AS TALLINNA SADAM
(PORT OF TALLINN)

Consolidated Annual Report for the Financial Year Ended 31 December 2007 (Translation of the Estonian original)

AS TALLINNA SADAM
(PORT OF TALLINN)

CONSOLIDATED ANNUAL REPORT FOR 2007

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Beginning of financial year	**1 January**
End of financial year	**31 December**
Legal status	**Public limited company**
Auditor	**AS PricewaterhouseCoopers**

TABLE OF CONTENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 4-25 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the parent company and consolidated companies as a group.

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board

Tallinn, 29 February 2008

MANAGEMENT REPORT

The management report of AS Tallinna Sadam (Port of Tallinn) has been prepared on the basis of consolidated financial indicators.

1. GENERAL OVERVIEW OF THE COMPANY

Through ages, Estonia has been closely connected with seafaring and maritime trade, the development of the city of Tallinn has also directly depended on the development of the port and vice versa. Although the history of the ports of Tallinn extends back thousands of years, AS Tallinna Sadam is a young company. The state company Tallinna Sadam was set up in April 1992; in 1996, it became a public limited company.

AS Tallinna Sadam is the largest complex of cargo and passenger ports in Estonia. These ports are navigable and easily accessible throughout the year, and they are deep enough to receive all vessels passing through the Danish straits. Due to Estonia's good geographical location which creates good preconditions for servicing cargo flows between the East and the West, a major part of the cargo flows of AS Tallinna Sadam is transit cargo flows between Russia and other CIS countries, and Western Europe. Thus, AS Tallinna Sadam competes primarily with other Baltic Sea ports servicing transit cargo flows between the East and the West. In addition to competition between the ports, different transit corridors also compete with each other (e.g. the Baltic Sea Gate competes with the Caspian-Black Sea Gate, etc.). The most successful corridor is the one where the total logistics channel operates the fastest, most efficiently and in a client-friendly manner. However, in servicing Estonian own imports and exports, AS Tallinna Sadam loses out to other Estonian ports in several cargo groups.

Tallinn-Helsinki line is one of passenger shipping lines with the densest traffic in the world. In addition to the passenger vessel traffic with Finland, AS Tallinna Sadam also regularly services passenger vessel traffic with Sweden. Year after year, the number of cruise vessels visiting Tallinn continues to grow. More than 300 visits during the season is a noteworthy achievement among European cruise ports.

The main area of activity of AS Tallinna Sadam as the Group's Parent Company is the provision of port services as a *landlord*-type port with the task of infrastructure management and development as well as arrangement of vessel traffic in the port area. The Parent Company is the owner of five ports: Vanasadam (Old City Port) located in the centre of Tallinn and known as a passenger port, the commercial port in Paljassaare, the largest commercial port of Estonia in Muuga, the commercial and passenger port in Paldiski (Paldiski South Harbour) and the newest port in Saaremaa for receiving cruise vessels which opened in 2006. At the ports, cargo is handled by cargo operators who generally also own buildings, structures and equipment necessary for cargo handling. The buildings and structures necessary for servicing passengers belong to AS Tallinna Sadam.

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia. AS Tallinna Sadam operates like any other public limited company pursuant to its articles of association, the Commercial Code and other legal acts of the Republic of Estonia. It has a budget covered from the funds generated by its business operations; if need arises, loans may be taken or bonds may be issued to make investments. AS Tallinna Sadam makes its contribution to the state budget in the form of state taxes and dividends.

As at the end of 2007, the consolidation group of AS Tallinna Sadam includes in addition to the Parent Company:

Name of the company	Ownership	Main activity
OÜ Tallinna Sadama Elektrivõrk	100%	provision of electricity transmission and distribution service at the ports
OÜ Tallinna Sadama Veevõrk	100%	provision of water and thermal energy transmission and distribution service at the ports (the company had not yet started active business operations as at the end of 2007)

2. ECONOMIC ENVIRONMENT

For the fourth consecutive year, world economic growth stayed at a record level of the last thirty years. World economic growth for 2007 is forecast at 4.9% which meets growth expectations but also signifies the growth of the main risk factors and their faster than anticipated emergence at the end of 2007. Quality issues with financial assets in international financial markets led to a significant slowdown in world economic growth which coupled with rising inflation and reduced consumption in developed countries will in its turn hinder capital flows into developing economies. Therefore, world economic growth is expected to slow down to 4.1% in 2008. Growth is forecast to slow down primarily in Central and Eastern Europe, the Euro-area and the USA. The latter is considered as the primary source of problems affecting recent economic growth. Asian countries and Russia are expected to continue to remain the fastest growing regions, their growth forecasts have not been adjusted downward significantly. Together with a reduced world economic growth forecast for the year 2008, the risk is also on the downside in the near future.[1]

In 2007, worldwide crude oil demand growth was 1.2% which is of the same magnitude as previous year (1.1%) but fails to meet the growth rate (1.6%) previously forecast. The price of crude oil appreciated 9% on average during the year but short-term price fluctuations were considerably larger. The numerous factors impacting the price of crude oil include the depletion of warehouse supplies in the OECD countries to the lowest level in five years, colder than average winter in many parts of the world, world economic growth forecasts and several political events. The volatility of the price of crude oil is forecast to continue, also supported by the unstable outlook for the world economy. Although demand is forecast at 2.3% in 2008, the forecast will likely be adjusted downward due to the deteriorated economic forecast for the USA.[2]

Based on several forecasts, the growth of the Estonian economy slowed down to approximately 7% as compared to 11.5% in 2006. Economic growth is forecast close to 4% in 2008. The year was characterised by accelerating inflation, deceleration in the growth of bank loans in conjunction with the increase in interest rates, continued high growth of wages and higher export prices. Salary growth and the price growth of labour-intensive services affects AS Tallinna Sadam through the components of its largest operating expenses – personnel costs and infrastructure repairs and maintenance. Also, investments are becoming more expensive, mitigated by decreasing workloads in the construction sector. Rising costs and appreciation of investments will affect the results of operations of the Group which is attempted to be balanced by the growth of operating volumes, restructuring and price adjustments.

[1] IMF "World Economic Outlook Update", January 2008
[2] IEA "Oil Market Report", 16 January 2008

2.1. Developments in Russia

The Ministry of Finance of Russia forecasts stable growth in the near term, from 7.6% in 2007 to 6.4% in 2010. In conjunction with forecast stable economic growth and increasing production output, the Ministry for Economic Development and Trade of the Russian Federation forecasts foreign investment growth from USD 30 billion in 2007 to USD 39 billion in 2010. The growth of foreign investments demonstrates continued trust of foreign investors in the Russian economy.

The state of Russia's economy continues to depend primarily on the revenue derived from the exports of natural gas and crude oil which make a significant contribution to the state budget. According to the forecast of the Ministry of Finance, revenue in the oil and natural gas sector will contribute 43% to the budgeted revenue of Russia in 2008. In the short term, the economy will continue to depend on the export of natural resources.

The prerequisite for acceleration of production growth rates of Russia's oil and natural gas industry is large-scale investments in the respective sectors. The main issue will be the possibility of attracting foreign investments along with the utilisation of new technologies. If the current strategy of investments based on domestic capital stays the same, the long-term growth of production output may be endangered which is also supported by the forecast of the Ministry of Finance for the next three years.

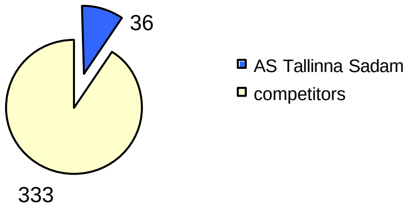
Based on the situation described above, Russia has set a goal of replacing up to 30 billion cubic meters of natural gas in domestic electricity and thermal heat production with coal. Depending on the calorific value of coal, it makes up to 54 million tons of coal which should primarily come from lower exports or higher production output. In 2007, Russia's coal exports totalled 87.5 million tons (5.8% growth as compared to 2006) and the production output of coal was 315 million tons (1.4% growth).

The strategy of supporting and developing its own ports continues in Russia's export policy. Cargo volume at the ports of Russia grew by 7.2% in 2007 and reached 451 million tons. In the Baltic Sea region, AS Tallinna Sadam competes primarily with the Russian ports of St. Petersburg, Ust-Luga, Vyssotski and Primorsk. The Russian Central Government is paying much more attention to growing investments based on state capital primarily in the ports of Ust-Luga and Primorsk. The major risks to AS Tallinna Sadam come from the completion of the container terminal in Ust-Luga (National Container Company) and the terminal of crude oil and petroleum products (Zarubezneft). Due to the launching of the new pipeline for petroleum products in Primorsk, the export market of Russian diesel market may be redistributed. The pipeline will pass through such factories of petroleum products which are of importance to AS Tallinna Sadam as Kirishi, Jaroslav and Rjazan.

2.2. Competitive position

In evaluating the competitive position, the major ports located on the eastern coast of the Baltic Sea and the ports of Finland are considered as competing ports, most of which directly compete with AS Tallinna Sadam in handling transit cargo mostly originating from Russia or directed over there. In 2007, the total cargo volume of the largest ports on the eastern coast of the Baltic Sea amounted to 369 million tons indicating acceleration of growth to 6.8% (in 2006, the market volume was 346 million tons and growth was 5.6%).

Market volume of major ports on the eastern coast of the Baltic Sea (million tons)



Combined with the cargo volume of other Estonian ports (8.8 million tons), the market volume of AS Tallinna Sadam and its competitors in 2007 was 378 million tons, increasing by 24 million tons or 6.8% in a year.

Similarly to previous years, the market share of Russia's ports on the eastern coast of the Baltic Sea continued to grow in 2007. The market share of Russia's ports along the Baltic Sea grew to a record 56%, grabbing market share primarily from Estonian ports. Most of the market growth was again attributable to Russia's ports of Primorsk, Vyssotski and Ust-Luga, followed by the Port of Klaipeda in Lithuania, the Port of Ust-Luga in Russia and the Port of Gdynia in Poland (obtaining 35%, 23%, 16%, 14% and 12% of the market volume growth, respectively). Of the Latvian ports, the share of market volume growth of the port of Ventspils was 9% and that of Riga 2%.

The Port of Primorsk maintained its position as the largest port on the eastern coast of the Baltic Sea ahead of St.Petersburg. The source of growth at the Port of Primorski is the pipeline connection with Transneft pipeline system with the annual capacity of 75 million tons as a result of which a major share of Russia's crude oil production in 2007 was exported through the Port of Primorsk. Of the other ports in the Leningrad district, the cargo volume of Ust-Luga grew due to the volume growth of the coal terminal, the cargo volume at the Port of Vyssotski grew as a result of growth in petroleum products and coal. Cargo volume growth at the Port of Klaipeda resulted primarily from the fast growth of container goods aimed at the domestic market, also supported by cargo volume growth of fertilizers and petroleum products.

Against a backdrop of market volume growth, cargo volume decreased the most at AS Tallinna Sadam (-22%), Port of Gdansk (-11%) and Butinge terminal (-6%).

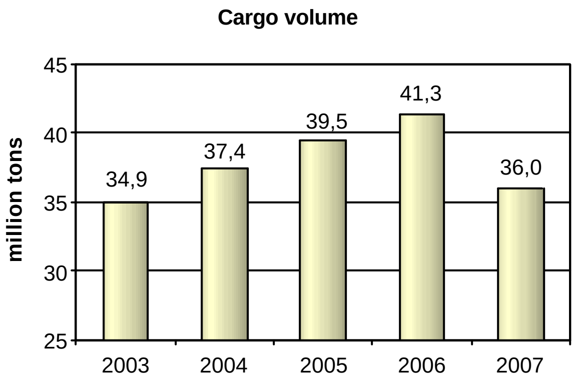
In 2007, the market volume of liquid cargo (growth of 10 million tons), container cargo (growth of 4.3 million tons) and bulk cargo (primarily fertilizers and grain, growth of 2.4 million tons) grew the most. The Port of Primorsk handled most of the growth of liquid cargo, the Port of St. Petersburg handled most of the container cargo and Klaipeda and St. Petersburg handled most of the bulk cargo. Market volume decreased the most with regard to coal as a component in bulk cargo (AS Tallinna Sadam and Gdansk), where additionally redistribution took place between the ports, as a result of which the coal volume at the Port of Ust-Luga grew.

Despite a decline in cargo volume in 2007, AS Tallinna Sadam maintained for the fourth consecutive year its third position with regard to cargo volume among the major ports on the eastern coast of the Baltic Sea.

3. RESULTS OF OPERATIONS

In 2007, the results of operations were shaped by unexpected circumstances whereby growing cargo volume in the first half of the year declined sharply in the middle of the year as a result of which cargo volume for the year decreased by 13%. The flow of liquid cargo and coal passing through AS Tallinna Sadam and originating from Russia was redirected by cargo owners into Russia's own ports or other ports in the region. As it is known, redirection of cargo occurred for foreign and economic policy reasons – with the goal of using Russia's own ports for exporting cargo originating from Russia. These changes were outside the influence of AS Tallinna Sadam and were in no way related to the weakening of the competitive power of AS Tallinna Sadam. The number of passengers passing through the port also decreased somewhat. Due to the extraordinary nature of the decline in cargo volume, it fell short of the expected volume and the Group's market share also declined among the major ports on the eastern coast of the Baltic Sea. The decline in cargo volume also led to the decline in operating income and efficiency of operations.

3.1. Cargo volume



In 2007, the cargo volume passing through the ports of AS Tallinna Sadam decreased by 5.2 million tons (or 13%), to 36 million tons. The last time the Group's cargo volume declined was in 2003 when the decline of almost 3 million tons was caused by extremely difficult ice conditions in the Baltic Sea.

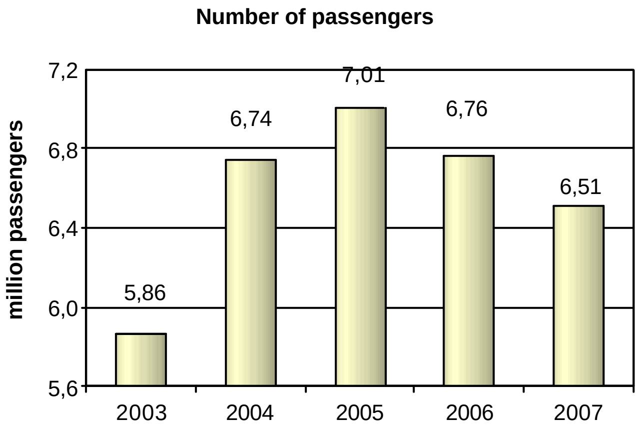
The gradual decline of cargo volume since May occurred primarily in bulk and liquid cargo volume. Of bulk cargo, the cargo volume of the new coal terminal opened in the Port of Muuga in 2005 decreased the most, however, the volumes of other cargo operators handling coal also decreased. The decrease in liquid cargo showed volume decreases of most liquid cargo operators besides EOS. For the whole year, the decline in the volume of liquid cargo was somewhat smaller than in 2006 which was the first year when the volume of liquid cargo passing through AS Tallinna Sadam decreased. The reason behind the decline in the volume of bulk and liquid cargo was primarily related to the redirection of cargo volume originating from Russia to Russia's own ports for the purpose of completely utilising their capacity due to the before mentioned foreign and economic policy factors.

With regard to the structure of cargo volume, the volume of containers, rolling stock and new passenger cars grew together with the development of consumption on the eastern coast of the Baltic Sea and beyond. Container trade is also favoured by the growing trend of delivering cargo in containers which simplifies and accelerates cargo handling operations. The volume of these cargo groups is expected to surpass the volume of bulk cargo at the ports of AS Tallinna Sadam already in 2008. Against a backdrop of this trend, the share of export-driven transit originating from Russia (primarily liquid and bulk cargo) will decline in the cargo volume of AS Tallinna Sadam and it is being replaced by an import-driven cargo movement.

Along with the decline in cargo volume, the market share of AS Tallinna Sadam declined among the major ports on the eastern coast of the Baltic Sea – from 11.9% to 9.8%. By cargo types, liquid cargo made up 62%, bulk cargo 22%, rolling stock 10% and containers 4% of cargo volume (in 2006, the respective figures were 58%, 27%, 8% and 3%). In the near future, the share of liquid cargo is expected to decline further in the structure of the cargo volume of AS Tallinna Sadam. With regard to transport directions, transit made up 82%, exports 8% and imports 10% of cargo volume (in 2006, the respective figures were 84%, 7% and 8%).

The cargo handling in AS Tallinna Sadam is not seasonal. Cargo volume passing through the port in winter may be affected by freezing sea lanes in the Baltic Sea due to long periods of cold weather in winter where ice-breaking activities may slow down the movement of vessels and cargo (extraordinarily difficult ice conditions existed for the last time at the beginning of 2003). The fluctuations in cargo volume are normally related to changes in market conditions (incl. changes in the world market prices of transported cargo, factors affecting Russia's exports such as export duties and tariffs as well as export capacity).

3.2. Number of passengers



In 2007, the number of passengers travelling through the ports of AS Tallinna Sadam was 6.51 million, declining by 250 thousand passengers or 3.6% (in 2006, the respective figures were 6.76 million passengers and a decline of 3.5%). The number of passengers also fell short of forecasts in 2007.

