

Company AS Tallink Grupp
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Attachments:

- TallinkGru-10001918611-en.pdf (<http://oam.fi.ee/en/download?id=3883>)
- TallinkGru-10001918612-en.pdf (<http://oam.fi.ee/en/download?id=3884>)
- TallinkGru-10001918614-et.pdf (<http://oam.fi.ee/en/download?id=3885>)
- TallinkGru-10001918615-et.pdf (<http://oam.fi.ee/en/download?id=3886>)

Currency

Title AS Tallink Grupp Unaudited Consolidated Interim Report Q1 2019

In the first quarter (1 January - 31 March) of the 2019 financial year Tallink Grupp AS and its subsidiaries (the Group) carried 1.9 million passengers, which is 3.9% less than in the first quarter last year. The Group's unaudited revenue for the first quarter decreased by 2.9% to a total of EUR 178.9 million. Unaudited EBITDA for the first quarter was EUR 3.8 million (EUR 4.2 million in Q1 2018) and unaudited net loss was EUR 25.3 million (net loss of EUR 19.6 million in Q1 2018).

In the first quarter, which is also the low season, the Group's revenue and operating result were impacted by the following operational factors:

- * Planned dockings of seven ships. Among other ships, the maintenance and repair of the cruise ferry Baltic Queen lasted for 42 days, which affected the Estonia-Sweden segment's first quarter carriage volumes and financial result.
- * In 2019 the Easter holidays, when traffic volumes usually increase, were in April, last year the holidays were in March.

Sales and segments

In the first quarter of 2019, the Group's total revenue decreased by EUR 5.3 million and amounted to EUR 178.9 million. The revenue in the first quarter of 2018 and 2017 was EUR 184.2 and EUR 191.5 million, respectively.

- * The total revenue from the shipping operations in the Baltic Sea (core business) decreased by 1.8% or EUR 3.1 million to EUR 169.5 million. Due to numerous scheduled dockings, there were 1.5% less trips compared to the first quarter of 2018.



* The revenue from the other segment, including intra-group eliminations, decreased by total of EUR 2.2 million and amounted to EUR 9.4 million. The decrease was driven largely by lower sales at shops on land (in Tallinn Old Harbour areas). In addition, operations of Tallink Pirita Spa Hotel in Tallinn were ceased from November 2018 due to sale of the hotel property by its owner.

The positive development of the cargo business continued in the first quarter of 2019 financial year. The transported cargo volumes increased in total by 2.7%, the cargo revenues increased by 1.5% or EUR 0.4 million and amounted to EUR 29.6 million in the first quarter.

In the first quarter of 2019, The Group's ships carried a total of 1.0 million passengers on the Estonia-Finland routes, which is a 2.7% decrease compared to last year, while the total passenger volume on the routes decreased by 4%. The number of transported cargo units on the routes increased by 2.4%. On the Tallinn - Helsinki route, added capacity by competitors resulted in increased pressure on ticket prices. The Estonia-Finland segment revenue decreased by EUR 1.9 million and amounted to EUR 70.4 million. The segment result decreased by EUR 1.7 million and amounted to EUR 6.9 million.

The Finland-Sweden routes' revenue increased by EUR 5.2 million and amounted to EUR 67.9 million. The developments were largely affected by the lengthy maintenance and repair works of the cruise ferry Baltic Princess in the first quarter of 2018.

The Estonia-Sweden routes' revenue decreased by EUR 5.9 million, compared to the previous year. The maintenance and repair of the cruise ferry Baltic Queen in the first quarter affected the Estonia-Sweden segment's carriage volumes and financial result.

While the number of passengers carried on the Latvia-Sweden route decreased by 10.9%, affected by maintenance and repair of the cruise ferry Isabelle in the period, the revenue decreased by only 3.8% or EUR 0.5 million, compared to the previous year. The positive development of the route's cargo carriage volumes continued in the first quarter of 2019 financial year.

