solutions. Project partners were the ports of Hamburg, Klaipeda, Riga, Rostock, Helsinki, Bergen, Esbjerg and Kaliningrad, and the Maritime Institute Gdansk. In the framework of the project, a master project together with the technical solutions for the Old City Harbour cruise terminal was prepared and surveys for developing ecological solutions feasible in a cruise terminal in the northern climate were carried out. The surveys provided valuable inputs for the design of a new cruise terminal and the solutions for its technological systems. The construction of the cruise terminal began at the end of 2019 and it will be completed in 2021.

In 2019, expenses incurred in the project amounted to EUR 25 thousand (2018: EUR 34 thousand). In 2018, investments totalled EUR 98 thousand. In 2019, no investments were made. In 2019, support of EUR 141 thousand was received (2018: EUR 84 thousand).

EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF)

Project "Digital Construction Cluster"

The purpose of the project is to undertake joint activities in the Digital Construction Cluster to promote co-operation between the Estonian construction sector and research institutions and to increase the international competitiveness of companies belonging to the Digital Construction Cluster.

As a real estate owner, developer and manager, Tallinna Sadam's interest in participating in the project is mainly related to new digital opportunities that could be seized in the development and management of its buildings and real estate including the implementation of Building Information Modelling (BIM) throughout the life cycle of a building.

In 2019, support of EUR 1 thousand was received (2018: EUR 8 thousand). In 2018, expenses incurred in the project amounted to EUR 8 thousand. In 2019, no expenses were incurred.

19. EQUITY

Share capital

At 31 December 2019, AS Tallinna Sadam had 263,000,000 registered ordinary shares, at 31 December 2018 also 263,000,000 shares, of which 67.03% were held by the Republic of Estonia (through the Ministry of Economic Affairs and Communications) and 32.97% were held by Estonian and international investment funds, banks, pension funds and retail investors. The par value of a share is EUR 1.

The maximum number of ordinary shares stipulated in the Articles of Association of AS Tallinna Sadam is 664,000,000 (in the comparative period in 2018: also 664,000,000). At 31 December 2019 and at 31 December 2018 all shares issued had been fully paid for.

Earnings per share

	2019	2018
Weighted average number of shares	263,000,000	228,611,677
Consolidated profit for the period (in thousands of euros)	44,404	24,423
Basic and diluted earnings per share (in euros)*	0.17	0.11

* For the years ended 31 December 2019 and 31 December 2018 there were no dilutive instruments outstanding

Capital management

The purpose of the Group’s capital management is to ensure that Group entities will be able to continue as going concerns and the Group can generate maximum long-term return through an optimal balance between debt and equity capital. The Group's capital management strategy has not changed significantly compared to 2018.

In thousands of euros At 31 December	2019	2018
Loans and borrowings	207,846	213,612
Cash and cash equivalents	–35,183	–42,563
Net debt	**172,663**	**171,049**

The Group’s capital structure consists of net debt (loans and borrowings as detailed in note 16 less cash and cash equivalents) and equity (comprising share capital, reserves and retained earnings). The Group is not subject to any externally imposed capital requirements.

The Group's CFO reviews the capital structure of the Group at least twice a year. As part of this review, the CFO assesses the cost of capital and the risks associated with each class of capital. The Group’s long-term target is to ensure that its equity to assets ratio (calculated as the ratio of total equity to total assets) is 60%.

Equity to assets ratio

In thousands of euros At 31 December	2019	2018
Total equity	377,018	367,674
Total assets	625,532	623,639
Equity to assets ratio	**60%**	**59%**

At 31 December 2019, the Group's equity to assets ratio, i.e. the ratio of total equity to total assets was 60% (31 December 2018: 59%). Compared to 2018, the ratio has increased by 1 percentage point (2018: compared to 2017 by 4 percentage points) with total equity increasing by 3% and total assets by 0.3% (2018: increasing by 13% and 4%, respectively).

Unrestricted equity

At 31 December 2019, the Group's unrestricted equity amounted to EUR 49,521 thousand (31 December 2018: EUR 42,101 thousand). According to the Estonian Commercial Code shareholders will not be paid dividends if the net assets of the company recognised in the annual report approved at the end of the previous financial year are or would be less than total share capital and reserves which under the law or the articles of association are not be paid out to shareholders. At 31 December 2019 and 31 December 2018 the Parent could have distributed all of its unrestricted equity without contravening the law.

Statutory capital reserve

At 31 December 2017, the statutory capital reserve met the requirements of the Estonian Commercial Code. As a result of the increase of share capital by EUR 77,796 thousand in 2018 the Parent's capital reserve does not comply with the amount required by the articles of association. According to the Estonian Commercial Code, each financial year 1/20 (5%) of profit is to be transferred to the statutory capital reserve until the reserve reaches the amount required by the articles of association. After that profit transfers to the capital reserve will be discontinued.