The decline in the number of passengers was mostly attributed to the decline in the number of passengers on the most important Tallinn-Helsinki line where instead of the expected growth, the number of passengers declined by almost 170 thousand passengers or 3%. However, the number of passengers grew steadily on the second largest Tallinn-Stockholm line, reaching 676 thousand passengers and increasing by almost 54 thousand passengers or a healthy 9%. However, the number of passengers on Paldiski-Kapellskär line decreased by 86 thousand passengers or 63%. Instead of carrying passengers the transportation of rolling stock mostly occurs on this line as a result of which the former will be of less importance in the future.

In 2007, there were no major changes in the operating volumes of larger passenger liner operators with regard to the number of passengers passing through the ports of AS Tallinna Sadam. Of the largest operators, Tallink and Viking Line carried as many passengers as the year before. There were some changes among smaller passenger vessel operators where the number of passengers grew for Nordic Jetline but declined for Sea Containers (fast ferries of former Silja Line) and Eckerö Line.

As an overall trend, the size of vessels continued to grow as older and smaller vessels are being replaced by newer and larger ones. With regard to AS Tallinna Sadam, it requires large investments into the servicing equipment of new vessels and even more importantly, in the reconstruction of the traffic schemes in the port's territory and around it, in order to service escalating peak loads of travellers both on the territory of the port and exiting it.

The number of cruise passengers of AS Tallinna Sadam declined for the first time in the last five years, by 6% to 295 thousand passengers, whereas the number of traditional cruise passengers declined by 2%. The decline in the number of cruise passengers was primarily related to the termination of operations of some cruise operators. Saaremaa Harbour, opened in 2006 for receiving cruise ships will see no major growth in the number of cruise passengers in the near future. In 2007, almost 3 thousand cruise passengers travelled through the port.

With regard to line passengers, no major growth is expected in the near future. Some growth is supported by the renewal of the fleet, especially year-round fast ferries traffic, but also by growing investments by Estonian companies in tourism and accommodation as well as Estonia's entering Schengen visa-free zone at the end of 2007. The number of cruise passengers is expected to show significant growth already in 2008.

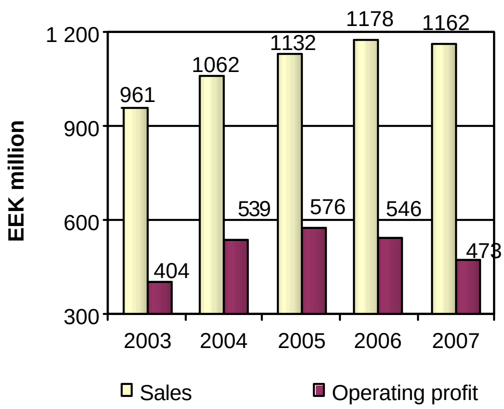
In the spring-summer-autumn (warmer) season, passenger vessel operators use fast ferries without ice class on Tallinn-Helsinki line to provide faster and more cost-efficient service for the growing number of passengers during this period. In 2007, 1.1 million passengers or 20% of the line's annual passenger volume (in 2006, the respective figures was 1.7 million passengers or 30%) on Tallinn-Helsinki line were serviced by fast ferries without ice class, which represented a major decline. However, Tallink replaced some of the fast ferries without ice class with new, larger fast ferries with ice class that can be run throughout the year, and which carried 1.2 million passengers or 22% of the line's passengers. As such ferries also replaced slower ice-class vessels, the average crossing time of the line decreased.

The season of cruise ship visits is mostly between May and September.

Such seasonalities exist regularly in carrying passengers and therefore they do not have an extraordinary effect on the results of operations of AS Tallinna Sadam.

3.3. Income and expenses

Sales and operating profit



In 2007, the consolidated sales of AS Tallinna Sadam amounted to EEK 1 162 million (EUR 74.3 million), decreasing by EEK 16 million (EUR 1 million) or 1.3% (in 2006, the respective figures were EEK 1 178 million (EUR 75.3 million) and growth of 4.1%). AS Tallinna Sadam as the Parent Company of the consolidation group earned 94% of the Group's sales and Tallinna Sadama Elektrivõrk OÜ earned the remaining 6% of sales.

The decline in sales was primarily related to the decline in cargo volume, and partly to the decline in the number of passengers. The effect of these negative changes on sales were somewhat alleviated by the growth in the total capacity of vessels calling at the port and the annual indexation of port dues in line with the change in the cost of living.

Of the types of sales, the sales directly related to the cargo volume and the number of passengers declined due to the aforementioned changes – sales from cargo and passenger fees decreased by EEK 19.4 million (EUR 1.2 million) or 11% and EEK 0.2 million (EUR 0.01 million) or 0.2%, respectively.

The sales from port dues which are directly related to the number of vessel calls and the gross tonnage of vessels did not change much, increasing by EEK 3.4 million (EUR 0.2 million) or 0.5%. Of the factors decreasing the sales from port dues was the decline in the number of calls of both cargo and passenger vessels and the decline in the gross tonnage of cargo vessels. The growth of the gross tonnage of passenger vessels and the effect of indexation of port dues can be mentioned as the factors helping to increase the sales from port dues.

Rental income increased by EEK 4.4 million (EUR 0.3 million) or 4.1%. The growth of rental income was related to leasing out new territories to cargo operators as well as a slight change of the terms and conditions of lease agreements.

The sale of electricity decreased by EEK 3.6 million (EUR 0.2 million) or 4.7% due to lower sales volume primarily related to the lower consumption of cargo operators. The sale of other services in total did not change. The sale of utilities to the companies operating in the port made up a major part of the services.

The expenses related to operating activities (operating expenses, personnel expenses as well as depreciation and impairment losses) totalled EEK 690 million (EUR 44.1 million), increasing by EEK 57 million (EUR 3.7 million) or 9,1% in a year. The growth of expenses was primarily related to the costs of expanding the port operations as well as appreciation of labour costs and service prices. The growth in labour costs in the amount of EEK 22.4 million (EUR 1.4 million) or by 14,6% contributed the most to the increase of costs which besides the impact of the adjustment of salaries also included costs related to layoffs in the Port of Paljassaare (due to a decrease in operating capacity). Operating expenses grew by EEK 20 million (EUR 1.3 million) or 7.0%. Of operating expenses, security and maintenance costs, repair costs of non-current assets and consulting and development costs increased the most. The growth of these expenses was mostly related to the expansion of the port's territory, modernisation of non-current assets and reviewing of different port development plans. Depreciation and impairment losses increased by EEK 14.8 million (EUR 0.9 million) or 7.8%, mostly related to the volume growth of non-current assets.

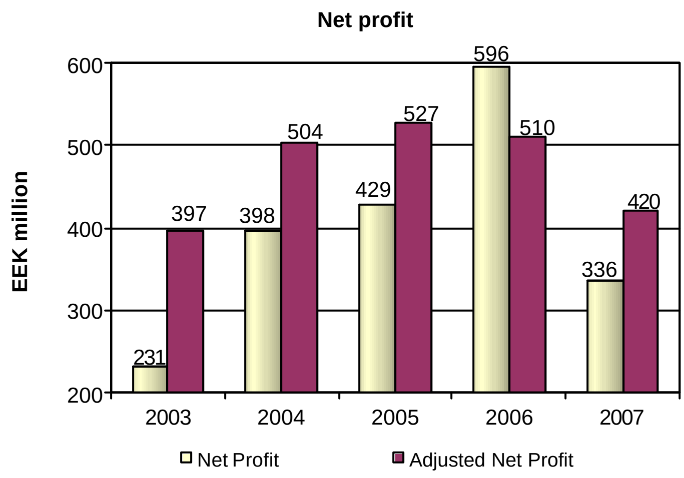
3.4. Operating profit, operating margin and EBITDA

The operating profit for 2007 (profit before other income and other expenses) totalled EEK 473 million (EUR 30.2 million) which represented a decline in the operating profit by EEK 72.9 million (EUR 4.7 million) or 13.4% as compared to 2006. The operating profit fell in conjunction with the growth of operating expenses and decline of sales. Thus, the efficiency of the operations of AS Tallinna Sadam expressed as the operating margin (sales divided by operating profit) fell, declining from 46.3% to 40.7% in 2007. The decline in the efficiency of operations in 2007 was mostly related to lower sales attributable to significantly lower cargo volume as an extraordinary event. As forecast, the decline in efficiency was also partially related to the expansion projects of the port which had passed from the investment stage into the operational stage, the targeted operating volume and level of sales of which will be achieved over a longer period of time. The largest of such projects are the coal terminal opened in Muuga in 2005 and the port opened in Saaremaa in 2006. In the near future, the operating margin is expected to decline further due to the planned large-scale development investments.

In 2007, EBITDA (operating profit plus depreciation[3]) was EEK 677 million (EUR 43.3 million) as compared to EEK 735 million (EUR 47.0 million) in 2006, declining by 7.9% in a year. The decline was related to the co-effect of a decrease of sales and growth of operating expenses.

[3] AS Tallinna Sadam does not include other income and other expenses in calculating EBITDA since these amounts fluctuate considerably year after year and they are significantly impacted by one-time transactions

3.5. Net profit



Net profit was impacted by other income and expenses as well as by interest income and expenses. Other income totalled EEK 30.2 million (EUR 1.9 million) of which the largest share (EEK 20.3 million (EUR 1.3 million)) was made of income generated by penalty fees from several cargo operators failing to deliver contractual cargo volumes and income relating to grants which is the co-financing of the European Union for performing certain research works. The majority of other expenses (EEK 19.8 million (EUR 1.3 million)) was related to the need arising from the changes occurred in the transit sector to modify earlier agreements. In 2007, interest expenses increased significantly due to the general increase of interest rates as well as the growth of debt level. Interest expenses increased by EEK 14.2 million (EUR 0.9 million) or almost 23%. On the other hand, the growth in interest rates also favoured the growth of interest income from the short-term investment of available funds. Interest income grew by EEK 0.8 million (EUR 0.05 million) or 7%. All in all, net finance expenses increased by EEK 13.0 million (EUR 0.8 million) or 25.6%.

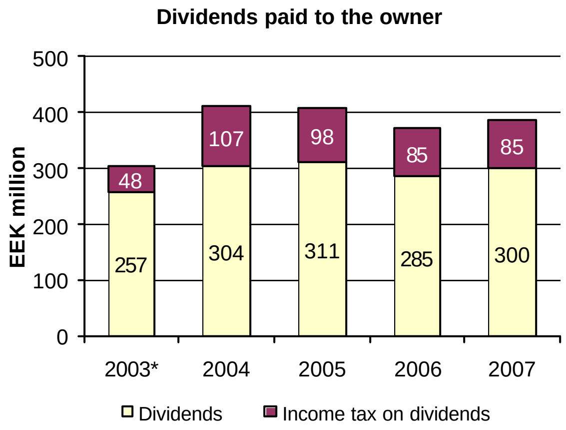
The Group's net profit for 2007 totalled EEK 336 million (EUR 21.5 million) which is EEK 260 million (EUR 16.6 million) less than in 2006. Considering that one-time profit from sale of assets made up EEK 171 million (EUR 10.9 million) out of the net profit in 2006, the net profit for 2007 declined by EEK 89 million (EUR 5.7 million).

To compare yearly net profits of AS Tallinna Sadam, the net profit is adjusted by the most significant one-time income and expenses (which were generated/incurred in 2003 and 2006) and by the income tax expense on dividends paid.

When adjusting the net profit for 2007 by the income tax on dividends in the amount of EEK 84.6 million (EUR 5.4 million), the adjusted net profit is EEK 420 million (EEK 26.9 million). When adjusting the net profit for 2006 by the income tax on dividends in the amount of EEK 85.1 million (EUR 5.4 million) and the one-time profit from the sale of non-current assets in the amount of EEK 171 million (EUR 10.9 million), the adjusted net profit is EEK 510 million (EUR 32.6 million). The decline of the adjusted net profit in 2007 in the amount of EEK 89 million (EUR 5.7 million) was mostly related to a decline in the operating profit in the amount of EEK 73 million (EUR 4.7 million), a net decrease of other income and expenses in the amount of EEK 4.3 million (EUR 0.3 million) and net growth of finance expenses in the amount of EEK 13.0 million (EUR 0.8 million).

The financial risks impacting AS Tallinna Sadam and the methods used for their hedging are presented in Notes 3, 9, 17 and 20 of the financial statements.

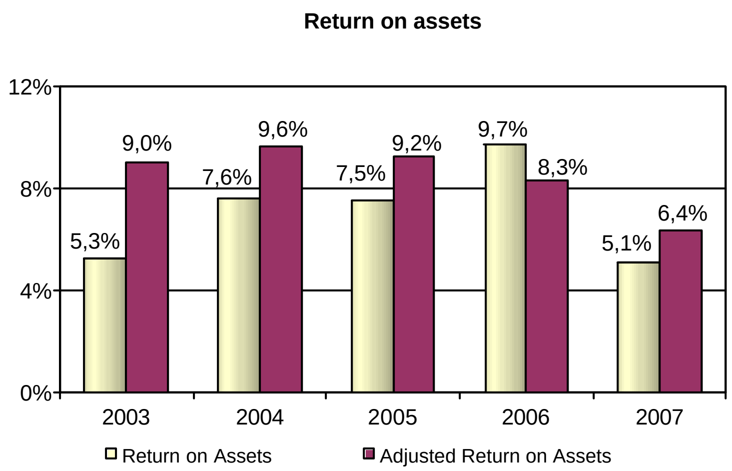
3.6. Dividends



* The amount of dividends for 2003 includes ice-breaking works

In 2007, dividends paid to the shareholder totalled EEK 300 million (EUR 19.2 million) and the income tax on dividends totalled EEK 84.6 million (EUR 5.4 million) for the total of EEK 385 million (EUR 24.6 million), for more details see Note 19 of the financial statements. In 2006, the respective figures were EEK 285 million, EEK 85.1 million and EEK 370 million (EUR 18.2 million, EUR 5.4 million and EUR 23.6 million).

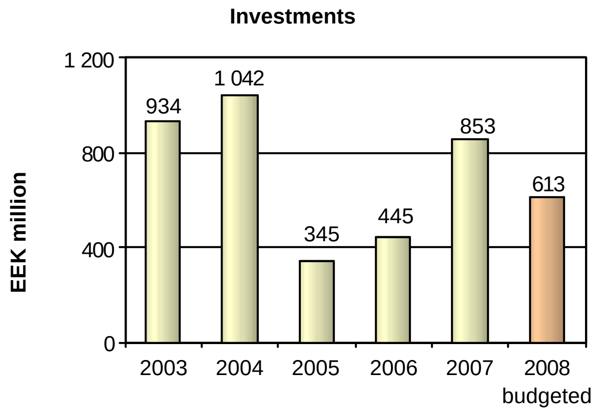
3.7. Return on assets



In 2007, the return on assets of AS Tallinna Sadam (net profit divided by the annual average volume of assets) decreased to 5.1% which is the lowest level in the last five years. The return on assets calculated using the adjusted net profit was 6.4% which is also the lowest level in the same time period. For the second consecutive year, it represents the lowest return on assets over the last five years. However, the decline in the return on assets was somewhat expected, related to the volume growth of assets due to long-term and large-scale investments that will yield expected gains in future periods. The decline in the return on assets was related to an unexpected decline in cargo volume in 2007 which had a larger effect on the decline in the return on assets than asset growth.

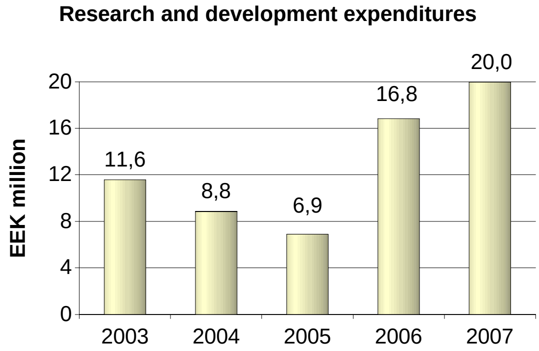
In 2007, the return on equity of AS Tallinna Sadam (adjusted net profit divided by the annual average volume of equity, also adjusted by the same one-time profit) was 9.4%. This also represented a decline in the return as compared to the return of 10.1% previous year (which was also adjusted by the one-time profit on the sale of assets in the amount of EEK 171 million (EUR 10.9 million)). When compared with the larger decline in the return on assets, the return on equity was maintained due to a change which occurred in the capital structure, as the share of debt increased somewhat (when comparing the averages for the year). The reason for the decline in the return on equity was primarily related to the loss in profitability of the main operations. In the near future, an increase in the gap between the return on equity and return on assets is expected due to the realisation of large-scale investment programme and if the current dividend policy continues, significant amounts of debt will need to be raised in the upcoming years.

4. INVESTMENTS AND DEVELOPMENT OUTLOOK



In 2007, the Group invested a total of EEK 853 million (EUR 54.5 million) in new infrastructure and improvements of existing infrastructure which on the one hand represented a growth of EEK 408 million (EUR 26.1 million) as compared to the previous year, but on the other hand did not meet the budgeted level. Due to much higher than anticipated appreciation of construction prices and the sharp lowering of cargo volumes from Russia during the year, the investment plan relating to the eastern part of Muuga Port was reviewed and no investments were made in 2007.

