Company	AS Tallink Grupp
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Attachments:
- TallinkGru-10002562191-en.pdf (http://oam.fi.ee/en/download?id=4022)
- TallinkGru-10002562192-en.pdf (http://oam.fi.ee/en/download?id=4023)
- TallinkGru-10002562194-et.pdf (http://oam.fi.ee/en/download?id=4024)
- TallinkGru-10002562195-et.pdf (http://oam.fi.ee/en/download?id=4025)

Currency

Title AS Tallink Grupp Unaudited Consolidated Interim Report Q2 2019

In the second quarter (1 April - 30 June) of the 2019 financial year Tallink Grupp AS and its subsidiaries (the Group) carried 2.7 million passengers, which is 0.8% more than in the second quarter last year. The Group's unaudited revenue for the second quarter increased by 0.3% to a total of EUR 256.1 million. Unaudited EBITDA for the second quarter was EUR 50.7 million (EUR 43.5 million in Q2 2018) and unaudited net profit was EUR 14.9 million (net profit of EUR 15.3 million in Q2 2018).

In the second quarter, the Group's revenue and operating result were impacted by the following operational factors:

* The number of passengers travelling on the Group's ships increased in almost all geographical segments (Estonia-Finland, Finland-Sweden and Latvia-Sweden).
* The competition on the maritime traffic between Estonia and Finland puts pressure on ticket prices.
* 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 second quarter of 2019, the Group's total revenue increased by EUR 0.7 million and amounted to EUR 256.1 million. The revenue in the second quarter of 2018 and 2017 was EUR 255.4 and EUR 259.9 million, respectively.

* The total revenue from the shipping operations in the Baltic Sea (core business) increased by 0.5% or EUR 1.3 million to 235.8 million.
* The revenue from the other segment, including intra-group eliminations,

decreased by a total of EUR 0.6 million and amounted to EUR 20.3 million. The decrease was driven largely by lower accommodation sales resulting from the ceased operations of Tallink Pirita Spa Hotel in Tallinn from November 2018 due to sale of the hotel property by its owner.

In the second quarter of 2019, The Group's ships carried a total of 1.4 million passengers on the Estonia-Finland routes, which is a 0.5% increase compared to last year. The number of transported cargo units on the routes decreased by 0.8%. On the Tallinn - Helsinki route, added capacity by competitors further increased pressure on ticket prices. The Estonia-Finland segment revenue decreased by EUR 1.3 million and amounted to EUR 94.9 million. The segment result increased by EUR 0.5 million and amounted to EUR 21.5 million.

The Finland-Sweden routes' revenue increased by EUR 1.0 million and amounted to EUR 89.6 million. The segment result of Finland-Sweden routes increased by 29.1% or EUR 2.1 million, supported by an increase in the number of carried passengers and transported cargo units.

While the number of passengers carried on the Estonia-Sweden routes decreased by 3.0% and the number of transported cargo units decreased by 10.4%, the routes' revenue decreased only by 0.8% or EUR 0.3 million and amounted to EUR 31.3 million.

The Latvia-Sweden route's revenue increased by EUR 1.8 million, which is a 9.9% increase compared to last year. The positive development of the route's passenger and cargo carriage volumes continued in the second quarter of the 2019 financial year, which resulted in a 5.2% increase in the number of carried passengers and a 7.4% increase in transported cargo units.

Earnings

In the second quarter of 2019, the Group's gross profit increased by EUR 3.6 million compared to the same period last year, amounting to EUR 60.6 million. Second quarter EBITDA increased by EUR 7.2 million and amounted to EUR 50.7 million, second quarter comparable EBITDA, i.e. without IFRS 16 adoption effect, increased by EUR 3.0 million compared to the same period last year and was EUR 46.5 million.

The Group's second quarter result was impacted positively by lower fuel cost resulting from agreements with the fuel suppliers to fix the price for 41% of total fuel purchasing volume for the 2019 financial year and from savings on total fuel consumption, through various energy efficiency initiatives.