The statutory capital reserve was not increased in 2019 or 2018 because the Parent incurred a loss in 2018.

Hedge reserve

The hedge 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 17).

In thousands of euros	2019	2018
Hedge reserve at beginning of period	**–425**	**–609**
Change in derivatives' market value (net) (note 16)	182	184
Hedge reserve at end of period	**–243**	**–425**

Dividends

In thousands of euros	2019	2018
Dividends declared in the reporting period	35,242	105,000
Dividends distributed in the reporting period	34,970	105,000
Income tax withheld on dividends in the reporting period	272	0
Dividend per share (in euros)	0.13	0.46

Based on the resolution of the general meeting that convened on 14 May 2019, the Group paid for 2018 a dividend of EUR 0.134 per share, i.e. EUR 35.242 million in total. The list of shareholders entitled to receive the dividend was determined on 28 May 2019 (the ex-dividend date: 27 May 2019) and the dividend was paid out to the shareholders on 4 June 2019 (through Nasdaq CSD).

Income tax on dividends

In thousands of euros	2019	2018
Outstanding income tax on dividends	*4,949*	*0*
Income tax charged on dividends in the Republic of Estonia	5,764	26,199
Income tax paid on dividends in the Republic of Estonia	–10,985	–21,250
Incl. income tax withheld on dividends	*–272*	*0*
Outstanding income tax on dividends (note 15)	*0*	*4,949*

The Group's unrestricted equity as at 31 December 2019 amounted to EUR 49,521 thousand (2018: EUR 42,101 thousand). The maximum possible income tax liability which would arise if all of the unrestricted equity were distributed as dividends is EUR 8,303 thousand (2018: EUR 7,479 thousand). At 31 December 2019, the tax rates used to calculate the maximum possible tax liability for 2020 were 14/86 (applied to the possible dividend in an amount equal to one third of profit distributed and taxed in 2018 and 2019) and 20/80 (applied to the remaining unrestricted equity). At 31 December 2018, the tax rates used to calculate the maximum possible tax liability for 2019 were 14/86 (applied to the possible dividend in an amount equal to one third of profit distributed and taxed in 2018) and 20/80 (applied to the remaining unrestricted equity).

20. REVENUE

In thousands of euros	2019	2018
Revenue from contracts with customers		
Vessel dues	46,720	48,499
Cargo charges	7,141	7,238
Passenger fees	17,074	17,104
Sale of electricity	5,433	5,809
Sale of ferry services - ticket sales	11,583	11,150
Sale of other services	2,389	2,248
Total revenue from contracts with customers	**90,340**	**92,048**
Revenue from other sources		
Rental income from operating leases (note 12)	11,960	11,376
Charter fees	9,665	8,880
Sale of ferry services - government support (note 18)	18,571	18,331
Total revenue from other sources	**40,196**	**38,587**
Total revenue (note 3)	**130,536**	**130,635**

In 2019, revenue from services provided in the Republic of Estonia and Canada amounted to EUR 125,578 thousand and EUR 4,958 thousand (including charter fees of EUR 4,854 thousand), respectively. In 2018, revenue from services provided in the Republic of Estonia and Canada amounted to EUR 126,387 thousand and EUR 4,248 thousand (including charter fees of EUR 4,202 thousand), respectively.

Disaggregation of revenue

Transaction price allocated to the remaining performance obligations

At the end of the reporting period, performance obligations related to cargo charges, sale of electricity and sale of other services were partially unsatisfied. The Group applies the practical expedient in paragraph 121(b) of IFRS 15 for those revenue streams (single performance obligation that is made up of a series of distinct services) and does not disclose the transaction price allocated to the remaining performance obligation as the Group has a right to consideration from customers in an amount that corresponds directly to the value that the Group's performance obligations completed to date have for the customer and the Group has recognised revenue in the amount in which it has a right to invoice the customers. Partially unsatisfied performance obligation related to connection fees as at 31 December 2019 amounted to EUR 913 thousand (31 December 2018: EUR 939 thousand). Revenue for 2019 includes connection fees of EUR 43 thousand (2018: EUR 41 thousand). Management expects that the transaction price allocated to unsatisfied performance obligations will be recognised as revenue over the next 7-29 years (which is the average remaining useful life of the investments made to enable connection) on a straight-line basis.