The Parent Company made most of the investments in 2007 totalling EEK 823 million (EUR 52.6 million) and the subsidiary - electricity network company – made the remaining share, almost EEK 30 million (EUR 1.9 million). Most of the investments were related to the acquisition and construction of new territories totalling EEK 268 million (EUR 17.1 million) or 31% of the total volume of investments. New territories were acquired for the development of Muuga Port and Paldiski South Harbour and the infrastructure of the industrial park of Muuga Port was developed further. Investments related to marine transport facilities (quays and aquatory) totalled EEK 177 million (EUR 11.3 million) or 21% of the total volume of investments. The largest projects were reconstruction of quay no. 1 in the Old City Port and extension of quay no. 6 in Paldiski South Harbour. Investments in the development of buildings, structure and service equipment totalled EEK 233 million (EUR 14.9 million), in the foundation of railway branches and a station park totalled EEK 81 million (EUR 5.2 million), in the necessary networks needed for the provision of utility services and increasing security of supply of these services totalled EEK 63 million (EUR 4 million).



In addition to investments, AS Tallinna Sadam incurs substantial research and development expenditures each year, which totalled a record of EEK 20 million (EUR 1.3 million) in 2007 as compared to EEK 16.8 million (EUR 1.1 million) previous year. A major part of research and development expenditures are directed at finding lucrative cargo flows and development of new potential projects from the point of view of their environmental, constractual as well as economic feasibility aspects. In 2008, research and development expenditure is budgeted at an even higher amount. The majority of research is targeted at the expansion projects of Muuga Port and Paldiski South Harbour, for the preparation of their drafts and detailed plans as well as for the development of the territory and traffic schemes in the Old City Port. Also the amount of research related to environmental surveys and other side-effects related to the port operations continues to grow steadily.

The development plan for the next five years foresees investments in the expansion of the port infrastructure in Muuga Port and Paldiski South Harbour. The keywords of the development plans of Muuga Port include finding new opportunities for the growing volume container cargo due to which the expansion plan of the eastern part of the port will be renewed. The territory of the industrial park of Muuga Port is almost completed. In Paldiski South Harbour, the expansion of quays and the port's territory is under development mostly for meeting the growing demand for transporting rolling stock and new passenger cars. Due to the changes in passenger vessel traffic in the Old City Port, investments will be made in the servicing equipment of vessels and redesigning the port's traffic scheme.

5. QUALITY AND ENVIRONMENTAL MANAGEMENT

5.1. Development of the management system

From 2003, AS Tallinna Sadam has an integrated quality and environmental management system which meets the international ISO 9001:2000 and ISO 14001:2004 requirements certified by Lloyd´s Register Quality Assurance. Quality is an inevitable prerequisite for attaining long-term success. The employees of AS Tallinna Sadam are aware of their responsibility for following the Company's quality and environmental policy and they have set goals for developing the management system together with the management. In providing port services, a long-term goal is to set up electronic exchange of information between the customers and partners. Another priority continues to be making document management more systematic and environmentally friendly (electronic) and simplifying internal document processing. One important goal of introducing project management is to ensure competitiveness of the customers and the port. In 2007, one important target included the development of positive reputation of the port and shipping and emphasising the historical aspect when communicating with the public. To attain this goal, a plan of action was prepared, the activities of AS Tallinna Sadam were introduced to local governments, overviews of the port were published in newspapers, seminars and „open port" days were arranged with customers in the course of which the port was introduced to local people, schoolchildren and other interest groups. Within the framework of all these events, the port's environmental activities were also thoroughly covered. In arranging marketing events for the port's commune in different countries, the target markets were expanded and Belgium and China were added to Russia and Kazakhstan.

With the goal of reducing environmental pollution, requirements have been set for AS Tallinna Sadam with the international standard ISO 14001:2004 which need to be followed in order to systematically organise environmental activities and improve its results. One important environmental goal is to improve the system for monitoring air quality at Muuga Port within the framework of which a new measurement device was acquired for measuring the quality of ambient air at Muuga Port. Also, cooperation was launched with the Estonian Environmental Research Centre to develop measures for alleviating the pollution of ambient air.

5.2. Indicators of the management system

In order to facilitate a balanced analysis of the Group's results as well as their periodic monitoring, AS Tallinna Sadam has developed indicators for measuring financial, customer, process, personnel, and development aspects. The following important observations and trends may be outlined on the basis of observable indicators for the year 2007:

- financial indicators (EVA[4], profit, cash flows, etc.) decreased as compared to 2006. The economic value added measure fell significantly but the indicators of the cash flows from operating activities, operating profit and the cost of operations fell less;
- indicators of the process aspect also decreased as compared to 2006. Both cargo volume and the number of passengers fell, and so did performance indicators;
- customer surveys demonstrated that customer opinion of AS Tallinna Sadam improved in 2007. The customer satisfaction index surpassed the 4 point limit for the second consecutive year. However, it is necessary to mention the lowering of response rate;
- of the personnel and development indicators, the number of employees voluntarily leaving the Company fell in 2007. Also, the time spent on employee training fell in 2007 but it stayed at a slightly higher level as compared to previous years.

5.3. Environmental expenditure

The activities targeted at environmental protection incl. acquisition and training of anti-pollution devices, running of cleaning devices and anti-pollution vessels, environmental investments, pollution charges, etc. are becoming more important in development work and the daily activities of the ports. In 2007, AS Tallinna Sadam spent almost EEK 27 million (EUR 1.7 million) on environmental protection of which EEK 9 million (EUR 0.6 million) was the cost of running anti-pollution vessels. In 2007, the most important investments included acquisition of hauling vessel with pollution protection functions at Muuga Port for EEK 5.1 million (EUR 0.3 million) and acquisition of an additional device for the air surveillance station of Muuga Port for EEK 859 thousand (EUR 55 thousand). A total of EEK 3.7 million (EUR 0.2 million) was spent on environmental research and consulting activities, the cost

[4] EVA – Economic Value Added

of canalisation of sewage water and running a bio cleaner at Muuga Port totalled EEK 6.2 million (EUR 0.4 million). The significant increase in environmental costs as compared to 2006 (growth of EEK 11 million (EUR 0.7 million)) was primarily related to making environmental investments (acquisition of a special vessel and additional devices for the air surveillance station) and the increase in the costs related to the acquisition and use of anti-pollution devices.

In 2007, the most important environmental activities were:

Monitoring:

Monitoring of the marine environment of Muuga Port;
Air surveillance of Muuga Port (impact of crude oil terminals on atmospheric air pollution);
Monitoring of the marine environment of Saaremaa Harbour;
Monitoring of the bird population of Saaremaa Harbour.

Assessments of environmental impact:

Assessment of environmental impact of the western part of Muuga Port;
Assessment of environmental impact of constructing breakwaters at Paldiski South Harbour;
Assessment of environmental impact of constructing quay no. 8 at Paldiski South Harbour and accompanying dredging works;
Strategic assessment of environmental impact of the detailed plan of the ro-ro quay no. 6a at Paldiski South Harbour and the territory between Rae põik 16, Rae põik 18b, Suurekivi, Liitsihi beacon no. 391, Liitsihi beacon no. 392, Rae põik 14a and Rae põik 14b;
Strategic assessment of environmental impact of the detailed plan of the territory between Soomepoiste tee 10, Saare 1 and Rae põik 18/Kase at Paldiski South Harbour.

Geological research of natural resources at the sea bottom:

Sand surveys of Kõpu 1 research space and general geological research of the sand pit of Kõpu 2;
General geological sand research of Laine shoal;
General geological research in Diomid research space.

5.4. Monitoring of the marine environment and the bird population

The most important environmental impacts over the last several years were related to the construction activities at Muuga Port, Paldiski South Harbour and Saaremaa Harbour.

The monitoring of the marine environment launched in 1995 continued at Muuga Port. The goal of monitoring is to assess the impact of the activities of the port as well as the impact of post-filling and dredging works performed in previous years on benthic animals, plants, fish and the coastal processes of nearby regions.

Monitoring results show that the area of the Bay of Muuga and the region of Ihasalu is moderately impacted by human activities. There are no deviations in the changes of the species of benthic animals and their quantitative composition which are characteristic of sea areas impacted by human activities and the changes occurred cannot be related to the activities of the port. Like in previous years, on the basis of the monitoring results in 2007 it can be claimed that the impact of the port on the composition of fish species is observable only in the sea area between the coal terminal and the eastern seawall where the composition of fish species has changed. The Bay of Muuga between the port and Tahkumäe Cape where dredging activities have impacted benthic animals has probably lost its importance as a reproduction area of fish for a long time. However, no major impact has been observed on fish reproduction in the Bays of Ihasalu, Kaberneeme and Kolga. The monitoring of coastal processes show that the development of Muuga Port and the expansion of its eastern part have not led to any significant changes in coastal processes. Monitoring results demonstrate that

Muuga Port due to its position does not impact the coastal area of Saviranna. Human activities are mostly responsible for changes in Randvere monitoring area.

In 2007, monitoring of the post-construction maritime environment and the bird population of Saaremaa Harbour continued. The main goal of monitoring was to assess the port's impact on the environment in Küdema Bay which is a bird area of international importance and Natura 2000 Küdema bird and nature area. Based on the results of monitoring the marine environment, the experts have concluded that the impact of Saaremaa Harbour on the animal and bird communities of Küdema Bay and the coastal process are virtually absent.
The monitoring programme of the bird population included three subprojects: count of water birds and mapping of their migration groups, count of the birds washed ashore, monitoring of the hatching birds in the coastline of Küdema Bay and the Island of Laidu. Most of the results of the bird population subprojects showed a low number of birds in Küdema Bay. According to the experts, the reasons primarily included the overall decline in the numbers of species, (predatory) relations between species, inadequate environmental conditions in a given year, etc. The data gathered do not show that Saaremaa Harbour is the cause for the decline in the number of birds.

5.5. Air surveillance

In 2007, the assessment of the environmental impact of the western part of Muuga Port continued, an important component of which was the development of a plan of action to reduce pollution of atmospheric air related to the operations of oil terminals at Muuga Port. Measurements of pollution levels were taken in two monitoring stations, were the hourly and daily concentrations of aromatic and aliphatic hydrocarbons were measured in ambient air, as well as meteoparameters (temperature, wind velocity and direction as well as air moisture). Long-term monitoring data did not show a general growth trend of these compounds over the years. Although the content of aliphatic and aromatic compounds stayed within the norm, there were some problems with the condition of ambient air manifesting itself in an unpleasant "rotten egg" odour. As a rule, the compounds with such an odour are various reduced sulphur compounds such as mercaptanes and hydrogen sulphides. Therefore, constant measurement of the pollution levels of hydrogen sulphide which is the chemical compound with a low odour threshold (an unpleasant odour can also be smelled at very low concentrations) was launched at Muuga-1 monitoring station in February 2007 and at Muuga-2 monitoring station in July 2007.
Considering that the concentrations exceeding the hourly limit were measured at both monitoring stations of Muuga Port, the unpleasant odour also spread in the region. During extensive air quality surveys in Muuga-Maardu region between September 2006 – September 2007, the main sources of pollution of hydrogen sulphide were determined with the help of rotating modelling, those being oil terminals. To reduce the unpleasant odour, the Group in collaboration with oil terminals plans to find new opportunities to gather, reuse or utilise emissions of chemicals and petroleum products.

6. SUBSIDIARIES AND JOINT VENTURES

As at the year-end of 2007, AS Tallinna Sadam has two subsidiaries (OÜ Tallinna Sadama Elektrivõrk and OÜ Tallinna Sadama Veevõrk) and one joint venture (AS Green Marine).

6.1. OÜ Tallinna Sadama Elektrivõrk

In the second half of 2004, AS Tallinna Sadam set up its subsidiary OÜ Tallinna Sadama Elektrivõrk. The private limited company is engaged in providing electricity network services through a distribution network as well as selling electricity which was spun off as an independent operation from the main business of AS Tallinna Sadam. In 2007, the volume of the main business i.e. network service and sale of electricity came in below forecast due to the drop in port's handling volumes and the resulting lower demand for electricity. In 2007, the subsidiary continued to invest in the expansion of the distribution network in the port's territory and increasing the security of electricity supply. Constant emergency supply is ensured to the customers according to the principle of higher security of supply at the port.

In 2007, the remuneration paid to the Management Board of the subsidiary totalled EEK 90 thousand (EUR 5.8 thousand) and the members of the Supervisory Board were paid EEK 155.4 thousand (EUR 9.9 thousand). In 2006, the remuneration paid to the Management Board of the subsidiary totalled EEK 53 thousand (EUR 3.4 thousand), no remuneration was paid to the Supervisory Board. A bonus may be added to the remuneration paid to the Management Board for the operating results of 2007 which the Supervisory Board will rule upon after the annual report is approved.

6.2. OÜ Tallinna Sadama Veevõrk

The subsidiary was set up in the second half of 2005 with the goal of better differentiation between the provision of water and sewage service as well as a heat distribution service on the ports' territories and the ports' activities, and ensuring as efficient functioning of these services as possible. The subsidiary did not launch its actual business operations in 2007.

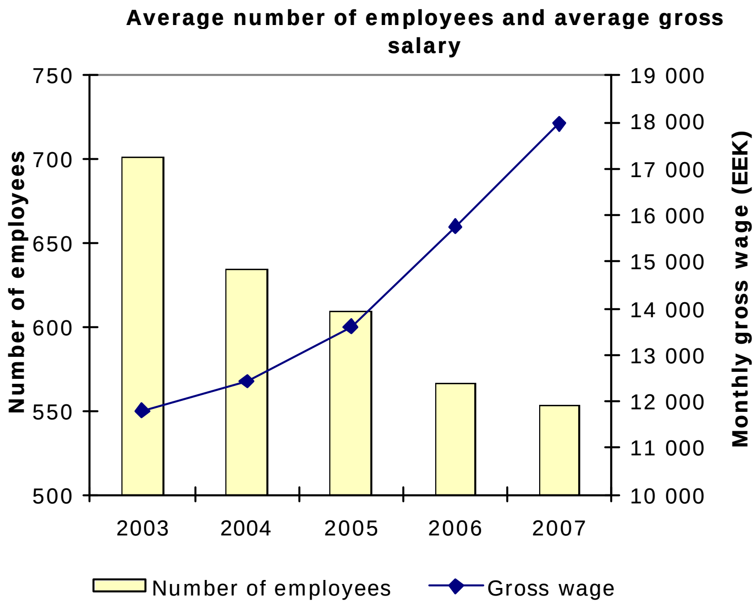
The members of the Management and Supervisory Boards did not receive any remuneration in 2007 or in 2006.

6.3. AS Green Marine

AS Green Marine, founded by AS Tallinna Sadam and AS NT Marine at the end of 2003, is a joint venture engaged in waste management. The main activity of AS Green Marine is management of waste arising at the ports, management, maintenance and operation of dangerous ship-generated waste and wastewater treatment terminal as well as cleaning and maintenance of the ports' aquatory and territory. In 2007, the Company continued to receive ship-generated waste and treat it according to the cooperation agreement entered into with AS Tallinna Sadam. The preparatory work for construction of the waste treatment terminal at Muuga Port also continued.

7. ORGANISATION AND PERSONNEL

7.1. Employees



In 2007, the average number of the Group's employees was 553 (2006: 566) and employee wages and salaries totalled EEK 119.2 million (EUR 7.6 million). In 2006, employee wages and salaries totalled EEK 106.8 million (EUR 6.8 million). In 2007, the average gross wages of the Group's employees was EEK 17 966 (EUR 1 148) which was 14.1% higher than in 2006 (EEK 15 747 (EUR 1 006)). The reason for the growth in average wages included both employee wage increases due to changes occurred in the labour market well as the changes in the number of employees in different salary groups.

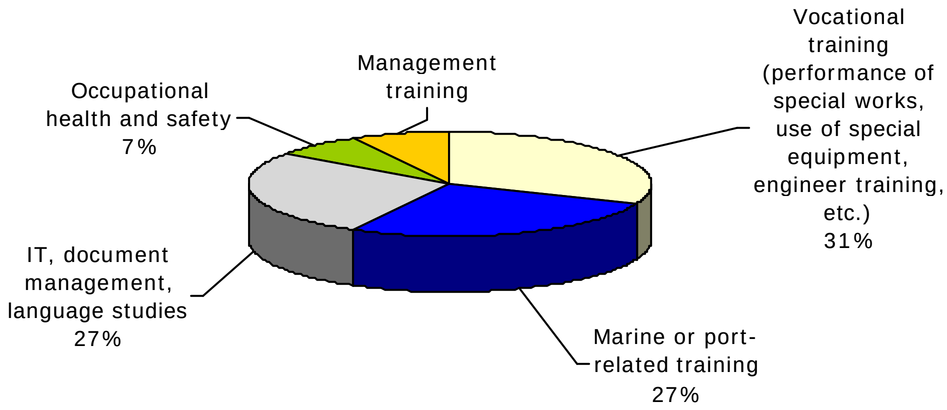
At the beginning of 2008, the base wages of employees were raised by 14.3% on average. The wages of skilled labour, unskilled and support workers increased the most. The basis for the salary increase was the scope of tasks and responsibilities of the employees at AS Tallinna Sadam and comparison with the wages paid in the labour market and increases in the cost of living.