Earnings

In the first quarter of 2019, the Group's gross profit decreased by EUR 3.2 million compared to the same period last year, amounting to EUR 10.5 million. First quarter EBITDA amounted to EUR 3.8 million. First quarter comparable EBITDA, i.e. without IFRS 16 adoption effect, decreased by EUR 4.6 million compared to the same period last year and was EUR -0.4 million.

The Group's first quarter result was impacted negatively by the planned dockings of seven vessels, Easter holiday traffic in April and nonrecurring costs from compensations paid to resigned management board members.



Amortisation and depreciation expense increased by EUR 5.2 million to EUR 24.7 million compared to the first quarter of 2018. The increase was mainly a result of the IFRS 16 adoption effect in the amount of EUR 3.6 million.

Net finance costs decreased by EUR 34 thousand compared to the first quarter last year. The change includes a decline of EUR 1.2 million in interest costs compared to same period the previous year and EUR 0.6 million less profit from foreign exchange differences and the revaluation of cross currency and interest rate derivatives. In addition, in Q1 there is EUR 0.6 million interest expense from right-of-use assets liabilities (IFRS 16 adoption effect).

The Group's unaudited net loss for the first quarter of 2019 was EUR 25.3 million or EUR 0.038 per share compared to a net loss of EUR 19.6 million or EUR 0.029 per share in the first quarter of 2018 and compared to a net loss of EUR 20.3 million or EUR 0.030 per share in the first quarter of 2017.

Investments

In the first quarter of 2019 financial year the Group's investments amounted to EUR 25.3 million. Majority of the investments were made to technical dockings of seven vessels (Baltic Queen, Galaxy, Regal Star, Star, Silja Symphony, Victoria I, Isabelle).

A number of investments were made to upgrade the ships restaurants, shops and other public areas. On cruise ferry Baltic Queen the Fast Lane restaurant was built, Grande Buffet and show bar Starlight were renewed. On cruise ferry Galaxy the Fast Lane restaurant was built, Grande Buffet and show bar Starlight were renewed, on the Fashion Street the SuperDry shop in shop was added and kids area Silja Land was renewed. On cruise ferry Silja Symphony the Starlight show bar was refurbished according to a new concept, restaurant Grill House, Bon Vivant and Sea Pub were renewed, the new Tommy Hilfiger shop was added and cabin renovation project was concluded.

Investments were also made to the ships' technical maintenance to keep the ships in good technical working condition and innovative energy efficiency solutions were introduced, like upgrade of HVAC systems, fuel monitoring systems, preparations for high voltage shore power connections and hybrid battery solutions.

Dividends

To the shareholders' annual general meeting on 23 May 2019 the Management Board will propose a dividend of EUR 0.05 per share from net profit for 2018. The total proposed dividend amounts to EUR 33.5 million and equals to 83.6% of 2018 net profit. In addition, to improve the Company's capital structure, the Management will propose to reduce the Company's share capital by EUR 0.07 per share or by EUR 46.9 million.

Financial position



In the first quarter, the Group's net debt increased by EUR 128.8 million to EUR 556.8 million and the net debt to EBITDA ratio was 3.9 at the reporting date. The increase in net debt was mainly a result of the IFRS 16 adoption effect in the amount of EUR 104.3 million.

At the end of the first quarter, total liquidity (cash, cash equivalents and unused credit facilities) amounted to EUR 112.9 million (EUR 142.8 million at 31 March 2018) providing a strong financial position for sustainable operations.

At 31 March 2018, the Group's cash and cash equivalents amounted to EUR 47.8 million (EUR 70.1 million at 31 March 2018) and the Group had EUR 65.1 million in unused credit lines (EUR 72.7 million at 31 March 2018).

Economic Environment

The Group considers Finland, Sweden, Estonia and Latvia its home markets as these are the countries to and from which its shipping routes are operated. In terms of exposure to economic conditions, the Group is exposed the most to developments in Finland as nearly half of the passenger originate from that country. Exposure is also high to economic developments in Estonia (19% of total passengers in 2018) and Sweden (11%). The number of passengers from Latvia accounted for 5% of the total passengers in 2018 while the remaining 19% came from the rest of the world, mainly Europe.