21. OPERATING EXPENSES

In thousands of euros	2019	2018
Fuel, oil and energy costs	11,388	11,725
Technical maintenance and repair of non-current assets	7,022	7,332
Services purchased for infrastructure	2,780	2,879
Tax expenses	2,762	3,224
Incl. land tax	*2,709*	*2,822*
Consultation and development expenses	757	1,299
Incl. research and development expenses	*347*	*671*
Services purchased	5,523	5,364
Incl. mooring service	*1,035*	*1,046*
reception of ship-generated waste	*2,351*	*2,234*
port dues	*2,091*	*2,031*
Acquisition and maintenance of insignificant assets	1,269	1,321
Advertising expenses	349	398
Lease expenses	566	1,051
Expenses on short-term leases	*581*	*0*
Insurance expenses	809	787
Other operating expenses	2,863	1,980
Incl. expenses (+)/decrease in expenses (-) from credit-impaired financial assets	*233*	*–303*
Total operating expenses	**36,669**	**37,360**

Personnel expenses

In thousands of euros	2019	2018
Wages and salaries	14,965	14,636
Social security charges	4,902	4,784
Total personnel expenses	**19,867**	**19,420**
Incl. short-term benefits of members of management and supervisory boards of Group companies	*856*	*780*
social security charges on members of management and supervisory boards of Group companies	*283*	*257*
Total expenses on members of management and supervisory boards of Group companies	**1,139**	**1,037**

Under contracts in force at 31 December 2019, AS Tallinna Sadam has an obligation to pay the members of its management board (key management personnel) compensation on their removal from the board in an amount equal to their three months' remuneration (EUR 85.8 thousand in 2019 and EUR 76.5 thousand in 2018). Also, in return for observing the non-competition clause, AS Tallinna Sadam has an obligation to pay management board members monthly compensation in an amount equal to 50% of their remuneration (EUR 171.6 thousand in 2019 and EUR 153 thousand in 2018) during 12 months after the expiry of the contract.

Under contracts in force at 31 December 2019, the subsidiaries of AS Tallinna Sadam had an obligation to pay compensation to their members of the management board on their removal from the board in an amount equal to their three months' remuneration (EUR 67.5 thousand in 2019 and EUR 66.0 thousand in 2018).

Number of employees

	2019	2018
People working under employment contracts	492	496
People working under contracts for services excluding self-employed people	14	5
Members of legal person's management or control bodies	7	5
Total	**513**	**506**

22. OTHER INCOME

In thousands of euros	2019	2018
Gain on sale of non-current assets	25	11
Penalties, interest on arrears	137	117
Income from government grants (note 18)	809	645
Other income	46	43
Total other income	**1,017**	**816**

23. FINANCE COSTS

In thousands of euros	2019	2018
Interest expense on loans and borrowings:		
Interest expense on loans (note 16)	316	348
Interest expense on debt securities (note 16)	1,147	1,221
Interest expense on derivatives (note 16)	265	366
Total interest expense on loans and borrowings	***1,728***	***1,935***
Foreign exchange loss	18	21
Other finance costs	51	47
Total finance costs	**1,797**	**2,003**

24. RELATED PARTY TRANSACTIONS

67.03% of the shares in AS Tallinna Sadam are held by the Republic of Estonia (through the Ministry of Economic Affairs and Communications).

In thousands of euros	2019	2018
Transactions with an associate		
Revenue	238	207
Operating expenses	2,426	2,293
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	0	1
Operating expenses	15	9
Other expenses	22	13
Transactions with government agencies and companies in which the state has control		
Revenue	24,117	23,760
Other income	10	13
Operating expenses	7,747	7,182
Other expenses	15	3
Acquisition of property, plant and equipment	2,579	748

In thousands of euros At 31 December	2019	2018
Trade receivables from and payables to an associate		
Receivables (note 8)	36	25
Payables (note 14)	127	134
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Receivables	4	4
Payables	1	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	412	412
Payables	1,202	1,342

All purchases and sales of services were transactions conducted in the ordinary course of business on an arm's length basis. Benefits payable to the members of the management and supervisory boards are disclosed in note 21. Revenue and operating expenses from transactions with related parties comprise only revenue and expenses from sales and purchases of business-related services. Information presented on companies in which members of the supervisory and management boards of group companies have significant influence is based on the information provided about the related parties.

25. COMMITMENTS

At 31 December 2019, the Group's contractual commitments related to acquisition of property, plant and equipment, repairs, and research and development expenditures totalled EUR 19,810 thousand (31 December 2018: EUR 21,003 thousand).