In 2007, employee turnover was 5.9%, in 2006, the respective figure was 8.5%. The average age of the port's employees was 47 years and the average length of employment was 10 years.

In 2007, the average number of sick days per employee was 5.98 calendar days, being 8.6 % less than 6.55 calendar days in 2006. AS Tallinna Sadam considers it important to take care of its employees, creating and improving safe working conditions for its employees as well as increasing their awareness in these areas. AS Tallinna Sadam also promotes athletic ways of life, supporting both daily athletic activities as well as comparison of their abilities with the employees of other companies.

For the purpose of fostering internal communication and transmitting information, we continued to publish an intra-group bulletin and arranged a day of internal communication for the managers. In 2007, the volume of training activities (number of training hours per employee) was ca 15% less than in 2006 but the number of foreign training hours was 17% higher as compared to 2006. Continuing vocational training, occupational health and marine and port related training made up 2/3 of the volume of training.

Training activities in 2007 (based on training hours)



In arranging training sessions, collaboration with the Estonian Marine Academy continued to teach basic knowledge of marine-related activities to employees with non-marine education and marine-related advanced education started in 2006 also continued. In conjunction with a new law on public procurements, a special internal training session was arranged.

In 2007, the programme for developing the competencies of managers continued, in the areas of arranging developmental discussions and affirming knowledge on the employment law. Also, the development programme of customer service representatives launched in 2006 continued – in 2007, a training session "Successful cooperation and pleasant relations in customer service" was arranged, recalling the golden rules of phone communication. In order to participate in training sessions abroad, six scholarships were obtained from the Flemish Government for participation in the courses conduced at the training centre in the Port of Antwerp.

7.2. Management Board

In 2007, there were no changes in the management structure of AS Tallinna Sadam and the Management Board consisted of two members: Chairman of the Management Board Ain Kaljurand and member of the Management Board Allan Kiil.

In 2007, the members of the Management Board received remuneration in the amount of EEK 2 249 thousand (EUR 144 thousand). In 2006, the members of the Management Board received remuneration in the amount of EEK 2 973 thousand (EUR 190 thousand), incl. a bonus for the financial results of 2006 in the amount of EEK 740 thousand (EUR 47 thousand).

In addition to the remuneration paid to the Management Board, a bonus may be payable for the financial results of 2007 which will be ruled upon by the Supervisory Board after the annual report is approved.

7.3. Supervisory Board

The Supervisory Board of AS Tallinna Sadam held six meetings in 2007. Several changes occurred in the membership of the Supervisory Board. With the resolution of the Minister of Economic Affairs and Communications on 6 June 2007, the members of the Supervisory Board Juri Shehovtsov, Vilja Savisaar and Toomas Vitsut were removed and Tõnis Palts, Indrek Raudne and Eerik-Niiles Kross were appointed as new members. With the decree of the Minister of Finance of 4 June 2007, Margus Leivo and Jüri Saar were removed and Priit Paiste and Randel Lants were appointed as new members of the Supervisory Board.

In 2007, the members of the Supervisory Board received remuneration totalling EEK 551 thousand (EUR 35.2 thousand), in 2006, EEK 566 thousand (EUR 36.2 thousand).

8. CORPORATE GOVERNANCE REPORT

In solving the issues related to managing the Group, AS Tallinna Sadam primarily relies on the recommended guidelines of corporate governance (hereinafter CG). In addition to the recommended guidelines of CG, the Group also relies on the Participation in Legal Persons in Private Law by the State Act (PLPPLSA), because AS Tallinn Sadam is wholly owned by the Republic of Estonia. Thus, pursuant to the structure of the shareholders of AS Tallinna Sadam and the related specific peculiarities in managing the Group at the level of the General Meeting and the Supervisory Board, AS Tallinna Sadam does not follow some of the guidelines recommended by CG. References to those provisions of CG (clause of CG and its brief description) which are not followed and explanations for it are shown below.

However, it is noteworthy that despite non-adherence to some guidelines, the protection of the interests of the investors and shareholders and their equal treatment has been ensured in arranging the activities of AS Tallinna Sadam. CG guidelines not subject to adherence relate mostly to conducting the General Meeting and appointing members of the Supervisory Board with the main goal of primarily protecting the interests of shareholders. As the sole shareholder of AS Tallinna Sadam is the Republic of Estonia, the interests of the shareholder are protected by the principles set out in PLPPLSA. The protection of the interests of investors and their equal treatment is ensured by AS Tallinna Sadam because the Group adheres to those principles and rules in its activities which are set out in CG chapters concerning disclosures as well as financial reporting and auditing.

8.1. General Meeting

AS Tallinna Sadam does not follow the following CG clauses:

Clause 1.2.1 – a notice of convening the General Meeting is made known simultaneously by sending it to the shareholders and/or publishing it in a national newspaper and making it also available on the issuer’s website.

Clause 1.2.3 – simultaneously with meeting the terms and conditions for convening the General Meeting pursuant to legislation, the Management Board discloses important information related to the agenda on the issuer’s website which has been presented to it or is available otherwise.

Clause 1.2.4 - during a reasonable amount of time before the General Meeting takes place, the Supervisory Board discloses its proposals regarding the agenda on the issuer’s website.

Clause 1.3.1 - neither the Chairman of the Supervisory Board nor it members can be elected as the Chairman of the General Meeting.

Clause 1.3.2 - members of the Management Board, the Chairman of the Supervisory Board and if possible, also the members of the Supervisory Board and at least one of the auditors participate in the General Meeting.

Clause 1.3.3 - the issuer shall make the monitoring of the General Meeting and participation in it possible through communication channels if there are technical means (e.g. Internet) available and if it is not too expensive for it.

The non-adherence to the CG guidelines above arises from the fact that the sole shareholder of AS Tallinna Sadam is the Republic of Estonia and the exerciser of the rights of the shareholder is the Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and

Communications at the General Meeting of Shareholders. The exercising of the rights of the shareholder and the authority of the representative are prescribed by PLPPLSA; and holding of General Meetings and its participants are determined, if necessary, in concert with the sole shareholder. Based on the above, AS Tallinna Sadam does not consider it necessary to appoint an independent Chairman of the General Meeting and to monitor the meeting and enable participation in it with the help of technical communication tools. Investors are notified of the meetings pursuant to requirements of the rules and regulations of the Tallinn Stock Exchange via the stock exchange information system.

8.2. Management Board

Pursuant to clause 2.2.7 of CG, information regarding the amount of remuneration paid to the members of the Management Board in 2007 and the system for determining severance pay and additional remuneration is presented below.

In 2007, the remuneration paid to the Chairman of the Management Board of AS Tallinna Sadam Ain Kaljurand amounted to EEK 1 217 thousand (EUR 78 thousand). In 2007, the remuneration paid to the member of the Management Board Allan Kiil amounted to EEK 1 032 thousand (EUR 66 thousand). A bonus payable for the financial results of 2007 may be added to the remuneration paid to the members of the Management Board in 2007 which will be ruled upon by the Supervisory Board after the annual report is approved. The amounts of the remuneration and severance pay payable to the members of the Management Board are prescribed in clauses 2 and 3 of paragraph 25 of PLPPLSA pursuant to which the amount of additional remuneration paid to the members of the Supervisory Board shall not exceed the four-month remuneration paid to the members of the Management Board. The determination of additional remuneration must be justified and take into consideration value added by AS Tallinna Sadam and its market position. Severance pay shall only be paid in the event of a removal of the member of the Management Board at the initiative of the Supervisory Board and before the expiry of the term of his authority; and its amount shall not exceed three-month remuneration paid to the member of the Management Board.

8.3. Supervisory Board

AS Tallinna Sadam does not adhere to clause 3.2.2 of CG – at least half of the members of the Supervisory Board shall be independent. If the Supervisory Board consists of an uneven number of members, then there shall be one independent member less than dependent members.

The Supervisory Board of AS Tallinna Sadam consists of eight members. According to clause 2 of paragraph 20 of PLPPLSA, at least half of the members (i.e. four members) shall be appointed with the resolution of the sole shareholder by the Minister of Economic Affairs and Communications and the remaining members shall be appointed by the order of the Minister of Finance. Based on the above, the members of the Supervisory Board of AS Tallinna Sadam may be considered as being dependent of the controlling shareholder.

Pursuant to clause 3.2.5 of CG, the amount of the remuneration paid to the members of the Supervisory Board in 2007 and the procedure for paying remuneration shall be presented below.

The procedure for appointing the members of the Supervisory Board and the payment of remuneration is set out in paragraphs 18 – 24 of PLPPLSA. Pursuant to PLPPLSA, the limits for remuneration and the procedure for more precise payment is determined by the Minister of Finance. The limits for remuneration of the members of the Supervisory Board are set out in the directive no. 117 of the Minister of Finance of 14 June 2004 Procedure for Remuneration of Members of the Supervisory Board of State-owned Companies and Limits for Remuneration.

Pursuant to the prescribed limits, the Minister controlling the shares shall decide the remuneration of the member of the Supervisory Board. Pursuant to the directive of the Minister of Economic Affairs and Communications, the amount of the monthly remuneration of the member of the Supervisory Board of AS Tallinna Sadam is EEK 5 550 (EUR 355) and that of the Chairman of the Supervisory Board is EEK 7 400 (EUR 473). Remuneration is paid to the member of the Supervisory Boar once a month. The members of the Supervisory Board shall not receive remuneration for the month in which he did not participate in adopting resolutions of the Supervisory Board.

In accordance with the aforementioned directive, additional remuneration is paid to the member of the Supervisory Board for the participation in governing body of the Supervisory Board. The body governed by the Supervisory Board of AS Tallinna Sadam is the audit committee which consists of three members. The committee members are paid for their participation in the audit committee of the Supervisory Board totalling 25% of the remuneration of the member of the Supervisory Board, the remuneration of the Chairman of the committee amounts to 50% of the remuneration of the member of the Supervisory Board.

AS Tallinna Sadam does not pay any severance pay and other additional remuneration besides the remuneration for the participation in the governing body of the Supervisory Board.

8.4. Financial reporting and auditing

AS Tallinna Sadam does not adhere to clause 6.2.2. of CG – the Management Board shall present a draft agreement for the approval by the Supervisory Board before concluding an agreement with the auditor for the provision of the auditing service.

The Management Board of AS Tallinna Sadam does not deem it necessary to approve the draft agreement for the auditing service to be concluded with the auditor because important terms and conditions of the agreement (amount of the fee, time schedule and tasks) have been approved by the audit committee of the Supervisory Board and information concerning it shall be presented to all members of the Supervisory Board before concluding the agreement.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Tallinna Sadam consolidated financial statements for the financial year ended 31 December 2007 as presented on pages 26 - 69.

The Management Board confirms that:

1. the accounting policies used in preparing the consolidated financial statements are in compliance with International Financial Reporting Standards as adopted in the European Union;
2. the consolidated financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group;
3. AS Tallinna Sadam and its subsidiaries are going concerns.

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board

Tallinn, 29 February 2008

CONSOLIDATED BALANCE SHEET

in thousands of as at 31 December	Note	EEK 2007	EEK 2006	EUR 2007	EUR 2006
ASSETS					
Current assets					
Cash and cash equivalents	6	269 641	514 693	17 233	32 895
Available for sale financial assets	7	2 855	2 855	182	182
Other financial assets at fair value through profit and loss	8	0	34 855	0	2 228
Derivatives	9	11 427	9 078	730	580
Trade and other receivables	10	110 880	102 705	7 087	6 564
Total current assets		**394 803**	**664 186**	**25 232**	**42 449**
Non-current assets					
Investments in joint venture	11	2 673	0	171	0
Other long-term receivables	10	6 959	8 585	445	549
Property, plant and equipment	12	6 385 769	5 757 872	408 125	367 995
Total non-current assets		**6 395 401**	**5 766 457**	**408 741**	**368 544**
Total assets		**6 790 204**	**6 430 643**	**433 973**	**410 993**
LIABITLITIES					
Current liabilities					
Current portion of bonds and long-term loans	17	608 435	185 282	38 886	11 842
Short-term provisions	14	18 910	17 189	1 208	1 099
Supplier and other payables	15, 16	195 190	113 267	12 475	7 238
Total current liabilities		**822 535**	**315 738**	**52 569**	**20 179**
Non-current liabilities					
Long-term borrowings	17	1 453 504	1 661 386	92 896	106 182
Government grants	18	11 455	18 358	732	1 173
Other long-term payables	15	9 400	6 712	601	429
Total non-current liabilities		**1 474 359**	**1 686 456**	**94 229**	**107 784**
Total liabilities		**2 296 894**	**2 002 194**	**146 798**	**127 963**
EQUITY					
Share capital at nominal value		2 786 204	2 755 619	178 071	176 116
Statutory reserve capital		275 562	275 000	17 612	17 576
Hedge reserve	20	8 642	8 494	552	543
Retained earnings		1 087 071	792 908	69 476	50 676
Net profit for the financial year		335 831	594 724	21 464	38 010
Capital and reserves attributable to equity holders of the Parent Company		**4 493 310**	**4 426 745**	**287 175**	**282 921**
Minority interest		0	1 704	0	109
Total equity		**4 493 310**	**4 428 449**	**287 175**	**283 030**
Total liabilities and equity		**6 790 204**	**6 430 643**	**433 973**	**410 993**

The accompanying notes on pages 31 - 69 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

in thousands of	Note	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Sales	**21**	1 162 445	1 177 953	74 294	75 285
Other income	**23**	30 174	186 810	1 929	11 940
Operating expenses	**22**	-309 252	-289 023	-19 765	-18 472
Personnel expenses	**22**	-176 025	-153 651	-11 250	-9 820
Depreciation and impairment	**12**	-204 296	-189 545	-13 057	-12 115
Other expenses	**23**	-19 652	-973	-1 256	-62
Operating profit		**483 394**	**731 571**	**30 895**	**46 756**
Finance income and costs					
Finance income	**24**	12 798	11 714	818	749
Finance costs	**24**	-76 645	-62 557	-4 899	-3 998
Total finance income and costs		**-63 847**	**-50 843**	**-4 081**	**-3 249**
Profit/loss from investments in joint venture under equity method of accounting		899	0	58	0
Profit before tax		**420 446**	**680 728**	**26 872**	**43 507**
Income tax expense	**19**	-84 615	-85 130	-5 408	-5 441
Net profit for the financial year		**335 831**	**595 598**	**21 464**	**38 066**
attributable to:					
equity holders of the Parent Company		335 831	594 724	21 464	38 010
minority interest		0	874	0	56
Basic earnings and diluted earnings per share (in EEK, EUR)	**19**	1.21	2.16	0.08	0.14

The accompanying notes on pages 31 - 69 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of	Note	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Cash receipts from sale of goods and services		1 261 917	1 302 556	80 651	83 249
Cash receipts related to other income		13 627	7 952	871	508
Payments to suppliers		-479 812	-420 586	-30 665	-26 880
Payments to and on behalf of employees		-105 739	-111 303	-6 758	-7 114
Payments for other expenses		-24 399	-5 803	-1 559	-371
Income tax on dividends paid	19	-17 830	-83 420	-1 140	-5 332
Cash generated from operating activities		**647 764**	**689 396**	**41 400**	**44 060**
Purchases of property, plant and equipment (PPE)	27	-781 436	-433 766	-49 943	-27 723
Proceeds from sale of PPE		1 706	235 311	109	15 039
Reclassification of subsidiary	1	-2 799	0	-179	0
Purchases of other financial investments		-36 851	-48 903	-2 355	-3 125
Proceeds from sale of other financial assets		72 730	40 000	4 648	2 556
Interest received		12 638	8 727	808	558
Cash used in investing activities		**-734 012**	**-198 631**	**-46 912**	**-12 695**
Issue of bonds	17	400 553	264 427	25 600	16 900
Redemption of bonds	17	0	-100 000	0	-6 391
Borrowings received		0	203 406	0	13 000
Repayments of borrowings		-185 282	-147 578	-11 842	-9 432
Dividends paid	19	-300 000	-285 000	-19 173	-18 215
Interest paid	17	-73 874	-56 727	-4 722	-3 625
Other payments related to financing activities		-201	-259	-13	-16
Cash used in financing activities		**-158 804**	**-121 731**	**-10 150**	**-7 779**
TOTAL CASH FLOWS		**-245 052**	**369 034**	**-15 662**	**23 586**
Cash and cash equivalents at beginning of the period	6	514 693	145 659	32 895	9 309
Net increase/decrease in cash and cash equivalents		-245 052	369 034	-15 662	23 586
Cash and cash equivalents at end of the period	6	269 641	514 693	17 233	32 895