Amortisation and depreciation expense increased by EUR 3.6 million to EUR 23.3 million compared to the second quarter of 2018. The increase was mainly a result of the IFRS 16 adoption effect in the amount of EUR 3.7 million.

Net finance costs decreased by EUR 0.6 million compared to the second quarter last year. The change includes a decline of EUR 1.3 million in interest costs compared to same period the previous year and EUR 150 thousand less profit from foreign exchange differences and the revaluation of cross currency and interest rate derivatives. In addition, in Q2 there is EUR 0.6 million interest expense from right-of-use assets liabilities (IFRS 16 adoption effect).

Second quarter profit before income tax increased by 22.0% or EUR 4.1 million compared to the same period last year and amounted to EUR 23.0 million.

Net profit for the second quarter of 2019 was impacted by the higher income tax, which was related to increase in dividends compared to last year.

The Group's unaudited net profit for the second quarter of 2019 was EUR 14.9 million or EUR 0.022 per share compared to a net profit of EUR 15.3 million or EUR 0.023 per share in the second quarter of 2018 and compared to a net profit of EUR 17.9 million or EUR 0.027 per share in the second quarter of 2017.

Results of the first 6 months of 2019

In the first 6 months (1 January - 30 June) of the 2019 financial year the Group carried 4.5 million passengers which is 1.2% less compared to the same period last year. The Group's unaudited revenue for the period decreased by 1.0% and was EUR 435.0 million. Unaudited EBITDA for the first 6 months was EUR 54.5 million (EUR 47.7 million, 6M 2018) and unaudited net loss was EUR 10.4 million (EUR 4.3 million, 6M 2018 net loss).

The financial result of the first 6 months of 2019 was impacted by following factors:

* Planned dockings of seven ships in the first quarter resulted in 50 trips less compared to last year. Among other ships, the maintenance and repair of the cruise ferry Baltic Queen lasted for 42 days, which affected the Estonia-Sweden segment's carriage volumes and financial result.
* High competition on the maritime traffic between Estonia and Finland, which puts pressure on ticket prices.

Investments

In the second quarter of 2019 financial year the Group's investments amounted to EUR 18.5 million, which included a prepayment for the new ship in the amount on EUR 12.4 million.

Investments were also made to the ships' technical maintenance and innovative energy efficiency solutions as well as to the development of the online booking and sales systems.

Dividends

In May 2019 the shareholders' annual general meeting decided to pay a dividend of EUR 0.05 per share from net profit for 2018. The total dividend amount of EUR

33.5 million was paid out on 03 July 2019 (third quarter). In addition, to improve the Company's capital structure, the shareholders' annual general meeting decided to reduce the Company's share capital by EUR 0.07 per share or by EUR 46.9 million, which is expected to be paid in December 2019. The list of entitled shareholders was fixed on 20 June 2019.

Financial position

In the second quarter, the Group's net debt decreased by EUR 19.7 million to EUR 537.1 million and the net debt to EBITDA ratio was 3.6 at the reporting date.

At the end of the second quarter, total liquidity (cash, cash equivalents and unused credit facilities) amounted to EUR 123.1 million (EUR 165.4 million at 30 June 2018) providing a strong financial position for sustainable operations.

At 30 June 2019, the Group's cash and cash equivalents amounted to EUR 67.1 million (EUR 90.4 million at 30 June 2018) and the Group had EUR 56.0 million in unused credit lines (EUR 75.0 million at 30 June 2018).

Economic Environment

The Group considers Finland, Sweden, Estonia and Latvia its home markets as these are the countries to and from the 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 second quarter of 2019, however, the apparent census of various sources for full year of 2019 has projected the real GDP growth rates to slow relative to 2018 for all the home markets. The first half-year's business confidence developments across all home markets corroborate such expectations.

Further, the GDP growth rates of the first quarter of 2019 were in-line with the annual expectations in Sweden and Latvia. The growth pace in Finland was even slower relative to the full year consensus estimates. In Estonia, however, the first quarter GDP growth rate was ahead of the expected pace for the full year.