26. NON-CASH INVESTING ACTIVITIES

Purchases of property, plant and equipment

In thousands of euros	2019	2018
Purchases of property, plant and equipment	**–27,965**	**–11,941**
Offsetting	–58	0
Non-monetary contributions	0	-2,392
Paid for previous period	1,216	1,908
Trade payables outstanding at end of period (note 14)	–2,162	–1,216
Other adjustments	0	9
Total adjustments	*–1,004*	*–1,691*
Acquisition and reconstruction (note 10)	**28,969**	**13,632**

Purchases of intangible assets

In thousands of euros	2019	2018
Purchases of intangible assets	**–550**	**–618**
Offsetting	–4	0
Paid for previous period	65	64
Trade payables outstanding at end of period (note 14)	–26	–65
Total adjustments	*35*	*–1*
Acquisition and reconstruction (note 11)	**515**	**619**

27. CONTINGENT LIABILITIES

The tax authorities may inspect the Group's tax accounting records for up to 5 years as from the term for the submission of tax returns and upon identifying any misstatement, impose additional tax and penalties. The tax authorities did not initiate or conduct any tax inspections at Group companies or single-case inspections in the reporting or the comparative period. According to the assessment of the Group's management, there are no circumstances that could cause the tax authorities to determine a significant amount of additional tax to be paid by Group companies.

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.

In June 2019, Harju County Court accepted the statement of claim filed by AS Coal Terminal (bankrupt) and its bankruptcy trustees against AS Tallinna Sadam for the compensation of the market price of the buildings and equipment of the former coal terminal located at the Muuga Harbour and interest on arrears due to the expiry of the right of superficies contracts. The claim for compensation amounts to EUR 22.4 million plus interest on arrears.

AS Coal Terminal (bankrupt), a long-term customer of AS Tallinna Sadam, was declared bankrupt on 2 May 2017. Because bankruptcy trustees refused to execute commitments under the right of superficies contracts, the contracts together with the assets erected on the plots covered by the right of superficies contracts were transferred back into the possession of the Group. Under the contracts, AS Tallinna Sadam has to compensate the value of buildings and equipment that form an essential part of the rights of superficies. The value cannot be estimated reliably because the assets are special-purpose assets for which a regular market does not exist and there are contradictory views both among the experts and the parties of the dispute on the valuation methods that should be used. On 6 July 2018, bankruptcy trustees sent AS Tallinna Sadam a letter of claim, demanding that AS Tallinna Sadam pay compensation of EUR 22.4 million for the value of the assets. AS Tallinna Sadam did not admit the claim. Thus, the bankruptcy trustees filed a statement of claim to the court. The Group has sold several assets that were transferred back to it. Proceeds from the sale of the assets amount to EUR 2.6 million (note 14). In connection with the termination of contracts, AS Tallinna Sadam has submitted a counter-claim, demanding compensation of EUR 11.7 million for damages incurred. The management board believes that the action demanded in the statement of claim is not substantiated. The ultimate financial effect of the bankruptcy proceedings depends on the combined effect of the outcomes of several parallel disputes whose monetary impact on the Group cannot be estimated reliably. Also, there is no certainty about the timing of the realisation of the claims and liabilities. Thus, the management board has not recognised a provision for a possible claim.

In June 2019, the court accepted a statement of claim for damages of EUR 23.8 million in total filed against Group companies OÜ TS Laevad and OÜ TS Shipping in relation to alleged unjustified use of confidential information in a public tender to provide public passenger transport service on the Saaremaa and Hiiumaa routes. The statement of claim is identical to the one filed by the same plaintiffs in a previous civil case which was dismissed by Harju County Court on 8 March 2019 because the plaintiffs did not provide security of EUR 14,000 in total ordered by the court for covering the estimated costs of the proceedings. The Group will challenge the claim and defend itself in the action. The management board is of the opinion that the claim is not substantiated and according to the assessment of legal advisers it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

Due to a significant decrease in cargo volumes handled, one of the Group's long-term customers has lodged a claim to void select conditions in a long-term cooperation contract concluded between the Group and the customer retrospectively as from 1 January 2015. The conditions set out the minimum cargo volume that the customer is required to handle each calendar year as well as the customer's minimum annual cargo charge obligation, which are related to the contractual penalty charged for failure to meet the minimum cargo charge obligation.

The customer's contractual penalties for failure to meet the minimum cargo charge obligation in the years 2015-2017 amount to EUR 0.45 million. The customer's minimum annual cargo charge obligation is EUR 0.31 million.

At the end of 2019, the customer filed an application to the Competition Authority, requesting the initiation of supervision proceedings to establish whether the Group has violated the Competition Act. At the same time the client made a request to Harju County Court for the suspension of proceedings until the Competition Authority has communicated its opinion on the matter. The County Court has not ruled on the suspension of the proceedings. The management board is of the opinion that the claim is not substantiated and according to the assessment of legal advisers it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

28. INVESTIGATIONS CONCERNING THE GROUP

On 26 August 2015, the Estonian Internal Security Service detained Ain Kaljurand and Allan Kiil, long-term members of the management board of the Group's Parent, AS Tallinna Sadam, on suspicion of large-scale bribery during several prior years. After long-term investigation, on 31 July 2017 the Group filed a civil action lawsuit against Ain Kaljurand, Allan Kiil and other private and legal persons involved in the episodes under investigation. At the date of release of this report, the court proceedings are still ongoing. Based on information available at the reporting date, the management board believes that the above event will not have any material adverse impact on the Group's financial performance or financial position. However, it may continue to cause damage to the Group's reputation.