The accompanying notes on pages 31 - 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of EEK	Note	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Minority interest	Total equity
Equity as at 31 December 2005		**2 750 000**	**275 000**	**-6 030**	**1 077 911**	**830**	**4 097 711**
Revaluation reserve of hedging instruments	**20**	0	0	14 524	0	0	**14 524**
Net income recognised directly in equity		*0*	*0*	*14 524*	*0*	*0*	***14 524***
Net profit for the financial year		0	0	0	594 724	874	**595 598**
Total recognised income and expenses for 2006		*0*	*0*	*14 524*	*594 724*	*874*	***610 122***
Dividends declared	**19**	0	0	0	-285 000	0	**-285 000**
Issue of share capital		5 619	0	0	0	0	**5 619**
Adjustment		0	0	0	-3	0	**-3**
Equity as at 31 December 2006		**2 755 619**	**275 000**	**8 494**	**1 387 632**	**1 704**	**4 428 449**
Revaluation reserve of hedging instruments	**20**	0	0	148	0	0	**148**
Net income recognised directly in equity		*0*	*0*	*148*	*0*	*0*	**148**
Net profit for financial year		0	0	0	335 831	0	**335 831**
Total recognised income and expenses for 2007		*0*	*0*	*148*	*335 831*	*0*	**335 979**
Issue of share capital		30 585	0	0	0	0	**30 585**
Transfers to reserve capital	**19**	0	562	0	-562	0	**0**
Dividends declared	**19**	0	0	0	-300 000	0	**-300 000**
Reclassification of subsidiaries		0	0	0	0	-1 704	**-1 704**
Adjustment		0	0	0	1		**1**
Equity as at 31 December 2007		**2 786 204**	**275 562**	**8 642**	**1 422 902**	**0**	**4 493 310**

in thousands of EUR	Note	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Minority interest	Total equity
Equity as at 31 December 2005		**175 757**	**17 576**	**-385**	**68 891**	**53**	**261 892**
Revaluation reserve of hedging instruments	**20**	0	0	928	0	0	**928**
Net income recognised directly in equity		*0*	*0*	*928*	*0*	*0*	**928**
Net profit for the financial year		0	0	0	38 010	56	**38 066**
Total recognised income and expenses for 2006		*0*	*0*	*928*	*38 010*	*56*	**38 994**
Dividends declared	**19**	0	0	0	-18 215	0	**-18 215**
Issue of share capital		359	0	0	0	0	**359**
Equity as at 31 December 2006		**176 116**	**17 576**	**543**	**88 686**	**109**	**283 030**
Revaluation reserve of hedging instruments	**20**	0	0	9	0	0	**9**
Net income recognised directly in equity		*0*	*0*	*9*	*0*	*0*	**9**
Net profit for financial year		0	0	0	21 464	0	**21 464**
Total recognised income and expenses for 2007		*0*	*0*	*9*	*21 464*	*0*	**21 473**
Issue of share capital		1 955	0	0	0	0	**1 955**
Transfers to reserve capital	**19**	0	36	0	-36	0	**0**
Dividends declared	**19**	0	0	0	-19 173	0	**-19 173**
Reclassification of subsidiaries		0	0	0	0	-109	**-109**
Adjustment		0	0	0	-1	0	**-1**
Equity as at 31 December 2007		**178 071**	**17 612**	**552**	**90 940**	**0**	**287 175**

The accompanying notes on pages 31 - 69 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AS Tallinna Sadam (hereinafter also the Parent Company) is an incorporated entity registered in the Republic of Estonia at 5 November 1996. The consolidated financial statements of AS Tallinna Sadam for the financial year ended 31 December 2007 include the financial information of the Parent Company and its subsidiaries (hereinafter the Group). The main field of activity of the Parent Company is the provision of port services as a *landlord*-type port with the task of infrastructure management and development as well as arrangement of vessel traffic in the port area. The Parent Company owns five ports: Vanasadam (Old City Port) located in the centre of Tallinn known as a passenger port, the commercial port in Paljassaare, the largest commercial port of Estonia in Muuga, the commercial and passenger port in Paldiski (Paldiski South Harbour) and the newest port in Saaremaa for receiving cruise vessels which opened in 2006. The Group's subsidiaries provide auxiliary services at these ports.

Company	Location	Ownership (%)	Main activity
OÜ Tallinna Sadama Elektrivõrk	Estonia	100	Provision of network services and sale of electricity
OÜ Tallinna Sadama Veevõrk	Estonia	100	Provision of services related to water and heat supply as well as drainage of sewage

In 2007, the subsidiary AS Green Marine was reclassified from a subsidiary into a joint venture (Note 11).

The sole shareholder of AS Tallinna Sadam is the Republic of Estonia.
The bonds of AS Tallinna Sadam are listed on the Tallinn Stock Exchange.

These financial statements were authorised for issue by the Management Board at 29 February 2008. According to the Commercial Code valid in Estonia, the current annual report shall be approved by the Supervisory Board and shareholders.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Group's consolidated financial statements are set out below. These accounting policies have been consistently applied to all the periods presented in the financial statements. All Group companies use uniform accounting policies.

Basis of preparation

The consolidated financial statements of the Group for the year 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU). All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective at the time of preparing these consolidated financial statements had been adopted by the EU through the endorsement procedure established by the European Commission. As the only exception, the European Commission had not fully endorsed International Financial Reporting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" – and this with regard to certain provisions on portfolio hedging of core deposits.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates rarely equal subsequent actual results related to them. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2 continued

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to these financial statements.

New IFRS standards, amendments to published Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

a) Amendments to IFRS standards and interpretations of IFRIC which became effective for the Group during 2007 and have an effect on the Group's financial statements:

Amendment to IAS 1 "Presentation of Financial Statements: Capital disclosures": The amendment to IAS 1 requires additional disclosures in the financial statements regarding the capital and its management.

IFRS 7 "Financial Instruments: Disclosures": IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of credit risk, liquidity risk and market risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the Group is exposed to risk, based on information provided internally to the Group's key management personnel and it also includes sensitivity analysis of market risk. IFRS 7 supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and some of the requirements in IAS 32 ("Financial Instruments: Disclosure and Presentation"). Comparative information is also presented in accordance with new presentation.

b) Amendments to IFRS standards and interpretations of IFRIC which became effective for the Group during 2007 but do not have an effect on the Group's financial statements:

IFRS 4" Insurance Contracts"
IFRIC 7 Applying the Reinstatement Approach under IAS 29 – "Financial Reporting in Hyperinflationary Economies"
IFRIC 8 "Scope of IFRS 2"
IFRIC 9 "Reassessment of Embedded Derivatives"
IFRIC 10 "Interim Financial Reporting and Impairment"

c) Published standards and interpretations which are not yet effective and which the Group has not adopted early:

IFRS 8 "Operating Segments": IFRS 8 was issued by the International Financial Reporting Standards Board at 30 November 2006 and it applies to accounting periods beginning at 1 January 2009 and later. IFRS 8 supersedes IAS 14 "Segment Reporting". IFRS 7 specifies new requirements in respect of the disclosure of information on business segments as well as information on products and services, geographical areas where the business is conducted and major customers. IFRS 8 requires a 'management approach' to reporting the performance of business segments. The Group shall apply IFRS 8 from 1 January 2009. As most of the services provided by the Group are port-related, the Group does not have any segments of products/services to be disclosed separately. As the Group operates only in the Republic of Estonia, it does not have any geographical segments to be disclosed separately. As a result, there is no effect from the application of the standard.

Amendments to IAS 23 "Borrowing costs": The amendment to IAS 23 was issued by the International Financial Reporting Standards Board at 29 March 2007 and it applies to accounting periods beginning at 1 January 2009 and later. The amendment relates to the accounting treatment of borrowing costs directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use or sale. The amended standard consisted of eliminating the option of recognising all borrowing costs immediately as an expense in the period in which they were incurred. In accordance with the new requirement of the Standard, these costs must be capitalised. The Group shall apply the amendment to the standard from the date at which it comes into force, i.e. from 1 January 2009. The amendment to the standard requires changes in the Group's accounting policies but does not have a material effect on the Group's financial statements.
By the date of preparing these consolidated financial statements, the amendment to IAS 23 had not yet been endorsed by the European Union.

Note 2 continued

Amendments to IAS 1 "Presentation of Financial Statements": the amendment to IAS 1 was issued by the International Financial Reporting Standards Board at 6 September 2007 and it applies to accounting periods that begin at 1 January 2009 and later. The amendments introduced relate mainly to the presentation of changes in equity and are intended to improve the ability of the users of financial statements to analyse and compare the information included in the financial statements. The Group shall apply the amendment to the standard from 1 January 2009. The expected effect from the use of the standard mostly relates to presentation.
By the date of preparing these consolidated financial statements, the amendment to IAS 1 had not yet been endorsed by the European Union.

Amendment to IFRS 2 "Share-based Payment": the amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. The amendment clarifies that all cancellations whether by the Group or by other entities should receive the same accounting treatment. As the Group does not have any such transactions, there is no effect from the application of this standard.

Amendments to IFRS 3 "Business Combinations": the amended IFRS 3 was issued by the International Financial Reporting Standards Board at 10 January 2008 and at applies to accounting periods beginning at 1 July 2009 and later. The amendments introduced include the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified, a restatement of shares already held in an acquired entity to fair value (with the resulting differences to be recognised in the income statement) and additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred. The Group shall apply the amended IFRS 3 from 1 July 2009. As the Group does not have any such transactions, there is no effect from the application of this standard.
By the date of preparing these consolidated financial statements, the amendment to IFRS 3 had not yet been endorsed by the European Union.

Amendments to IAS 27 "Consolidated and Separate Financial Statements": The amended IAS 27 was issued by the International Financial Reporting Standard Board at 10 January 2008 and it applies to accounting periods beginning at 1 January 2009 and later. The standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognised in the income statement. The Group shall apply the amended IAS 27 from 1 July 2009. As the Group does not have any such transactions, there is no effect from the application of this standard.
By the date of preparing these consolidated financial statements, the amendment to IAS 27 had not yet been endorsed by the European Union.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions": IFRIC 11 was issued by the International Financial Reporting Interpretations Committee at 2 November 2006 and it applies to accounting periods beginning at 1 March 2007 and later. The interpretation contains guidelines on the following issues :

- applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and
- adopting an accounting approach in the following instances:
    - an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees ;
    - an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity.

The Group shall apply IFRIC 11 from 1 January 2008. As the Group does not have any such transactions, there is no effect from the application of this standard.

Note 2 continued

IFRIC 12 “Service Concession Arrangements”: IFRIC 12 was issued by the International Financial Reporting Interpretations Committee at 30 November 2006 and it applies to accounting periods beginning at 1 January 2008 and later. The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The Group shall apply IFRIC 12 from 1 January 2008. As the Group does not have any such transactions, there is no effect from the application of this standard.
By the date of preparing these consolidated financial statements IFRIC 12 had not been endorsed by the European Union.

IFRIC 13 “Customer Loyalty Programmes”: IFRIC 13 was issued by the International Financial Reporting Interpretations Committee at 27 June 2007 and it applies to accounting periods beginning at 1 July 2008 and later. IFRIC 13 includes guidance on the accounting treatment of transactions resulting from loyalty programmes implemented by an entity for its customers, such as loyalty cards or awarding of ‘points’. In particular, IFRIC 13 indicates the correct accounting for the entity’s obligation to provide free or discounted goods or services if and when the customers redeem the points . The Group shall apply IFRIC 13 from 1 January 2009. As the Group does not have any such transactions, there is no effect from the application of this standard.
By the date of preparing these consolidated financial statements, IFRIC 13 had not yet been endorsed by the European Union.

IFRIC 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”: IFRIC 14 was issued by the International Financial Reporting Interpretations Committee at 9 July 2007 and it applies to accounting periods beginning at 1 January 2008 or later. The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Group shall apply IFRIC 14 from 1 January 2008. As the Group does not have any such transactions, there is no effect from the application of this standard.
By the date of preparing these consolidated financial statements, IFRIC 14 had not yet been endorsed by the European Union.

Preparation of the consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities controlled by the Parent Company. Control is presumed to exist when the Parent Company owns directly or indirectly through subsidiaries, more than one half of the voting power of the subsidiary (unless it can be demonstrated that no control accompanies such ownership) or otherwise has power to govern the financial and operating policies of the subsidiary. When the Parent Company acquired or transferred control over the subsidiary during the accounting period, the respective subsidiary is fully consolidated from the date of its acquisition until the date of its disposal.

The financial information of the Parent Company and its subsidiaries is consolidated on a line-by-line basis in the consolidated financial statements. Receivables, liabilities, revenue, expenses and unrealised gains and losses on transactions between the Parent Company and its subsidiaries have been eliminated.

b) Joint ventures

Joint ventures are entities in which the Group has significant influence but that are under the joint control of two or more investors. Investments in joint venture are accounted for under the equity method of accounting and they are initially recognised at cost. The Group’s share in the joint venture’s post-acquisition gains and losses is reported in the income statement and the Group’s share in post-acquisition equity reserves of joint ventures is taken directly to equity items. The carrying amount of the investment is adjusted by cumulative post-acquisition changes.

Note 2 continued

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are s ubject to risks and returns that are different from those of other business segments. As most of the Group's activities are related to the provision of port services, the Group has no separate reportable segments of products/services under IAS 14. A geographical segment is engaged in providing products/services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. As the Group operates only in the Republic of Estonia, the Group has no separate reportable geographical segments under IAS 14.

Foreign currency translations

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates - the Estonian kroon ("the functional currency").

The consolidated financial statements are presented in Estonian kroons and pursuant to the requirements of the Tallinn Stock Exchange, in Euros. As the Estonian kroon is pegged to the Euro with the fixed exchange rate (EUR 1 = EEK 15.6466), no foreign exchange rate differences arise in the translation of the financial statements . All amounts in these consolidated financial statements are presented in thousands of kroons, unless referred to otherwise.

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

Foreign currency transactions are translated into the functional currency (Estonian kroon) using the exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies as at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Profits and losses from foreign currency transactions and from revaluation of assets and liabilities denominated in foreign currencies are recognised in the income statement as income or expenses of that period.

Property, plant and equipment

Items of property, plant and equipment are assets used in the operation activities of the Group with a useful life of over one year. Items of property, plant and equipment are reported in the balance sheet at cost less any accumulated depreciation and any impairment losses.

a) Cost

An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price and other expenditures directly related to the acquisition that are necessary for bringing the asset into its operating condition and location.

Subsequent costs are included in the asset's carrying amount only if the cost meets the definition of property, plant and equipment and the criteria for recognition in the balance sheet. If a component of an item of property, plant and equipment is replaced, the cost of the new component is added to the cost of the asset and the replaced component is derecognised. Ongoing maintenance and repair costs are charged to the income statement as expenses.

Interest costs on borrowings are not capitalised in the cost of non-current assets.

b) Depreciation

Depreciation is calculated on the difference between cost and residual value using the straight-line method over the estimated useful life of the asset. When an item of property, plant and equipment consists of identifiable components with different useful lives, these components are recorded as separate property, plant and equipment items and separate depreciation rates are assigned to them depending on their useful lives. The estimated useful life of a non-current asset is reviewed during annual stocktaking of property, plant and equipment, in recording subsequent expenditure and in case of significant changes in the Company's development plans. If the estimated useful life of the asset significantly differs from the previous estimate, the remaining useful life of the asset is amended, resulting in a change in the depreciation charge for in subsequent periods.

Note 2 continued

The estimated useful lives of non-current assets used at the Group are as follows:

Quays	10-50 years
Dredging areas of aquatories	20 years
Other buildings and facilities	5-50 years
Machinery and equipment	3.3 -10 years
Other property, plant and equipment	2-10 years

Land is not depreciated.

Depreciation is commenced at the time when the asset is ready to be used for the purpose intended by the management and is terminated when its residual value equals its carrying amount, the asset is completely removed from use or is reclassified into "Non-current assets held for sale". At each balance sheet date, the validity of depreciation rates, depreciation methods and the residual value are evaluated.

c) Impairment of assets

Items of property, plant and equipment are tested for any indicators of impairment. If an indicator of impairment exists, the recoverable amount is estimated and compared with the carrying amount. The loss arising from impairment is recorded in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and its value in use. For the purpose of assessing impairment, the recoverable amount is assessed for each individual asset or for the smallest group of assets for which there are separately identifiable cash flows. The impairment loss is charged to period costs .

The assets that have been written down to their recoverable amount are reviewed at each following balance sheet date to determine whether their recoverable amount has meanwhile increased. The reversal of the impairment is recorded as a reduction of the period's impairment loss in the income statement.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial asset at its initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as financial assets at fair value through profit or loss unless they are designated as hedging instruments. Assets in the category of financial assets at fair value through profit or loss are classified as current assets.

b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included within current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Receivables are classified as trade and other receivables in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other category of financial assets. They are included within non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

Note 2 continued

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

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

Changes in the fair value of available-for-sale financial assets are recognised through equity. When securities classified as available-for-sale are sold or become impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 10 to these financial statements.

Derivative instruments and hedging activities
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and also thereafter. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has entered into several long-term swap contracts – cash flow hedges - with the goal of fixing the interest expenses of loans with floating interest rates.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.
The fair values of derivatives used for hedging purposes and movements of the hedging reserve in equity are disclosed in Notes 9 and 20 to these financial statements.

Note 2 continued

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "Other income" or "Other expenses". Amounts accumulated in equity are allocated in the income statement in the periods when the hedged item has an effect on profit or loss. The gain or loss relating to the effective portion of interest rate swaps that hedge variable rate borrowings is recognised in the income statement within 'finance costs'. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement items "Other income" or "Other expenses".