According to the OECD data, the business confidence continued to decline across all of the home markets also throughout the second quarter of 2019. For the second quarter in a row, the decline was particularly steep in Estonia. Among the Group's home markets business confidence remained the highest in Latvia with a positive outlook towards the future also still present in Sweden. The indicator implies businesses possessing a pessimistic outlook in Finland and Estonia.

As the first quarter trends suggested the further weakening of the low confidence of Swedish consumers effectively stopped in the second quarter of 2019. However, this was not the case with the Finnish consumers' confidence which continued to plummet also in the second quarter of 2019. The confidence is now clearly below the long-term averages. The long-term data also suggests consumer confidence development being a leading indicator for business confidence in Finland. Thus the short-term outlook for Finnish business confidence is weak.

While the Finnish and Swedish consumers were more wary with their spending in the second quarter due to relatively low confidence the consumer confidence in Estonia and Latvia remained buoyant with consumers more inclined to spend rather than save.

According to Eurostat's harmonised indices of consumer prices in the second quarter of 2019, the price inflation increased relative to the inflation measured in the first quarter of 2019 across all the home markets. The increase in inflation rate was more substantial in Estonia and Latvia while the increase in both Finland and Sweden was marginal. The inflation remained above the ECB target rate of 2% in Estonia and Latvia and below the target in Sweden and Finland.

The labour situation has remained challenging in the first half of the year reflecting the recent low unemployment rates in the home markets, particularly in Estonia. The situation of the Estonian labour market has also contributed to the growing divergence between business and consumer confidence developments, which steepened well in the first half of 2019.

Measured in euros the effective market prices of relevant fuels remained, on average, at comparable levels to the second quarter of 2018. And lastly, the operating environment on the Estonia-Finland route saw an increase in competition with additional departures and capacity introduced during the quarter.

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 the open economies around the Baltic Sea. Also, global fuel prices are expected to remain volatile due to uncertainties in the global economy and politics.

Events in Q2

Changes in the Management Board
On 22 February 2019, it was announced that the Supervisory Board appointed Mrs Piret Mürk-Dubout as a Member of the Management Board. The mandate of Mrs Mürk-Dubout started on 15 April 2019 and lasts for a period of three years.

Prepayment for the new ship

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

Dividends and capital reduction
In May 2019 the shareholders' general meeting decided to pay a dividend of EUR 0.05 per share from net profit for 2018. The total dividend in amount of EUR 33.5 million was paid out on 03 July 2019 (third quarter). The dividend related income tax in amount of EUR 8.0 million was recorded in the second quarter. In addition, to improve the Company's capital structure, the shareholders' annual general meeting decided to reduce the Company's share capital by EUR 0.07 per share or by EUR 46.9 million, which is expected to be paid in December 2019.

Events after the reporting period and outlook

Signing of the loan agreement
Tallink Superfast Ltd., a subsidiary of Tallink Grupp AS, and KfW IPEX-Bank GmbH signed a loan agreement in the amount of EUR 197.6 million to finance the new EUR 247 million LNG powered fast ferry currently under construction in Rauma Marine Constructions Oy.

The loan is arranged and long-term financing is provided by KfW IPEX-Bank GmbH. Finnish Export Credit Agency "Finnvera" guarantees 95% of this post-delivery buyer credit.

The loan is secured by the mortgage on the new vessel and the corporate guarantee of Tallink Grupp AS. This OECD-term export credit loan will be drawn on the delivery of the vessel, presumably in the beginning of 2022 and has the final maturity of twelve years from the drawdown.

Contingent risk
In the legal proceedings commenced in 1996 (against S.A. Bureau Veritas and Jos L. Meyer Werft GmbH) the French court (Tribunal de Grande Instance de Nanterre) reached a verdict on 19 July 2019 which found there to be no legal grounds for the claims made against Bureau Veritas, which meant it was unnecessary to adopt any verdicts regarding involved persons. The court decided to order Bureau Veritas to pay Tallink Silja OY a compensation to cover the legal costs. The said compensation has no significant impact on the financial results of the Group.