29. ADDITIONAL INFORMATION ON THE PARENT

The financial information on the Parent comprises the primary financial statements of the Parent which are required to be disclosed in accordance with the Estonian Accounting Act, but which 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 on preparing the consolidated financial statements, except that investments in subsidiaries are measured at cost.

Statement of financial position

In thousands of euros	31 December 2019	31 December 2018
ASSETS		
Current assets		
Cash and cash equivalents	18,607	31,849
Trade and other receivables	18,665	16,095
Inventories	6	12
Total other current assets	*37,278*	*47,956*
Non-current assets held for sale	142	0
Total current assets	**37,420**	**47,956**
Non-current assets		
Investments in subsidiaries	8,774	8,774
Investments in an associate	132	132
Other long-term receivables	113,874	122,066
Property, plant and equipment	439,272	428,002
Intangible assets	1,270	1,175
Total non-current assets	**563,322**	**560,149**
Total assets	**600,742**	**608,105**
LIABILITIES		
Current liabilities		
Loans and borrowings	16,266	15,766
Derivative financial instruments	243	425
Provisions	1,755	1,814
Taxes payable	555	5,404
Trade and other payables	9,772	7,293
Total current liabilities	**28,591**	**30,702**
Non-current liabilities		
Loans and borrowings	191,580	197,846
Government grants	24,754	23,418
Other payables	916	1,018
Total non-current liabilities	**217,250**	**222,282**
Total liabilities	**245,841**	**252,984**
EQUITY		
Share capital	263,000	263,000
Share premium	44,478	44,478
Statutory capital reserve	18,520	18,520
Hedge reserve	–243	–425
Retained earnings (prior periods)	–5,694	31,534
Profit/loss for the period	34,840	–1,986
Total equity	**354,901**	**355,121**
Total liabilities and equity	**600,742**	**608,105**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Statement of profit or loss

In thousands of euros	2019	2018
Revenue	90,384	92,031
Other income	971	774
Operating expenses	–24,250	–24,542
Personnel expenses	–11,167	–11,013
Depreciation, amortisation and impairment	–15,189	–14,677
Other expenses	–232	–205
Operating profit	**40,517**	**42,368**
Finance income and costs		
Finance income	1,822	2,036
Finance costs	–1,735	–20,191
Finance costs – net	**87**	**–18,155**
Profit before income tax	**40,604**	**24,213**
Income tax expense	–5,764	–26,199
Profit/loss for the period	**34,840**	**–1,986**

Statement of other comprehensive income

In thousands of euros	2019	2018
Profit/loss for the period	**34,840**	**–1,986**
Other comprehensive income *Items that may be reclassified subsequently to profit or loss:* *Net fair value gain on hedging instruments in cash flow hedges*	182	184
Total other comprehensive income	**182**	**184**
Total comprehensive income/expense for the period	**35,022**	**–1,802**

Statement of cash flows

In thousands of euros	2019	2018
Cash receipts from sale of goods and services	96,236	97,601
Cash receipts related to other income	193	103
Other receipts	0	2,600
Payments to suppliers	–31,813	-31,367
Payments to and on behalf of employees	–8,522	-8,406
Payments for other expenses	–205	-205
Income tax paid on dividends	–10,985	-21,250
Cash from operating activities	**44,904**	**39,076**
Purchases of property, plant and equipment	–25,346	-10,952
Purchases of intangible assets	–451	-492
Proceeds from sale of property, plant and equipment	39	11
Repayment of loans provided	8,289	6,647
Dividends received	204	204
Interest received	1,629	4,767
Cash used in/from investing activities	**–15,636**	**185**
Contributions to share capital	0	119,883
Redemption of debt securities	–9,000	–12,650
Proceeds from loans received	10,000	0
Repayments of loans received	–6,766	–6,766
Change in overdraft (liability)	0	–2,565
Payments of lease principal	0	–7
Dividends paid	–34,970	–105,000
Interest paid	–1,769	–2,024
Other payments related to financing activities	–5	-33
Cash used in financing activities	**–42,510**	**–9,162**
NET CASH FLOW	–13,242	30,099
Cash and cash equivalents at beginning of the period	31,849	1,750
Change in cash and cash equivalents	–13,242	30,099
Cash and cash equivalents at end of the period	18,607	31,849