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of the account *"Allowance for doubtful receivables"* and the amount of the loss is recognised in the income statement within operating expenses or other expenses. When a trade receivable is uncollectible, it is written off against the account *"Allowance for doubtful receivables"* for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses or other expenses in the income statement.

Cash and cash equivalent

In the balance sheet and for the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances and term deposits of 3 months or less.

Share capital

Ordinary shares are included within equity.

Financial liabilities

On initial recognition, the Company measures financial liabilities (supplier payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings) at fair value plus transaction costs directly related to the acquisition or issue of financial liabilities if it does not involve financial liabilities recognised at fair value through profit or loss. After initial recognition, the Company measures all financial liabilities at amortised cost using the effective interest rate method. The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. A financial liability is classified as current when its maturity is within twelve months after the balance sheet date. The effective interest rate method is used to calculate the amortised cost of non-current financial liabilities.

Dividend distribution and corporate income tax

According to the Income Tax Act, the annual profit earned by entities is not taxed in the Republic of Estonia and thus no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings as dividends is subject to a tax rate of 21/79 (until 31 December 2007: 22/78) of the amount paid out as net dividends. Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Company's shareholders. The income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Note 2 continued

Employee benefits

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits), which fall due within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include items such as wages , salaries and social security contributions; short-term compensated absences (such as paid annual leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related service; bonuses payable within twelve months after the end of the period in which the employees render the related service.

When an employee has rendered services during an accounting period, the Group shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

b) Termination benefits

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

Provisions and contingent liabilities

Provisions are set up when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. No provisions are set up for future operating losses. A provision is reported in the balance sheet in the amount which management considers necessary for settling the liability relating to the provision or for transferring it to the third party. When a provision is settled later than a year after the balance sheet date, it is recognised at the net present value of the expected future cash flows .

Provisions are used only to cover those costs for which they were set up.

Other potential or existing commitments whose realisation is less probable than their non-realisation or whose associated costs cannot be determined reliably, are disclosed in the notes to the financial statements as contingent liabilities.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable, considering all discounts and concessions made. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from the sale of goods is recognised when all significant risks and rewards incidental to ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue from rendering of services is recorded upon rendering of the service. Revenue cannot be determined reliably until all terms and conditions related to the sale have been met. In its estimates, the Group relies on historical experience, taking into consideration the type of the client and transaction and the peculiarities of the agreement.

Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Interest income is recognised using the effective interest rate, except if the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Dividends are recognised when the right to receive payment is established.

Note 2 continued

Leases

Leases of property, plant and equipment which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

a) The Group is the lessee

Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

b) The Group is the lessor

Assets leased out under finance lease agreements are recorded as non-current assets in the balance sheet of the Group. Assets leased out are depreciated using the same accounting policies as for depreciating similar assets. Operating lease payments are recognised on a straight-line basis as lease income over the term of lease.

Research and development expenditure

Research expenditure is recognised as an expense when it is incurred. Development expenditure (expenditure relating to the design and testing of new or improved products) are recognised as intangible assets when:

- management intends to complete the intangible asset and start using it or sell it;
- an intangible asset can be used or sold;
- it is possible to show how an intangible asset can generate expected future economic benefits;
- there are appropriate technical, financial and other resources to complete the development and start using or sell the asset;
- costs have been incurred in the development phase that can be measured reliably.

Other development expenditure that does not meet these criteria is recognised as an expense when it is incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period.

Cash flow statement

The direct method has been used for the preparation of the cash flow statement.

Related party transactions

For the purposes of preparing the consolidated financial statements, the members of the Supervisory and Management Boards of the Group companies, their close family members and the companies, joint ventures, state and state-controlled entities under their control or significant influence are considered as related parties.

Government grants

Government grants are recognised as income under the gross method over the periods when the related costs occur, which they are intended to compensate. Government grants received to compensate the expenses of previous periods or where there are no additional conditions attached to grants to be addressed in the future, are accounted for as income when the grant is received. Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Potential liabilities related to government grants are recognised as provisions or as contingent liabilities.

Assets acquired via government grants are initially recognised in the balance sheet at cost, the amount received as a government grant is recognised as deferred income related to the grant. The related asset is depreciated and the grant is recognised as income over the estimated useful life of the asset.

Government grants related to operating expenses are recognised as income in proportion to the costs they are intended to compensate. The cost to be compensated and income generated by the grant are reported separately in the income statement.

Note 2 continued

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year attributable to the equity holders of the Company by the period's weighted average number of shares in issue during the year. Diluted earnings per share are calculated by adjusting the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Statutory reserve capital

Statutory reserve capital is formed based on the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in statutory reserve capital, until it reaches one-tenth of share capital. Statutory reserve capital can be used to offset losses from the prior periods or to increase share capital. No distributions can be made from the statutory reserve capital.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (incl. cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's specialists under principles approved by the Management Board. The Management Board provides written principles for overall risk management, as well as regulations covering specific areas.

Market risk

a) Foreign currency risk

In order to avoid foreign currency risk, most agreements have been concluded either in Estonian kroons or Euros (the exchange rate between the Estonian kroon and the Euro is fixed). The Group does not have any liabilities in foreign currencies that are not related to the Euro. All current long-term borrowings are denominated in Euros, therefore they are considered as free of foreign currency risk. Approximately 89% of the receipts are in Estonian kroons (2006: 85%) and 11% in Euros (2006: 15%). Receipts in US dollars are less than 1%. In 2007, approximately 86% of disbursements were in Estonian kroons (2006: 88%) and 14% in Euros (2006: 12%). Based on the above, the Group has no major foreign currency exposure.

Price risk

b) As the Group does not possess any specific equity instruments, it is not exposed to price risk arising from financial instruments.

c) Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Group policy is to maintain approximately 50% of its borrowings in fixed rate instruments using interest rate swaps to achieve this when necessary.

The following sensitivity analysis describes the impact of the interest rate risk on the Group's net profit through the balance sheet items exposed to interest rate risk under the assumption that the interest rates rise or fall by 60 basis points (bps) or 0.6 per cent. The loan contracts have been concluded using floating interest rates (base interest is 6-month Euribor).

Note 3 continued

Sensitivity analysis of assets and liabilities exposed to interest rate risk

in thousands of as at 31 December	change in interest rate	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Cash and cash equivalents	-60 bps	-1 618	-3 088	-103	-197
	+60 bps	1 618	3 088	103	197
Accounts receivable*	-60 bps	-57	-20	-4	-1
	+60 bps	57	20	4	1
Available-for-sale financial assets	-60 bps	-17	-17	-1	-1
	+60 bps	17	17	1	1
Derivates	-60 bps	-69	-54	-4	-3
	+60 bps	69	54	4	3
Borrowings	-60 bps	12 372	11 080	791	708
	+60 bps	-12 372	-11 080	-791	-708
Total effect on the net profit	**-60 bps**	**10 611**	**7 901**	**679**	**506**
	+60 bps	**-10 611**	**-7 901**	**-679**	**-506**

** accounts receivable overdue*

The Group manages its cash flow interest rate risk by using *floating-to-fixed* interest rate swaps. Such interest rate swaps have an economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term debt at floating rates and swaps them into fixed rates that are lower than those available had the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange at specified intervals (primarily semi-annually), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts .

Credit risk

Credit risk arises mostly from trade receivables, cash and cash equivalents and derivate transactions. For the purposes of minimising credit risk related to customers, the requirement of prepayments has been established for customers whose solvency is doubtful. Also, a background study of customers is performed prior to the conclusion of larger contracts. Other methods of managing credit risk related to customers include everyday monitoring of the payment behaviour of customers and implementation of necessary measures when needed. As at the year-end, all doubtful receivables have been either written off or provision for impairment has been made.

Credit risks related to financial transactions are managed by using financial institutions with a high credit rating when making financial investments and transactions with derivative instruments. The procedure for making financial investments establishes the risk limits of the other party to the issuer of traded securities and scope limits for investment portfolio composition.

Of the accounts receivable, 89.9% (in comparable 2006: 95.7%) of the receivables are those the due date of which has not arrived by the balance sheet date. An allowance for doubtful receivables makes up 3.9% (in comparable 2006: 2.4%) of the volume of accounts receivable. A more detailed overview of accounts receivable and their breakdown is presented in Note 10 to these financial statements.

Liquidity risk

For the purposes of liquidity management, the Group uses a two-level liquidity monitoring principle. The first level liquidity reserve is used to cover immediate claims arising in daily activities and includes overnight deposits in banks as well as money market and interest fund shares. In accordance with the liquidity management procedure, the first level liquidity reserve should be at least EEK 15 000 thousand (EUR 959 thousand).

The second level liquidity reserve enables coverage of claims arising from the business activities of the Group, which are not of an urgent nature and cannot be immediately scheduled to a certain due date. The second level liquidity reserve includes commercial papers and bonds of companies with a credit rating higher than Baa1 (Moody's) and BBB+ (S&P) and term deposits in banks. The second level liquidity reserve is set at minimum of EEK 5 000 thousand (EUR 320 thousand).

Note 3 continued

If necessary, short-term external financing is used in the form of various debt instruments.
Management constantly monitors changes in the Group' liquidity reserve (which is made up of cash and cash equivalents and current credit limits) on the basis of cash flow forecasts. As at 31 December 2007, the Group's liquidity reserve totalled EEK 319.6 million (EUR 20.4 million).

Movements in the liquidity reserve forecast for 2008 are following:

in thousands of	EEK	EUR
Opening balance for the period	**319 641**	**20 429**
Cash flows from operating activities	566 404	36 200
Cash used for investments	-603 245	-38 554
Interest payments	-103 136	-6 592
Loan and dividend repayments	-708 433	-45 277
Borrowings	610 000	38 986
Expiration of committed credit lines	-50 000	-3 196
Closing balance for the period	**31 231**	**1 996**

The following liquidity analysis divides the Group's financial liabilities and derivatives into groups by their payment terms, depending on the time remaining until payment. The balances shown in the table are contractual non-discounted cash flows. Loans payable in 12 months equal their carrying amounts as the effect of discounting is immaterial. When accounting for interest bearing borrowings (bank loans, bonds, derivatives), the yield curve of interest rate swap transactions of Nordea Bank Finland Plc has been used as the basis for Euribor forecast as at 17 January 2008.

Liquidity analysis

in thousands of EEK	Bank loans	Bonds issued	Supplier and other payables	Total
As at 31 December 2007				
< 6 months	88 320	11 522	160 844	**260 686**
6 - 12 months	163 006	414 149	0	**577 155**
1 - 5 years	987 098	270 339	0	**1 257 437**
> 5 years	383 778	0	0	**383 778**
As at 31 December 2006				
< 6 months	87 032	2 715	81 521	**171 268**
6 - 12 months	142 312	5 843	0	**148 155**
1 - 5 years	1 031 087	283 465	0	**1 314 552**
> 5 years	617 534	0	0	**617 534**

in thousands of EUR	Bank loans	Bonds issued	Supplier and other payables	Total
As at 31 December 2007				
< 6 months	5 645	736	10 280	**16 661**
6 - 12 months	10 418	26 469	0	**36 887**
1 - 5 years	63 087	17 278	0	**80 365**
> 5 years	24 528	0	0	**24 528**
As at 31 December 2006				
< 6 months	5 562	174	5 210	**10 946**
6 - 12 months	9 095	373	0	**9 468**
1 - 5 years	65 898	18 117	0	**84 015**
> 5 years	39 468	0	0	**39 468**

Note 3 continued

In order to hedge liquidity risk over the short term, AS Tallinna Sadam entered into a one-year overdraft agreement with AS Hansapank with the limit of EEK 50 million and interest rate of 6-month Euribor plus the margin of 0.5%. Between 26 November 2007 and 26 May 2008, the prevailing interest rate is 5.186%. As at 31 December 2007, AS Tallinna Sadam had not used the overdraft facility.
In addition, at 19 November 2007, bonds with the total value of EUR 25.6 million (EEK 400.6 million) were issued. A more detailed overview of the bond issue is disclosed in Note 17 to these financial statements.

Capital risk management
AS Tallinna Sadam is a company whose shares are owned by the state. The Republic of Estonia (through the Ministry of Economic Affairs and Communications) shall adopt resolutions regarding dividend distribution as well as increases or decreases of share capital. Each financial year, dividends payable to the state budget are established by the order of the Government of the Republic of Estonia.

Financial leverage

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Borrowings (Note 17)	2 061 939	1 846 668	131 782	118 024
Cash and cash equivalents (Note 6)	269 641	514 693	17 233	32 895
Net debt	**1 792 298**	**1 331 975**	**114 549**	**85 129**
Total equity	4 493 310	4 428 449	287 175	283 030
Total capital	**6 285 608**	**5 760 424**	**401 724**	**368 159**
Financial leverage	**29%**	**23%**	**29%**	**23%**

As at 31 December 2007, the financial leverage of AS Tallinna Sadam or the ratio of debt to total equity was 29%. As compared to 2006, it has increased by 6 percentage points whereby the net debt has increased by 34.6% and equity by 1.5%.

Fair value
The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated balance sheet as at 31 December 2007 and 31 December 2006. As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. Therefore, management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The carrying amount less an impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments .

4. CRITICAL ACCOUNTING ESIMATES AND JUDGEMENTS

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are assessments of useful lives of property, plant and equipment and application of impairment tests.

Note 4 continued

Useful lives of property, plant and equipment

The estimated useful lives of property, plant and equipment are based on management's estimate regarding the period during which the asset will be used. Experience has shown that actual useful lives have sometimes been longer than the estimates. As at 31 December 2007, the net book amount of the Group's property, plant and equipment was EEK 6 385 769 thousand (EUR 408 125 thousand), depreciation for the reporting period was EEK 193 821 thousand (EUR 12 387 thousand). As at 31 December 2006, the respective figures were EEK 5 757 872 thousand (EUR 367 995 thousand) and EEK 182 010 thousand (EUR 11 634 thousand). If depreciation rates were reduced by 10%, the annual depreciation charge would decrease and the net profit would increase by EEK 19 382 thousand (EUR 1 239 thousand), in the comparable 2006 financial year, by EEK 18 200 thousand (EUR 1 163 thousand).

Impairment tests for property, plant and equipment

Items of property, plant and equipment are assessed for any indication of impairment. If there is any such indication, the recoverable amount of the asset is assessed and compared with the carrying amount. The recoverable amount of the asset is the higher of the fair value less any costs to sell and its value in use. If the fair value of non-current assets cannot be determined reliably, the future cash flow model is prepared. These calculations require the use of estimates which are based on forecasts of the general economic environment, specific market trends, project based cargo and/or passenger flows and the price level of services sold. If the situation changes in the future, either additional impairment losses could be recognised, or the previously recognised impairment loss could be partially or fully reversed. Had the discount rate of 8.1% been 1 percentage point higher in the impairment tests, the Group would have recognised an impairment loss in the amount of EEK 107 476 thousand (EUR 6 869 thousand), in the comparable 2006 financial year, EEK 59 467 thousand (EUR 3 801 thousand).

5. FINANCIAL INSTRUMENTS

5.1 BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORIES

Financial assets

in thousands of EEK	Receivables	Assets at fair value through profit or loss	Hedging instruments through equity	Available-for-sale assets	Total
As at 31 December 2007					
Cash and cash equivalents	269 641	0	0	0	269 641
Available-for-sale financial assets	0	0	0	2 855	2 855
Derivatives	0	0	11 427	0	11 427
Trade and other receivables	111 325	0	0	0	111 325
Total financial assets	**380 966**	**0**	**11 427**	**2 855**	**395 248**
As at 31 December 2006					
Cash and cash equivalents	514 693	0	0	0	514 693
Available-for-sale financial assets	0	0	0	2 855	2 855
Other financial assets at fair value through profit or loss	0	34 855	0	0	34 855
Derivatives	0	0	9 078	0	9 078
Trade and other receivables	99 093	0	0	0	99 093
Total financial assets	**613 786**	**34 855**	**9 078**	**2 855**	**660 574**

Note 5 continued

in thousands of EUR	Receivables	Assets through profit or loss	Hedging instruments through equity	Available-for-sale assets	Total
As at 31 December 2007					
Cash and cash equivalents	17 233	0	0	0	17 233
Available-for-sale financial assets	0	0	0	182	182
Derivatives	0	0	730	0	730
Trade and other receivables	7 115	0	0	0	7 115
Total financial assets	**24 348**	**0**	**730**	**182**	**25 260**
As at 31 December 2006					
Cash and cash equivalents	32 895	0	0	0	32 895
Available-for-sale financial assets	0	0	0	182	182
Other financial assets at fair value through profit or loss	0	2 228	0	0	2 228
Derivatives	0	0	580	0	580
Trade and other receivables	6 333	0	0	0	6 333
Total financial assets	**39 228**	**2 228**	**580**	**182**	**42 218**

Financial liabilities

	Other financial liabilities			
in thousands of	**EEK**	**EEK**	**EUR**	**EUR**
as at 31 December	**2007**	**2006**	**2007**	**2006**
Supplier and other payables	160 844	81 521	10 280	5 210
Interest liabilities	29 387	24 681	1 878	1 577
Borrowings	2 061 939	1 846 668	131 782	118 024
Total financial liabilities	**2 252 170**	**1 952 870**	**143 940**	**124 811**

5.2 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither overdue nor impaired can be evaluated using, for example, the credit ratings of independent credit agencies (if available for the partner) or historical information the Group has on the partner with regard to its failure to meet contractual obligations.