There is no data yet available for the GDP for the first quarter of 2019 for any of the home markets, however, the apparent census of various sources for 2019 in general has projected the real GDP growth rate to slow relative to 2018 for all the home markets.

According to the OECD indicators the business confidence declined across all of the home markets in the first quarter of 2019 from the peaks achieved in the first half of 2018 (for Finland and Sweden) and in late 2018 (for Estonia). The decline in the first quarter of 2019 was particularly steep in Estonia. Business confidence in Latvia remained the highest among the Group's home markets, however with distinct decline from the end of 2018 throughout the quarter. That said, the underlying cargo operations still remained fundamentally robust in the first quarter of 2019.

The developments of the confidence of consumers in the first quarter of 2019 were more encouraging. Although there was a decline in the confidence indicator in Finland and Sweden, a theme throughout 2018, it appears to have levelled off based on the data of the first quarter of 2019, if only at least for the short term. While the situation of consumer confidence remained relatively stable in Latvia the confidence among consumer increased to new recent highs in Estonia supported by the labour market situation.

The labour situation remained challenging in the first quarter of the year reflecting the recent low unemployment rates in the home markets, particularly



in Estonia. The situation on the Estonian labour market has apparently contributed to the divergence of business and consumer confidence developments, which steepened well in the first quarter of 2019.

Key risks to the economic environment in all of the home markets have to do with uncertainties from increasing protectionist tendencies (including a potential trade war between China and the US, the UK's withdrawal from the EU) and potential deferral of investments leading to decreasing trade for all of open economies around the Baltic Sea. Also, the global fuel prices are expected to remain volatile due to uncertainties in the global economy and politics.

Events in Q1

Shipbuilding contract between Tallink Grupp and Rauma Marine Constructions
The contract for the construction of a new LNG-powered fast ferry for the Tallinn - Helsinki route shuttle operations entered into force on 27 March 2019.

The new vessel will cost approximately 250 million euros and it will be built at the Rauma shipyard in Finland. The delivery of the vessel is expected in January 2022.

According to the contract, 30 percent of the total cost will be paid during the construction period and the rest after the delivery of the vessel, 70 percent of the new ship cost will be financed in 2022 by long-term loan, the loan terms will be concluded in the near future.

Changes in the Management Board

On 4 February 2019, it was announced that the Tallink Grupp AS Supervisory Board appointed Mrs Kadri Land and Mr Harri Hanschmidt as Members of the Management Board and recalled from the Management Board Mr Janek Stalmeister following his resignation. The mandate of Mr Janek Stalmeister ended on 2 February 2019. The mandate of Mrs Kadri Land and Mr Harri Hanschmidt started on 4 February 2019 and lasts for a period of three years.

On 22 February 2019, it was announced that the Supervisory Board appointed Mrs Piret Mürk-Dubout as a Member of the Management Board and recalled from the Management Board Mr Andres Hunt following his resignation. The mandate of Mr Andres Hunt ended on 26 February 2019, the mandate of Mrs Mürk-Dubout started on 15 April 2019 and lasts for a period of three years.

Fuel price risk management

As a result of the agreements with the fuel suppliers in December 2018 and during the first quarter of 2019 the fuel price has been fixed for 41% of total fuel purchasing volume for the 2019 financial year.

Events after the reporting period and outlook

Prepayment for the new ship

The first instalment of the prepayment according to the shipbuilding contract was made to Rauma Marine Constructions in an amount of EUR 12.4 million in April 2019.



Earnings

The Group's earnings are not generated evenly throughout the year. The summer period is the high season in the Group's operations. In management's opinion and based on prior experience most of the Group's earnings are generated during the summer (June-August).

Research and development projects

Tallink Grupp AS does not have any substantial ongoing research and development projects. The Group is continuously seeking opportunities for expanding its operations in order to improve the results. The Group is looking for innovative ways to upgrade our ships and passenger area technology to improve the overall performance of our company through modern solutions. A collaboration with the Tallinn University of Technology (TalTech) was started to develop so-called "Smart Car Deck" solutions for the Group's vessels over the next two years.