Statement of changes in equity

In thousands of euros	Share capital	Share pre-mium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity
Equity at 31 December 2017	**185,203**	**0**	**18,520**	**–609**	**136,534**	**339,648**
Loss for the period	0	0	0	0	–1,986	**–1,986**
Other comprehensive income for the period	0	0	0	184	0	**184**
Total comprehensive expense for the period	*0*	*0*	*0*	*184*	*–1,986*	***–1,802***
Contributions to share capital	77,797	44,478	0	0	0	**122,275**
Dividends declared	0	0	0	0	–105,000	**–105,000**
Total transactions with owners	*77,797*	*44,478*	*0*	*0*	*–105,000*	***17,275***
Equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**–425**	**29,548**	**355,121**
Carrying amount of interests under control and significant influence	0	0	0	0	–2,003	**–2,003**
Value of interests under control and significant influence under the equity method	0	0	0	0	14,556	**14,556**
Adjusted unconsolidated equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**–425**	**42,101**	**367,674**

In thousands of euros	Share capital	Share pre-mium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity
Equity at 31 December 2018	**263,000**	**44,478**	**18,520**	**–425**	**29,548**	**355,121**
Profit for the period	0	0	0	0	34,840	**34,840**
Other comprehensive income for the period	0	0	0	182	0	**182**
Total comprehensive income for the period	*0*	*0*	*0*	*182*	*34,840*	***35,022***
Contributions to share capital	0	0	0	0	0	**0**
Dividends declared	0	0	0	0	–35,242	**–35,242**
Total transactions with owners	*0*	*0*	*0*	*0*	*–35,242*	***–35,242***
Equity at 31 December 2019	**263,000**	**44,478**	**18,520**	**–243**	**29,146**	**354,901**
Carrying amount of interests under control and significant influence	0	0	0	0	–2,003	**–2,003**
Value of interests under control and significant influence under the equity method	0	0	0	0	24,120	**24,120**
Adjusted unconsolidated equity at 31 December 2019	**263,000**	**44,478**	**18,520**	**–243**	**51,263**	**377,018**

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.

30. UNBUNDLING OF ACTIVITIES BASED ON THE ELECTRICITY MARKET ACT

ACCOUNTING POLICIES

The financial statements have been prepared in compliance with section 17 subsection 3 of the Electricity Market Act. According to the above subsection an electricity undertaking has to present a statement of financial position and statement of profit or loss for each area of activity in the notes to its financial statements.

The financial statements include a statement of financial position and statement of profit or loss for each of the following areas of activity:

- provision of network services;
- sale of electricity;
- other activities.

During the financial year income, expenses and non-current assets directly attributable to the areas of activity are accounted for separately for each area of activity. Indirect and administrative expenses are allocated, in the case of personnel expenses, based on the estimated distribution of personnel between the areas of activity and, in the case of other expenses, based on the proportion of sales of each area of activity. At the end of the financial year, items of the statement of financial position are allocated as described below.

Trade receivables

Sales invoices for connection fees, maintenance services, sale of electricity, and provision of network service.

Inventories

Inventories attributable to network service.

Non-current assets

Non-current assets directly attributable to the provision of network service and sale of electricity.

Trade payables

Trade payables are allocated according to factual data, the analysis is based on invoices issued by suppliers.

Taxes payable, short-term provisions, other payables

Related to remuneration (wages and salaries, bonuses, taxes) and allocated to the areas of activity according to the allocation of personnel expenses.

Government grants

Liabilities arising from government grants related to non-current assets directly attributable to the provision of network service and the sale of electricity.

Contract liabilities

Due to the nature of connection fees, deferred income is allocated to network service and other operating activities.