Cash in bank accounts and deposits by rating*

in thousands of	**EEK**	**EEK**	**EUR**	**EUR**
as at 31 December	**2007**	**2006**	**2007**	**2006**
Aa1	414	150 963	26	9 648
Aa2	109 224	273 727	6 981	17 495
A1	160 000	90 000	10 226	5 752
Total in bank accounts and deposits	**269 638**	**514 690**	**17 233**	**32 895**

* the remaining balance in the balance sheet item “Cash and cash equivalents“ comprises cash on hand

Note 5 continued

Other financial assets at fair value through profit or loss by rating

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
A1	0	19 414	0	1 241
Aa2	0	15 441	0	987
Total other financial assets at fair value through profit or loss	**0**	**34 855**	**0**	**2 228**

Derivatives by rating

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Aa1	4 505	2 860	288	183
Aa2	6 922	6 218	442	397
Total derivatives	**11 427**	**9 078**	**730**	**580**

Trade receivables by customer groups

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
New customers (up to 6 months)	310	1 162	20	74
Current customers (over 6 months) without or with few contract violations	76 965	78 102	4 919	4 992
Current customers (over 6 months) with frequent contract violations	7 823	4 890	500	312
Total trade receivables	**85 098**	**84 154**	**5 439**	**5 378**

6. CASH AND CASH EQUIVALENTS

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Cash in bank accounts	9 440	37 435	603	2 393
Short-term deposits	260 201	477 258	16 630	30 502
Total cash and cash equivalents	**269 641**	**514 693**	**17 233**	**32 895**

Breakdown of cash and cash equivalents by foreign currencies (Note 3)

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Estonian kroon	259 757	503 915	16 601	32 206
Euro	9 572	10 589	612	677
US dollar	312	189	20	12
Total cash and cash equivalents	**269 641**	**514 693**	**17 233**	**32 895**

In 2007, the average rate of return on cash and cash equivalents was between 3.44 and 5.79%, in the comparable 2006 financial year, it was 2.1 – 3.5%.

The accrued interest at the balance sheet date is reported in the balance sheet item "*Trade and other receivable*".

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include available-for-sale shares in the amount of EEK 2 855 thousand (EUR 182 thousand). There were no changes in the balance as compared to 2006.

8. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Financial assets not listed on stock exchange				
B-units of Hansa Intrest Fund	0	15 441	0	987
Notes of AS Sampo Pank (fixed interest rates 4.57% and 4.3%, maturity 2007)	0	19 414	0	1 241
Total financial assets not listed on stock exchange	**0**	**34 855**	**0**	**2 228**

Changes in fair value of financial assets through profit or loss

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Fair value at beginning of the reporting period	**34 855**	**24 993**	**2 228**	**1 597**
Acquisitions	36 851	48 903	2 355	3 125
Disposals	-72 730	-40 000	-4 648	-2 556
Gain from changes in fair value (Note 24)	672	386	43	25
Amortisation of difference between cost and nominal value (Note 24)	352	573	22	37
Fair value at end of the reporting period	**0**	**34 855**	**0**	**2 228**

9. DERIVATE INSTRUMENTS

As at 31 December 2007, AS Tallinna Sadam had interest rate swap transactions to fix the interest rates of long-term loans in the nominal value of EEK 805 174 thousand (EUR 51 460 thousand). As at 31 December 2006, the respective amount was EEK 827 392 thousand (EUR 52 880 thousand).

All terms and conditions and due dates of interest rate swap transactions follow the repayment schedule of a loan to be hedged and they are treated as hedging instruments for accounting purposes.

As at 31 December 2007, AS Tallinna Sadam had entered into four derivative transactions to hedge interest rate risk. The maturity of all derivative transactions is in 2009 and the base interest is 6-month Euribor. Three of these derivatives are *threshold swap* type products in which case the derivative instrument hedges interest rate risk only if at the date of fixing the rate of the floating base interest rate is lower than the agreed level or threshold. The threshold of these three derivatives is 5%. In 2007, all derivatives where fully functional.

The fair value of derivate instruments is based on the quotes of Nordea Bank Finland Plc and SEB Eesti Ühispank. The payments related to derivates are performed in euros.

Note 9 continued

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Base amount as at 31 December	805 174	827 392	51 460	52 880
Fair value at the beginning of the reporting period (positive (+) / negative (-))	**9 078**	**-8 308**	**580**	**-531**
Change in fair value (Note 20)	5 654	11 865	361	759
Interest paid (+)/received (-) (Note 17)	-3 305	5 521	-211	352
Fair value at the end of the reporting end (positive (+) / negative (-))	**11 427**	**9 078**	**730**	**580**

The hedge reserve related to derivative transactions is disclosed in Note 20 to these financial statements. As at 31 December 2007, the average fixed interest rate was 3.53% (31 December 2006: 3.23%); the basis for the floating interest rate is Euribor. Gains and losses on swap transactions included within the hedge reserve in equity are recorded in the income statement until the expiration of derivate contracts.

10. TRADE AND OTHER RECEIVABLES

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Accounts receivable	94 784	87 903	6 058	5 618
Allowance for doubtful receivables	-3 665	-2 084	-234	-133
Prepayment of taxes (Note 16)	9 399	7 327	601	468
Other prepayments	4 743	10 654	303	681
Receivables from joint venture (Note 25)	37	0	2	0
Other receivables	10 770	5 947	689	380
Other assets	1 771	1 543	113	99
Total trade and other receivables	**117 839**	**111 290**	**7 532**	**7 113**
incl. short-term receivables	110 880	102 705	7 087	6 564
long-term receivables	6 959	8 585	445	549

The payment term of all long-term receivables is within 5 years from the balance sheet date.

Note 10 continued

Accounts receivables by payment terms

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Receivables not due and not impaired*	85 098	84 154	5 439	5 378
Receivables overdue and not impaired*, incl.:	6 021	1 665	385	107
1-30 days	*3 014*	*1 244*	*193*	*80*
31-60 days	*2 370*	*228*	*151*	*15*
61-120 days	*637*	*193*	*41*	*12*
Receivables not due but impaired**	121	416	8	26
Receivables overdue and impaired**	3 544	1 668	226	107
1-30 days	*128*	*0*	*8*	*0*
31-60 days	*156*	*0*	*10*	*0*
61-120 days	*319*	*678*	*20*	*43*
121-180 days	*241*	*87*	*15*	*6*
181-360 days	*1 205*	*903*	*77*	*58*
over 360 days	*1 495*	*0*	*96*	*0*
Total accounts receivable	**94 784**	**87 903**	**6 058**	**5 618**

*Trade receivables not due or that are less than 90 days overdue are generally treated as receivables that are not impaired.

**As at 31 December 2007 the impaired receivables totalled EEK 3 665 thousand (EUR 234 thousand), as at 31 December 2006 EEK 2 084 thousand (EUR 133 thousand). The impairment losses for the reporting period are presented in the table below. The Group has introduced a rule using historical experience as reference according to which an impairment provision for receivables that are 90 days overdue is set up after their individual analysis.

Changes in the allowance for doubtful receivables

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Allowance for doubtful receivables at the beginning of the reporting period	-2 084	-2 109	-133	-135
Allowance for doubtful receivables expensed during the financial year – sales	-2 882	-499	-184	-32
Allowance for doubtful receivables expensed during the financial year – other income	30	478	2	31
Crediting of impaired receivables (collected invoices)	1 260	0	80	0
Doubtful receivables written off as uncollectible	11	46	1	3
Allowance for doubtful receivables at the end of the reporting period	**-3 665**	**-2 084**	**-234**	**-133**

Changes related to impairment losses are included within operating expenses in the income statement when they represent sales invoices, and within other expenses when they represent invoices related to other income.
Impaired receivables are deemed as irrecoverable when it is impossible to collect the receivables or the costs related to their collection exceed the estimated income derived from them.

Note 10 continued

Accounts receivable by currencies (Note 3)

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Estonian kroon	83 095	76 592	5 311	4 895
Euro	11 591	11 117	741	711
US dollar	98	194	6	12
Total accounts receivable	**94 784**	**87 903**	**6 058**	**5 618**

The maximum exposure of accounts receivable and other receivables to credit risk equals their fair value at the reporting date. The collection of accounts receivable and receipt of services and goods related to other receivables is not covered by collateral.
Other receivables and prepayments are not impaired.

11. INVESTMENT IN JOINT VENTURE

AS Green Marine

The activities of AS Green Marine include management of waste generated at the ports; management, administration, operation of dangerous ship-generated waste and wastewater as well as cleaning and maintenance of the port's aquatory and territory.

Changes in investment in joint venture (Note 1)

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Book value at beginning of the period	1774	0	113	0
Gain under equity method of accounting	899	0	58	0
Book value at the end of the period	**2 673**	0	**171**	0

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Assets	11 774	0	752	0
Liabilities	6 534	0	418	0
Sales	22 331	0	1 427	0
Profit (+)/loss (-)	1 763	0	113	0

12. PROPERTY, PLANT AND EQUIPMENT

in thousands of EEK	Land and buildings	Machinery and equipment	Other PPE	Construction in progress	Pre-payments	Total
Property, plant and equipment as at 31 December 2005						
Cost	6 305 106	655 439	71 458	165 034	7 248	**7 204 285**
Accumulated depreciation and impairment	-1 279 605	-340 369	-49 449	0	0	**-1 669 423**
Net book amount as at 31 December 2005	**5 025 501**	**315 070**	**22 009**	**165 034**	**7 248**	**5 534 862**
Changes in 2006						
Acquisitions and reconstruction	381 524	45 078	3 427	14 871	15 630	**460 530**
Non-current assets sold at net book amount	-37 492	-79	-2	-9 142	0	**-46 715**
Depreciation charge and impairment	-143 950	-37 650	-7 945	0	0	**-189 545**
Reclassified at net book amount	0	0	0	-1 260	0	**-1 260**
Property, plant and equipment as at 31 December 2006						
Cost	6 629 734	687 238	71 352	169 503	22 878	**7 580 705**
Accumulated depreciation and impairment	-1 404 151	-364 819	-53 863	0	0	**-1 822 833**
Net book amount as at 31 December 2006	**5 225 583**	**322 419**	**17 489**	**169 503**	**22 878**	**5 757 872**
Changes in 2007						
Acquisitions and reconstruction	260 372	35 407	20 548	536 315	-18 157	**834 485**
Non-current assets sold at net book amount	0	-1 539	-46	0	0	**-1 585**
Depreciation charge and impairment	-157 675	-39 496	-7 125	0	0	**-204 296**
Reclassified at net book amount	414 930	77 845	0	-493 482	0	**-707**
Property, plant and equipment as at 31 December 2007						
Cost	7 292 648	782 375	87 999	212 336	4 721	**8 380 079**
Accumulated depreciation and impairment	-1 549 438	-387 739	-57 133	0	0	**-1 994 310**
Net book amount as at 31 December 2007	**5 743 210**	**394 636**	**30 866**	**212 336**	**4 721**	**6 385 769**

Note 12 continued

in thousands of EUR	Land and buildings	Machinery and equipment	Other PPE	Construction in progress	Pre-payments	Total
Property, plant and equipment as at 31 December 2005						
Cost	402 968	41 892	4 567	10 548	464	**460 439**
Accumulated depreciation	-81 782	-21 754	-3 160	-	-	**-106 696**
Net book amount as at 31 December 2005	**321 186**	**20 138**	**1 407**	**10 548**	**464**	**353 743**
Changes in 2006						
Acquisitions and reconstruction	24 385	2 881	219	950	998	**29 433**
Non-current assets sold at net book amount	-2 396	-5	0	-584	0	**-2 985**
Depreciation charge and impairment	-9 200	-2 407	-508	0	0	**-12 115**
Reclassified at net book amount	0	0	0	-81	0	**-81**
Property, plant and equipment as at 31 December 2006						
Cost	423 717	43 923	4 560	10 833	1 462	**484 495**
Accumulated depreciation and impairment	-89 742	-23 316	-3 442	0	0	**-116 500**
Net book amount as at 31 December 2006	**333 975**	**20 607**	**1 118**	**10 833**	**1 462**	**367 995**
Changes in 2007						
Acquisitions and reconstruction	16 640	2 263	1 313	34 277	-1 160	**53 333**
Non-current assets sold at net book amount	0	-98	-3	0	0	**-101**
Depreciation charge and impairment	-10 078	-2 524	-455	0	0	**-13 057**
Reclassified at net book amount	26 520	4 975	0	-31 540	0	**-45**
Property, plant and equipment as at 31 December 2007						
Cost	466 085	50 003	5 624	13 570	302	**535 584**
Accumulated depreciation and impairment losses	-99 027	-24 781	-3 651	0	0	**-127 459**
Net book amount as at 31 December 2007	**367 058**	**25 222**	**1 973**	**13 570**	**302**	**408 125**

The Group's assets have not been pledged.

Commitments related to items of property, plant and equipment are disclosed in Note 26 to these financial statements.

13. ASSETS LEASED OUT UNDER OPERATING LEASE TERMS

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

as at 31 December in thousands of EEK	**2007**		**2006**	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	398 388	0	394 024	0
incl. with right of superficies	*366 261*	*0*	*361 994*	*0*
Buildings	604 923	309 607	598 408	297 923
Machinery and equipment	202 975	192 158	209 420	195 833
Other PPE	27 193	11 629	14 067	11 296
Total carrying amount of PPE leased out under the operating lease	**1 233 479**	**513 394**	**1 215 919**	**505 052**

Note 13 continued

as at 31 December in thousands of EUR	2007 Cost	2007 Accumulated depreciation	2006 Cost	2006 Accumulated depreciation
Land	25 462	0	25 183	0
incl. with right of superficies	*23 408*	*0*	*23 136*	*0*
Buildings	38 662	19 787	38 245	19 041
Machinery and equipment	12 972	12 281	13 384	12 516
Other PPE	1 738	743	899	722
Total carrying amount of PPE leased out under operating lease terms	**78 834**	**32 811**	**77 711**	**32 279**

Depreciation of non-current assets leased out under the operating lease

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Buildings	15 086	15 199	964	971
Machinery and equipment	2 509	2 651	160	169
Other PPE	1 094	610	70	39
Total depreciation of PPE leased out under the operating lease	**18 689**	**18 460**	**1 194**	**1 179**

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

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Land	48 676	42 165	3 111	2 695
Buildings	57 246	59 203	3 659	3 784
Machinery and equipment	5 242	5 704	335	365
Other PPE	1 099	804	70	51
Total rental income of PPE leased out under the operating lease	**112 263**	**107 876**	**7 175**	**6 895**

Future payments of non-cancellable operating leases by due dates

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
< 1 year	83 031	89 180	5 307	5 700
1-5 years	315 756	391 094	20 180	24 995
> 5 years	1 702 605	2 467 820	108 816	157 722
Total future rental payments	**2 101 392**	**2 948 094**	**134 303**	**188 417**

The operating leases where a Group company is the lessee and the operating lease commitments are disclosed in Note 26 to these financial statements. Operating lease expenses are disclosed in Note 22 to these financial statements.

14. SHORT-TERM PROVISIONS

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Balance at the beginning of the reporting period	**17 189**	**14 927**	**1 099**	**954**
Setting up	18 910	17 189	1 208	1 099
Use of	-16 533	-14 913	-1 057	-953
Revaluation	-656	-14	-42	-1
Balance at the end of the reporting period	**18 910**	**17 189**	**1 208**	**1 099**

Provisions include accrued bonuses for the members of the Group companies' Management Boards and employees for the operating results of the financial year. The provision also includes social security and unemployment insurance. Bonuses are paid to the members of the Management Boards of the Group companies pursuant to the resolutions of the Supervisory Boards after the annual reports of the respective companies for the financial year ended 31 December 2007 have been approved.

15. SUPPLIER AND OTHER PAYABLES

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Payables to suppliers	79 269	60 746	5 067	3 882
Payables to employees	13 496	12 628	863	807
Interest liabilities	29 387	24 681	1 878	1 577
Accrued expenses related to taxes on employee wages and salaries	4 189	3 922	268	251
Tax liabilities (Note 16)	60 826	3 085	3 887	197
Prepayments for goods and services	4 959	6 415	317	410
Payables to joint venture (Note 25)	2 224	0	142	0
Other payables	10 240	8 502	654	543
Total supplier and other payables	**204 590**	**119 979**	**13 076**	**7 667**
incl. current liabilities	195 190	113 267	12 475	7 238
non-current liabilities	9 400	6 712	601	429

Supplier payables

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Payables for acquisition of non-current assets	45 917	34 324	2 935	2 194
Payables for other goods and services	33 352	26 422	2 132	1 688
Total supplier payables	**79 269**	**60 746**	**5 067**	**3 882**

16. TAX LIABILITIES

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Personal income tax	136	160	9	10
Corporate income tax*	56 642	76	3 620	5
Land tad	0	2 508	0	160
Social security tax	4 036	325	258	21
Unemployment insurance	6	7	0	0
Contribution to mandatory funded pension	6	9	0	1
Total tax liabilities	**60 826**	**3 085**	**3 887**	**197**

* incl. income tax on dividends in the amount of EEK 56 410 thousand (EUR 3 605 thousand). In the comparable 2006 financial year, there were no tax liabilities related to income tax on dividends (Note 19).