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 in the first quarter of 2019 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	Q2 2019	Q2 2018	Change %
Revenue (million euros)	256.1	255.4	0.3%
Gross profit (million euros)	60.6	57.1	6.1%
EBITDA[1] (million euros)	50.7	43.5	16.6%
EBITDA adjusted[2] (million euros)	46.5	43.5	6.8%
EBIT[1] (million euros)	27.4	23.8	15.1%
Net profit for the period (million euros)	14.9	15.3	-2.6%

Depreciation and amortisation[3] (million

euros)	23.3	19.7	18.5%
Capital expenditures[1] ?(million euros)	18.5	6.4	
Weighted average number of ordinary shares outstanding	669 882 040	669 882 040	0.0%
Earnings per share[1]	0.022	0.023	-2.6%
Number of passengers[1]	2 651 843	2 631 326	0.8%
Number of cargo units[1]	99 546	101 072	-1.5%
Average number of employees[1]	7 363	7 611	-3.3%

As at	30.06.19	31.03.19	Change %
Total assets[3] (million euros)	1 609.9	1 572.3	2.4%
Total liabilities (million euros)	800.0	744.0	7.5%
Interest-bearing liabilities? (million euros)	604.2	604.6	-0.1%
Net debt[1] (million euros)	537.1	556.8	-3.5%
Net debt to EBITDA[1]	3.6	3.9	-8.2%
Total equity (million euros)	809.9	828.3	-2.2%
Equity ratio[1] (%)	50.3%	52.7%	
Number of ordinary shares outstanding	669 882 040	669 882 040	0.0%
Equity per share[1]	1.21	1.24	-2.2%

Ratios[1]	Q2 2019	Q2 2018
Gross margin (%)	23.7%	22.3%
EBITDA margin (%)	19.8%	17.0%

EBITDA margin adjusted[2] (%)	18.1%	17.0%
EBIT margin (%)	10.7%	9.3%
Net profit margin (%)	5.8%	6.0%
ROA (%)	4.0%	4.2%
ROE (%)	4.1%	5.5%
ROCE (%)	4.9%	5.3%

((1) Alternative performance measures based on ESMA guidelines are disclosed in the Alternative Performance Measures section of this Interim Report.
(2) Comparable EBITDA for Q2 2019 without IFRS 16 adoption effect.
(3) Please see note 6 for IFRS 16 adoption effect on assets.
(4) Please see note 8 for IFRS 16 adoption effect on interest-bearing liabilities.
(5) Does not include additions to right-of-use assets.)

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 right-of-use assets + 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

	Jan-Jun	Jan-Jun

Unaudited, in thousands of EUR	Q2 2019	Q2 2018	2019	2018
Revenue (Note 3)	256 103	255 409	434 973	439 564
Cost of sales	-195 469	-198 356	-363 840	-368 804
Gross profit	60 634	57 053	71 133	70 760
Sales and marketing expenses	-19 212	-20 329	-36 254	-36 642
Administrative expenses	-14 443	-13 805	-29 511	-26 533
Other operating income	439	954	1 163	1 067
Other operating expenses	-11	-54	-25	-81
Result from operating activities	27 407	23 819	6 506	8 571
Finance income (Note 4)	93	2 880	1 095	5 958
Finance costs (Note 4)	-4 506	-7 844	-9 837	-15 217
Profit/loss before income tax	22 994	18 855	-2 236	-688
Income tax	-8 104	-3 576	-8 129	-3 599
Net profit/loss for the period	14 890	15 279	-10 365	-4 287
Net profit/loss for the period attributable to equity holders of the Parent	14 890	15 279	-10 365	-4 287
Other comprehensive income				
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations	257	461	422	393