NOTE 30 CONTINUED

STATEMENT OF FINANCIAL POSITION

as at 31 December

In thousands of euros	2019	2018	Sale of electricity 2019	Sale of electricity 2018	Provision of electrical distribution network service 2019	Provision of electrical distribution network service 2018	Other operations 2019	Other operations 2018
ASSETS **Current assets**								
Cash and cash equivalents	35,183	42,563	0	0	0	0	35,183	42,563
Trade and other receivables	10,614	8,017	173	246	360	425	10,081	7,346
Inventories	408	305	0	0	0	7	408	298
Non-current assets held for sale	142	0	0	0	0	0	142	0
Total current assets	**46,347**	**50,885**	**173**	**246**	**360**	**432**	**45,814**	**50,207**
Non-current assets								
Investments in associates	1,609	1,569	0	0	0	0	1,609	1,569
Other long-term receivables	294	196	0	0	0	0	294	196
Property, plant and equipment	575,267	568,965	0	0	15,741	16,104	559,526	552,861
Intangible assets	2,015	2,024	0	0	0	0	2,015	2,024
Total non-current assets	**579,185**	**572,754**	**0**	**0**	**15,741**	**16,104**	**563,444**	**556,650**
Total assets	**625,532**	**623,639**	**173**	**246**	**16,101**	**16,536**	**609,258**	**606,857**
LIABILITIES **Current liabilities**								
Loans and borrowings	16,266	15,766	0	0	0	0	16,266	15,766
Derivative financial instruments	243	425	0	0	0	0	243	425
Taxes payable	893	5,844	0	0	66	56	827	5,788
Provisions	1,915	1,957	0	0	68	98	1,847	1,859
Government grants	193	174	0	0	0	0	193	174
Trade and other payables	11,755	9,517	372	265	252	362	11,131	8,890
Total current liabilities	**31,265**	**33,683**	**372**	**265**	**386**	**516**	**30,507**	**32,902**
Non-current liabilities								
Loans and borrowings	191,580	197,846	0	0	0	0	191,580	197,846
Government grants	24,754	23,418	0	0	1,111	1,094	23,643	22,324
Other payables	915	1,018	0	0	913	930	2	88
Total non-current liabilities	**217,249**	**222,282**	**0**	**0**	**2,024**	**2,024**	**215,225**	**220,258**
Total liabilities	**248,514**	**255,965**	**372**	**265**	**2,410**	**2,540**	**245,732**	**253,160**
EQUITY								
Share capital	263,000	263,000	0	0	0	0	0	0
Share premium	44,478	44,478	0	0	0	0	0	0
Statutory capital reserve	18,520	18,520	0	0	0	0	0	0
Hedge reserve	–243	–425	0	0	0	0	0	0
Retained earnings (prior periods)	6,859	17,678	0	0	0	0	0	0
Profit/loss for the period	44,404	24,423	–31	–38	720	642	43,715	23,819
Total equity	**377,018**	**367,674**	**–199**	**–19**	**13,691**	**13,996**	**363,526**	**353,697**

STATEMENT OF PROFIT OR LOSS

			Sale of electricity		Provision of electrical distribution network service		Other operations	
In thousands of euros	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	130,536	130,635	1,894	2,112	3,637	3,763	125,005	124,760
Other income	1,017	816	0	0	42	41	975	775
Operating expenses	–36,669	–37,360	–1,845	–2,088	–1,718	–1,823	–33,106	–33,449
Personnel expenses	–19,867	–19,420	–76	–58	–479	–601	–19,312	–18,761
Depreciation, amortisation and impairment	–23,037	–22,345	–4	–4	–762	–738	–22,271	–21,603
Other expenses	–301	–251	0	0	0	0	–301	–251
Operating profit/loss	**51,679**	**52,075**	**–31**	**–38**	**720**	**642**	**50,990**	**51,471**
Finance income and costs								
Finance income	42	33	0	0	0	0	42	33
Finance costs	–1,797	–2,003	0	0	0	0	–1,797	–2,003
Finance costs - net	**–1,755**	**–1,970**	**0**	**0**	**0**	**0**	**–1,755**	**–1,970**
Share of profit of an associate accounted for under the equity method	244	517	0	0	0	0	244	517
Profit/loss before income tax	**50,168**	**50,622**	**–31**	**–38**	**720**	**642**	**49,479**	**50,018**
Income tax expense	–5,764	–26,199	0	0	0	0	–5,764	–26,199
Profit/loss for the period	**44,404**	**24,423**	**–31**	**–38**	**720**	**642**	**43,715**	**23,819**

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of AS Tallinna Sadam

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Sadam (the Group) as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the consolidated financial statements of AS Tallinna Sadam, as set out on pages 56 to 127. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of changes in equity for the year ended, and
- the notes, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

We confirm that our audit opinion is consistent with the additional report presented to the audit committee of the Group and we have not provided to the Group the prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014. We also remained independent of the audited entity in conducting the audit.

Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the Group audit. In this respect, we have determined the type of work to be performed for Group entities based on the size and/or the risk characteristics of the Group entities.

Of the Group's 3 components, we determined 3 components to be significant Group entities and we subjected those components to a full scope audit, covering all of the Group's consolidated financial

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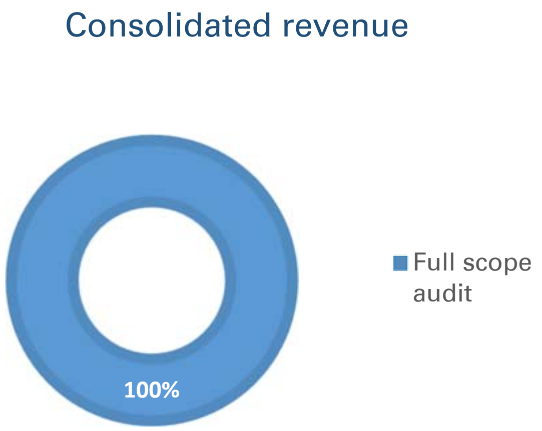
position and consolidated financial performance. These components were AS Tallinna Sadam, OÜ TS Laevad and OÜ TS Shipping.