In addition to that, the Group is participating in a programme, funded by the European Space Agency, with a goal to develop techniques for autonomous navigation for ships, using a combination of different sensors, machine learning and artificial intelligence.

Risks

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

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

Key figures

For the period	Q1 2019	Q1 2018	Change %
Revenue (million euros)	178.9	184.2	-2.9%
Gross profit (million euros)	10.5	13.7	-23.4%
EBITDA ¹ (million euros)	3.8	4.2	-9.5%
EBITDA adjusted ² (million euros)	-0.4	4.2	-108.7%



EBIT ¹ (million euros)	-20.9	-15.2	-37.5%
Net loss for the period (million euros)	-25.3	-19.6	-29.1%
Depreciation and amortisation ³ (million euros)	24.7	19.4	27.3%
Capital expenditures ¹ (million euros)	25.3	8.4	
Weighted average number of ordinary shares outstanding	669 878 007	669 882 040	0.0%
Earnings per share ¹	-0.038	-0.029	-29.1%
Number of passengers ¹	1 855 772	1 930 449	-3.9%
Number of cargo units ¹	93 114	90 687	2.7%
Average number of employees ¹	7 097	7 242	-2.0%
As at	31.03.19	31.12.18	Change %
Total assets ³ (million euros)	1 572.3	1 500.9	4.8%
Total liabilities (million euros)	744.0	644.0	15.5%
Interest-bearing liabilities? (million euros)	604.6	510.1	18.5%
Net debt ¹ (million euros)	556.8	428.0	30.1%
Net debt to EBITDA ¹	3.91	3.00	30.4%
Total equity (million euros)	828.3	856.9	-3.3%
Equity ratio ¹ (%)	52.7%	57.1%	
Number of ordinary shares outstanding	669 882 040	669 865 540	0.0%
Equity per share ¹	1.24	1.28	-3.3%



Ratios	Q1 2019	Q1 2018
Gross margin ¹ (%)	5.9%	7.4%
EBITDA margin ¹ (%)	2.1%	2.3%
EBITDA margin adjusted ² (%)	-0.2%	2.3%
EBIT margin ¹ (%)	-11.7%	-8.3%
Net profit margin ¹ (%)	-14.1%	-10.6%
ROA ¹ (%)	3.8%	4.4%
ROE ¹ (%)	4.1%	5.8%
ROCE ¹ (%)	4.6%	5.4%

¹ Alternative performance measures based on ESMA guidelines are disclosed in the Alternative Performance Measures section of this Interim Report.

² Comparable EBITDA for Q1 2019 without IFRS 16 adoption effect.

³ Please see note 6 for IFRS 16 adoption effect on assets.

? Please see note 8 for IFRS 16 adoption effect on interest-bearing liabilities.

EBITDA: result from operating activities before net financial items, share of profit of equity-accounted investees, taxes, depreciation and amortization

EBIT: result from operating activities

Earnings per share: net profit / weighted average number of shares outstanding

Equity ratio: total equity / total assets

Shareholder's equity per share: shareholder's equity / number of shares outstanding

Gross margin: gross profit / net sales

EBITDA margin: EBITDA / net sales

EBIT margin: EBIT / net sales

Net profit margin: net profit / net sales

Capital expenditure: additions to property, plant and equipment + additions to intangible assets

ROA: earnings before net financial items, taxes 12-months trailing / average total assets

ROE: net profit 12-months trailing / average shareholders' equity

ROCE: earnings before net financial items, taxes 12-months trailing / (total assets - current liabilities (average for the period))