Other comprehensive income for the period	257	461	422	393
Total comprehensive income/loss for the period	15 147	15 740	-9 943	-3 894
Total comprehensive income/loss for the period attributable to equity holders of the Parent	15 147	15 740	-9 943	-3 894
Earnings per share (in EUR, Note 5)	0.022	0.023	-0.015	-0.006

Consolidated statement of financial position

Unaudited, in thousands of EUR	30.06.2019	30.06.2018	31.12.2018
ASSETS			
Cash and cash equivalents	67 070	90 402	82 175
Trade and other receivables	53 270	56 052	43 805
Prepayments	12 134	14 367	6 084
Prepaid income tax	46	49	46
Inventories	39 326	40 953	35 741
Current assets	171 846	201 823	167 851
Investments in equity-accounted investees	407	403	407
Other financial assets	326	324	320
Deferred income tax assets	17 934	18 718	17 934
Investment property	300	300	300
Property, plant and equipment (Note 6)	1 373 420	1 285 775	1 267 928
Intangible assets (Note 7)	45 640	47 199	46 164

Non-current assets	1 438 027	1 352 719	1 333 053
TOTAL ASSETS	1 609 873	1 554 542	1 500 904
LIABILITIES AND EQUITY			
Interest-bearing loans and borrowings (Note 8)	108 190	163 235	78 658
Trade and other payables	107 626	107 003	100 682
Derivatives	0	28 441	918
Payables to owners	33 496	20 099	2
Income tax liability	8 049	3 562	116
Deferred income	46 635	45 284	32 113
Current liabilities	303 996	367 624	212 489
Interest-bearing loans and borrowings (Note 8)	495 970	374 201	431 477
Other liabilities	0	16	22
Non-current liabilities	495 970	374 217	431 499
Total liabilities	799 966	741 841	643 988
Share capital (Note 9)	361 736	361 736	361 736
Share premium	663	639	662
Reserves	70 893	70 641	69 474
Retained earnings	376 615	379 685	425 044
Equity attributable to equity holders of the Parent	809 907	812 701	856 916
Total equity	809 907	812 701	856 916

TOTAL LIABILITIES AND EQUITY	1 609 873	1 554 542	1 500 904	

Consolidated statement of cash flows

Unaudited, in thousands of EUR	Q2 2019	Q2 2018	Jan-Jun 2019	Jan-Jun 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit/loss for the period	14 890	15 279	-10 365	-4 287
Adjustments	36 133	28 140	65 377	52 543
Changes in:				
Receivables and prepayments related to operating activities	-11 569	-12 513	-15 521	-18 538
Inventories	-3 021	-3 455	-3 585	-278
Liabilities related to operating activities	14 154	19 064	21 704	25 420
Changes in assets and liabilities	-436	3 096	2 598	6 604
Cash generated from operating activities	50 587	46 515	57 610	54 860
Income tax paid	-136	-19	-218	-71
NET CASH FROM OPERATING ACTIVITIES	50 451	46 496	57 392	54 789
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant, equipment and intangible assets (Notes 6, 7)	-18 456	-6 284	-43 718	-14 649
Proceeds from disposals of property, plant, equipment	64	16	142	42
Interest received	0	0	1	1
NET CASH USED IN INVESTING ACTIVITIES	-18 392	-6 268	-43 575	-14 606

CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of loans received (Note 8)	-14 834	-12 834	-31 334	-27 334
Change in overdraft (Note 8)	9 152	-2 331	19 009	0
Payments for settlement of derivatives	0	-909	-1 029	-1 746
Payment of lease liabilities (Note 8)	-3 667	-27	-7 134	-52
Interest paid	-3 415	-3 854	-8 434	-9 560
NET CASH USED IN FINANCING ACTIVITIES	-12 764	-19 955	-28 922	-38 692
TOTAL NET CASH FLOW	19 295	20 273	-15 105	1 491
Cash and cash equivalents at the beginning of period	47 775	70 129	82 175	88 911
Increase in cash and cash equivalents	19 295	20 273	-15 105	1 491
Cash and cash equivalents at the end of period	67 070	90 402	67 070	90 402

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