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

Coverage of procedures performed on consolidated revenue and consolidated total assets:



The work on significant Group entities was performed by the Group audit team in Estonia.

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

Key Audit Matters

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

Contingent liabilities resulting from a legal dispute with AS Coal Terminal (bankrupt)	
Refer to note 27 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
AS Coal Terminal, a company declared bankrupt in 2017, and its bankruptcy trustees have sued the Group for compensation of the value of the buildings and equipment of a former coal terminal at Muuga Harbour due to the termination of the right of superficies contracts. Under the contracts, the Group has to compensate the value of the buildings and equipment that reverted to it and form an essential part of the rights of superficies. The value, however, cannot be estimated reliably because the underlying items are special-purpose assets for which there is no regular market. The amount of the claim is EUR 22.4	In this area, we conducted, among others, the following audit procedures: • we discussed the status and potential outcome of the litigation with the Group's management and audit committee. We read the minutes of the meetings of the management and supervisory boards where developments in the legal proceedings were discussed; • assisted by our own specialists, we assessed whether the recognition of liabilities resulting from the litigation complies with relevant requirements of the International Financial Reporting Standards;

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million, plus interest on arrears. The Group has filed a counterclaim of EUR 11.7 million as compensation for losses related tohe termination of the contracts. The assessment of the possible outcome of the litigation, including the probability of losing the case and the amount of any resulting liabilities, involves significant judgements made by management. The Group has not recognised a provision for the claim as at 31 December 2019 as the monetary impact of the bankruptcy proceedings cannot be estimated reliably and there is also no certainty about the timing of the realisation of the above-mentioned claims and possible liabilities. The circumstances of the dispute, including the maximum amounts of the claim for compensation of the assets and the Group's counterclaim, have been disclosed in the notes to the consolidated financial statements. We have considered the ongoing litigation to be a key audit matter given the potential magnitude of its impact and the uncertainty about the timing and amount of possible outflows of economic benefits.	• we obtained representations from the Group's internal and external legal counsels and compared their expert opinions of the probability and magnitude of the possible outcomes of the litigation to management's assessments; • we assessed whether the related disclosures in the consolidated financial statements were adequate and in compliance with the disclosure requirements of the financial reporting standards.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

In note 30 to the consolidated financial statements, the Group has described the principles and made the disclosures required by section 17 of the Electricity Market Act. In our opinion, the data presented in note 30 to the consolidated financial statements is, in all material respects, in conformity with the accounting policies presented in note 30 to the consolidated financial statements.

Appointment as Auditor and Audit Period

We were appointed by those charged with governance to audit the financial statements of AS Tallinna Sadam for the periods ended 31 December 2018 to 31 December 2020 on 25 April 2018. We have been auditors of AS Tallinna Sadam as a public interest entity for a total of two years, including the period ended 31 December 2019. In accordance with the Estonian Auditors Activities Act and Regulation (EU) No 537/2014, our engagement as auditors of AS Tallinna Sadam may be extended until the period ending 31 December 2027.

Tallinn, 13 March 2020

/signature/

Andris Jegers

Certified Public Accountant, Licence No 171

/signature/

Ele Pajusaar

Certified Public Accountant, Licence No 652

KPMG Baltics OÜ
Licence No 17

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Statement of the supervisory board

The supervisory board of AS Tallinna Sadam has approved the group annual report of AS Tallinna Sadam as at and for the year ended 31 December 2019, which consists of the management report and the financial statements, and the accompanying independent auditors' report.

2 April 2020

Aare Tark **Ahti Kuningas** **Maarika Liivamägi**

Urmas Kaarlep **Üllar Jaaksoo** **Raigo Uukkivi**

Profit allocation proposal

At 31 December 2019, the Group's retained earnings amounted to EUR 51,262,653 including profit for the period of EUR 44,403,995. Based on the dividend policy approved by the general meeting under which dividend payments have to amount to at least EUR 30 million in 2019 and 2020 and at least 70% of profit from 2021, the management board proposes that the Group allocate a dividend of EUR 39,713,000. The expected dividend per share is EUR 0.151.

Based on section 332 of the Commercial Code of Estonia, the management board proposes that the total retained earnings of EUR 51,262,653 for the year ended 31 December 2019 be allocated as follows:

Dividend distribution	EUR 39,713,000
Transfer to statutory capital reserve	EUR 1,742,002
Transfer to retained earnings	EUR 9,807,651

13 March 2020

Valdo Kalm
Chairman of the
Management Board

Marko Raid
Member of the
Management Board

Margus Vihman
Member of the
Management Board