Net debt: interest-bearing liabilities less cash and cash equivalents

Net debt to EBITDA: net debt / EBITDA 12-months trailing



Consolidated statement of profit or loss and other comprehensive income

Unaudited, in thousands of EUR	Q1 2019	Q1 2018
Revenue (Note 3)	178 870	184 155
Cost of sales	-168 371	-170 448
Gross profit	10 499	13 707
Sales and marketing expenses	-17 042	-16 313
Administrative expenses	-15 068	-12 728
Other operating income	724	113
Other operating expenses	-14	-27
Result from operating activities	-20 901	-15 248
Finance income (Note 4)	1 002	3 078
Finance costs (Note 4)	-5 331	-7 373
Loss before income tax	-25 230	-19 543
Income tax	-25	-23
Net loss for the period	-25 255	-19 566
Net loss for the period attributable to equity holders of the Parent	-25 255	-19 566
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	165	-68



Other comprehensive income/loss for the period	165	-68
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Total comprehensive loss for the period	-25 090	-19 634
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Total comprehensive loss for the period attributable to equity holders of the Parent	-25 090	-19 634
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Earnings per share (in EUR, Note 5)	-0.038	-0.029
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Consolidated statement of financial position

Unaudited, in thousands of EUR	31.03.19	31.03.18	31.12.18
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ASSETS

Cash and cash equivalents	47 775	70 129	82 175
Trade and other receivables	42 023	42 630	43 805
Prepayments	11 831	15 261	6 084
Prepaid income tax	81	44	46
Inventories	36 305	37 499	35 741
Current assets	138 015	165 563	167 851

Investments in equity-accounted investees	407	403	407
Other financial assets	307	338	320
Deferred income tax assets	17 934	18 718	17 934
Investment property	300	300	300
Property, plant and equipment (Note 6)	1 369 715	1 298 412	1 267 928
Intangible assets (Note 7)	45 581	47 885	46 164
Non-current assets	1 434 244	1 366 056	1 333 053



TOTAL ASSETS	1 572 259	1 531 619	1 500 904
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LIABILITIES AND EQUITY

Interest-bearing loans and borrowings (Note 8)	100 646	164 282	78 658
Trade and other payables	97 845	93 472	100 682
Derivatives	0	31 321	918
Payables to owners	2	3	2
Income tax liability	116	0	116
Deferred income	41 465	38 727	32 113
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Current liabilities	240 074	327 805	212 489
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Interest-bearing loans and borrowings (Note 8)	503 930	386 742	431 477
Other liabilities	0	16	22
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Non-current liabilities	503 930	386 758	431 499
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Total liabilities	744 004	714 563	643 988
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Share capital (Note 9)	361 736	361 736	361 736
Share premium	663	639	662
Reserves	69 145	68 367	69 474
Retained earnings	396 711	386 314	425 044
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Equity attributable to equity holders of the Parent	828 255	817 056	856 916
Total equity	828 255	817 056	856 916
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TOTAL LIABILITIES AND EQUITY	1 572 259	1 531 619	1 500 904



Consolidated statement of cash flows

Unaudited, in thousands of EUR

Q1 2019 Q1 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the period	-25 255	-19 566
Adjustments	29 244	24 403
Changes in:		
Receivables and prepayments related to operating activities	-3 952	-6 025
Inventories	-564	3 177
Liabilities related to operating activities	7 550	6 356
Changes in assets and liabilities	3 034	3 508
Cash generated from operating activities	7 023	8 345
Income tax paid	-82	-52
NET CASH FROM OPERATING ACTIVITIES	6 941	8 293

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant, equipment and intangible assets (Notes 6, 7)	-25 262	-8 365
Proceeds from disposals of property, plant, equipment	78	26
Interest received	1	1
NET CASH USED IN INVESTING ACTIVITIES	-25 183	-8 338

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of loans received (Note 8)	-16 500	-14 500
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Change in overdraft (Note 8)	9 857	2 331
Payments for settlement of derivatives	-1 029	-837
Payment of lease liabilities (Note 8)	-3 467	-25
Interest paid	-5 019	-5 706
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NET CASH USED IN FINANCING ACTIVITIES	-16 158	-18 737
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TOTAL NET CASH FLOW	-34 400	-18 782
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Cash and cash equivalents at the beginning of period	82 175	88 911
Increase in cash and cash equivalents	-34 400	-18 782
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Cash and cash equivalents at the end of period	47 775	70 129

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