As at 31 December 2007, the Group had prepaid VAT amounting to EEK 9 392 thousand (EUR 600 thousand) and prepaid land tax amounting to EEK 7 thousand (EUR 0.5 thousand), in the comparable period as at 31 December 2006, prepaid VAT amounted to EEK 7 327 thousand (EUR 468 thousand). These prepayments are disclosed in Note 10 to these financial statements .

17. LOANS AND BONDS

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Current portion				
Current portion of long-term bank loans	207 882	185 282	13 286	11 842
Short-term bonds	400 553	0	25 600	0
Total current portion	**608 435**	**185 282**	**38 886**	**11 842**
Non-current portion				
Bank loans	1 189 077	1 396 959	75 996	89 282
Bonds	264 427	264 427	16 900	16 900
Total long-term portion	**1 453 504**	**1 661 386**	**92 896**	**106 182**
Total borrowings	**2 061 939**	**1 846 668**	**131 782**	**118 024**

Interest paid

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
On bonds issued	12 464	7 678	797	491
On bank loans	64 715	43 528	4 136	2 782
On derivatives (Note 9)	-3 305	5 521	-211	352
Total interest paid	**73 874**	**56 727**	**4 722**	**3 625**

Interest expenses are included in the income statement item “Finance costs” and disclosed in Note 24 to these financial statements.

Note 17 continued

Issue and redemption of bonds

The bonds of AS Tallinna Sadam issued through a private placement at 17 March 2006 are listed on the Tallinn Stock Exchange with a nominal value of EUR 16 900 thousand (EEK 264 427 thousand) and a maturity of 3 years. The bonds were issued with a floating interest rate, the base interest being 6-month Euribor plus a margin of 0.32% per annum. There were no transactions with the bonds on the Tallinn Stock Exchange in the reporting period and in the comparable 2006 financial year.

At 19 November 2007, AS Tallinna Sadam carried out a private placement in the nominal value of EUR 25 600 thousand (EEK 400 553 thousand) with the maturity of 1 year. The bonds were issued with a floating interest rate, the base interest being 1-month Euribor plus a margin of 0.31% per annum.

Considering the effect of derivative transactions used to hedge interest rate risk, as at 31 December 2007, the average weighted interest rate on bonds was 4.934%.

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Carrying amount of bonds				
Short-term bonds	400 553	0	25 600	0
Long-term bonds	264 427	264 427	16 900	16 900
Fair value of bonds based on the quoted sales at the reporting date*				
Short-term bonds	401 155	0	25 638	0
Long-term bonds	268 379	267 349	17 153	17 087

* based on ex pit transactions between banks and funds

Long-term loans

Loan agreements are denominated in Euros and have a floating interest rate (base interest is 6-month Euribor). As at 31 December 2007, the weighted average interest rate on outstanding loans was 4.981% (2006: 3.866%). Considering the effect of derivative instruments for hedging the interest rate risk, as at 31 December 2007, the average interest rate on loans was 4.492% (2006: 3.778%).

Interest is paid on the loan balances semi-annually. Pursuant to the loan agreement, the lender shall reprice the new base interest rate two days prior to the beginning of the next interest period.

Payment commitments arising from loan agreements are unsecured liabilities, i.e. no assets have been pledged to meet the commitments. The Group has met all of its contractual commitments set out in loan agreements, such as meeting special terms, obligation to inform and minimum requirements with regard to financial ratios.

In 2007, principal loan payments amounted to EEK 185 282 thousand (EUR 11 842 thousand), in the comparable 2006 financial year, principal payments amounted to EEK 147 578 thousand (EUR 9 432 thousand).

As at 31 December 2007 and as at 31 December 2006, the Group did not have any undrawn loans. The maturities of loans are between 2013– 2016.

Contractual repayments of outstanding loans

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
< 6 months	78 037	78 037	4 987	4 988
6 - 12 months	530 398	107 245	33 899	6 854
1 - 5 years	1 095 957	1 095 957	70 045	70 045
> 5 years	357 547	565 429	22 851	36 137
Total loans	**2 061 939**	**1 846 668**	**131 782**	**118 024**

18. GOVERNMENT GRANTS

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Long-term prepayments of grants at the beginning of the reporting period				
TEN-T Fund	8 837	0	565	0
Cohesion Fund	9 063	6 759	579	432
Environmental Investment Centre	458	458	29	29
Total long-term prepayments of grants at the beginning of the reporting period	**18 358**	**7 217**	**1 173**	**461**
Grants received				
TEN-T Fund	0	11 610	0	742
Cohesion Fund	0	2 304	0	147
Total grants received	**0**	**13 914**	**0**	**889**
Recognized in income				
TEN-T Fund	6 445	2 773	412	177
Cohesion Fund	0	0	0	0
Total recognized in income (Note 23)	**6 445**	**2 773**	**412**	**177**
Adjustments				
Environmental Investment Centre *	-458	0	-29	0
Total adjustments	**-458**	**0**	**-29**	**0**
Long-term prepayments of grants at the end of the reporting period				
TEN-T Fund	2 392	8 837	153	565
Cohesion Fund	9 063	9 063	579	579
Environmental Investment Centre	0	458	0	29
Total long-term prepayments of grants at the end of the reporting period	**11 455**	**18 358**	**732**	**1 173**

* Adjusted in conjunction with the subsidiary's reclassification into a joint venture (Note 1)

Grants related to costs

Project of EU TEN-T Fund "Technical Assistance for the Construction of Breakwaters in Muuga Port and Paldiski South Harbour for Environmental Protection Purposes" (2006-2007)

50% of this project is co-financed by TEN-T Fund of the European Union.

Research and analyses are conducted within the framework of the project and projects are prepared for building breakwaters in Muuga Port and Paldiski South Harbour. Two basic agreements were entered into for the preparation of construction (design with related research and analyses) and complementary agreements for special environmental research.

Grants related to assets

Project of the EU Cohesion Fund "Technical Assistance for Extension of Muuga Port" (2004-2006)

Required documents for the construction of the eastern part of Muuga port, including an estimate of environmental effects and project documents, were prepared within the framework of the technical assistance project. The rate of the project's co-financing by the EU was 80.45%.

Project of the European Commission "Construction of the Eastern Part of Muuga Port" (2007-2010)

At 26 December 2006, a resolution was adopted by the European Commission to co-finance the eligible costs of stage I construction of the extension of the eastern part of Muuga Port from the EU Cohesion Fund.

The European Commission will finance the extension of Muuga Port with EEK 361 280 thousand (EUR 23 090) which makes up approximately 32.3% of the total eligible costs.

As at 31 December 2007, no grants related to this project had been received.

19. EQUITY

Share capital

As at 31 December 2007, AS Tallinna Sadam had 278 620 401 registered shares outstanding (as at 31 December 2006: 275 561 901 registered shares). The nominal value of a share is 10 kroons (EUR 0.64). All of the Company's shares belong to the Republic of Estonia. The owner of the shares and the exerciser of the rights of the shareholder is the Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and Communications at the General Meeting of Shareholders.

The maximum number of ordinary shares established in the articles of association of AS Tallinna Sadam is 1 000 000 000 (in 2005: 1 000 000 000). As at 31 December 2007 and as at 31 December 2006, all shares issued (278 620 401 shares and 275 561 901 shares, respectively) had been fully paid for.

At 18 April 2007, 2 175 000 and at 02 November 2007, 883 500 new ordinary shares with the nominal value of 10 kroons (EUR 0.64) were issued. In the comparable 2006 financial year, 561 901 new ordinary shares with the nominal value of 10 kroons (EUR 0.64) were issued. A non-monetary payment was made for all shares – in the form of registered immovables belonging to the Republic of Estonia.

Earnings per share

	2007	**2006**
Weighted average number of shares (pcs)	277 340 401	275 234 126

	EEK	**EEK**	**EUR**	**EUR**
	2007	**2006**	**2007**	**2006**
Net profit for the year attributable to the equity holders of the Parent Company (in thousands of)	335 831	594 724	21 464	38 010
Basic earnings and diluted earnings per share (in EEK, EUR)	1,21	2,16	0,08	0,14

Distributable equity

As at 31 December 2007, the distributable equity of the Parent Company (taking into account the statutory requirement to transfer 1/20 of the financial year's net profit to statutory reserve capital) was EEK 1 419 844 thousand (EUR 90 745 thousand), in 2006, the respective figure was EEK 1 387 070 thousand (EUR 88 650 thousand). As at the balance sheet date, it s possible to pay dividends to the shareholders in the amount of EEK 1 121 677 thousand (EUR 71 689 thousand) and the corresponding income tax on dividends would amount to EEK 298 167 thousand (EUR 19 056 thousand). In 2006, the respective figures were EEK 1 081 915 thousand (EUR 69 147 thousand) and EEK 305 155 thousand (EUR 19 503 thousand).

The following table shows the basis for calculating distributable equity, a possible dividend amount and the accompanying income tax:

in thousands of	**EEK**	**EEK**	**EUR**	**EUR**
as at 31 December	**2007**	**2006**	**2007**	**2006**
Retained earnings	1 422 902	1 387 632	90 940	88 686
Statutory reserve capital 5%	-3 058	-562	-195	-36
Distributable equity	**1 419 844**	**1 387 070**	**90 745**	**88 650**
Income tax in 2008: 21% (2007: 22%)	298 167	305 155	19 056	19 503
Dividends	**1 121 677**	**1 081 915**	**71 689**	**69 147**

Note 19 continued

Statutory reserve capital

Pursuant to the requirement of the Commercial Code, allocations to reserve capital amounted to EEK 562 thousand (EUR 36 thousand). In the comparable 2006 financial year, there were no allocations into reserve capital because it complied with the requirements set out in the Commercial Code.

Dividends

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Dividends declared and paid out during the reporting period	300 000	285 000	19 173	18 215
Dividends per share (in EEK, EUR)	1,08	1,04	0,07	0,07

Income tax on dividends

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Charge	84 615	85 130	5 408	5 441
Paid, incl.:				
in cash	*17 830*	*83 420*	*1 140*	*5 332*
set off with VAT	*10 375*	*1 710*	*663*	*109*
Total paid	28 205	85 130	1 803	5 441
Accrued income tax (Note 16)	56 410	0	3 605	0

20. HEDGE RESERVE

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Hedge reserve at the beginning of the reporting period (positive (+) / negative (-))	**8 494**	**-6 030**	**543**	**-385**
Change in fair value of derivatives (Note 9)	5 654	11 865	361	759
Reduction of income (+) /expense (-) reported in the income statement (Note 24)	-5 506	2 659	-352	169
Hedge reserve at the end of the reporting period (positive (+) / negative (-))	**8 642**	**8 494**	**552**	**543**

Derivatives included within the hedge reserve are disclosed in Note 9 to these financial statements.

21. SALES

in thousands of	EMTAK code	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Activities related to the work of ports and use of waterways	63221	1 088 980	1 100 861	69 599	70 358
Transmission and sale of electricity	40131	73 465	77 092	4 695	4 927
Total sales		**1 162 445**	**1 177 953**	**74 294**	**75 285**

All sales are generated in the Republic of Estonia.

22. OPERATING EXPENSES

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Fuel, oil and energy costs	68 792	71 299	4 397	4 557
Technical maintenance and repairs of non-current assets	82 375	75 991	5 265	4 857
Security and maintenance services	49 684	39 814	3 175	2 545
Tax expenses	21 631	21 231	1 382	1 357
incl. land tax	*20 297*	*19 863*	*1 297*	*1 269*
Consulting and development costs	22 189	19 645	1 418	1 256
incl. research and development	*19 964*	*16 811*	*1 276*	*1 074*
Services purchased	28 145	26 010	1 799	1 662
Acquisition and maintenance of low value assets	5 726	6 823	366	436
Advertising costs	6 451	5 722	412	366
Rental expenses	8 553	7 320	547	468
Insurance expenses	3 296	3 417	211	218
Other expenses	12 410	11 751	793	750
Total operating expenses	**309 252**	**289 023**	**19 765**	**18 472**

Personnel expenses

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Wages and salaries	132 588	115 611	8 474	7 389
Social taxes	43 437	38 040	2 776	2 431
Total personnel expenses	**176 025**	**153 651**	**11 250**	**9 820**
incl.:				
short term employee benefits of members of the Supervisory Board and the Management Board of Group companies	3 800	3 931	243	251
social taxes of members of the Supervisory Board and the Management Board of Group companies	1 254	1 297	80	83
Total paid to the members of the Management Board and Supervisory Board of Group companies	**5 054**	**5 228**	**323**	**334**

As at 31 December 2007, pursuant to the prevailing agreements, AS Tallinna Sadam has the obligation to pay compensation equalling up to three-month remuneration to the members of the Management Board upon their removal.

23. OTHER INCOME AND EXPENSES

Other income

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Profit on sale of non-current assets	345	171 075	22	10 934
Fines, penalties*	20 285	12 854	1 297	822
Income from government grants (Note 18)	6 445	2 773	412	177
Other	3 099	108	198	7
Total other income	**30 174**	**186 810**	**1 929**	**11 940**

*incl. contractual penalties in the amount of EEK 17 844 thousand (EUR 1 140 thousand) for non-compliance with the minimum cargo volume in 2007 which have been reported as fines, in the comparable 2006 financial year, in the amount of EEK 11 422 thousand (EUR 730 thousand).

Other expenses

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Loss on the sale of non-current assets	272	0	17	0
Fines, penalties (+)/reduction of expenses (-)*	19 775	-3 799	1 264	-243
Collections of impaired receivables	-1 287	-478	-82	-31
Compensation to former employees	957	313	61	20
Other expenses (+)/reduction of expenses (-)	-65	4 937	-4	316
Total other expenses	**19 652**	**973**	**1 256**	**62**

*incl. fines in 2007 in the amount of EEK 19 735 thousand (EUR 1 261 thousand) related to the premature termination of contracts in conjunction with the changes occurred in the transit sector. The derecognising of a provision related to a potential fine is shown as a reduction of costs in 2006.

24. FINANCE INCOME AND EXPENSES

Finance income

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Interest income on bank accounts and deposits	11 774	10 755	753	687
Interest income on bonds (Note 8)	352	573	22	37
Gain from changes in fair value (Note 8)	672	386	43	25
Total finance income	**12 798**	**11 714**	**818**	**749**

Note 24 continued

Finance costs

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Interest expenses on borrowings				
Interest expenses on long-term loans	67 754	51 554	4 330	3 295
Interest expenses on bonds	14 131	8 013	903	512
Interest expenses on derivatives (+)/reduction of expense (-) (Note 20)	-5 506	2 659	-352	169
Total interest expenses on borrowings	**76 379**	**62 226**	**4 881**	**3 976**
Loss from change in foreign exchange rates	48	44	3	3
Other finance costs	218	287	15	19
Total finance costs	**76 645**	**62 557**	**4 899**	**3 998**

25. RELATED PARTY TRANSACTIONS

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Transactions with joint venture				
Sales	392	0	25	0
Operating expenses	22 155	0	1 416	0
Transactions with companies under state control				
Sales	7 355	6 236	470	399
Operating expenses	92 108	72 686	5 887	4 645
Purchase of property, plant and equipment	4 508	9 898	288	633
Transactions with entities in which the members of the Supervisory and Management Board of Group companies have significant influence				
Sales	520	119	33	8
Operating expenses	73	214	5	14

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Receivables from and payables to joint venture				
Receivables (Note 10)	37	0	2	0
Payables (Note 15)	2 224	0	142	0
Receivables from and payables to companies under state control				
Receivables	5 660	2 878	362	184
Payables	11 344	9 735	725	622
Receivables and payables related to operating activities with entities in which the members of the Supervisory and Management Board of Group comapnies have significant influence				
Receivables	35	11	2	1

Note 25 continued

All related party transactions are based on normal commercial terms and conditions that would also be available to unrelated third parties.
The amount of benefits payable to the members of the Management Boards is disclosed in Note 22 to these financial statements.

26. COMMITMENTS

As at 31 December 2007, contractual liabilities to purchase property, plant and equipment as well as for research and development expenditures totalled EEK 59190 thousand (EUR 3 783 thousand), as at 31 December 2006, EEK 194 443 thousand (EUR 12 427 thousand).

Operating lease commitments

(the Group is the lessee)

in thousands of as at 31 December	EEK 2007	EEK 2006	EUR 2007	EUR 2006
< 1 year	9 312	8 583	595	549
1 - 5 years	13 959	15 199	892	971
> 5 years	0	581	0	37
Total operating lease committed payments	**23 271**	**24 363**	**1 487**	**1 557**

27. EXPLANATIONS TO THE CASH FLOW STATEMENT

Non-monetary transactions

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Set-off between provision of services and payables to suppliers for goods and services	13 429	7 562	858	483
Set-off between tax receivables and tax liabilities	82 806	40 021	5 292	2 558
Total non-monetary transactions	**96 235**	**47 583**	**6 150**	**3 041**

Purchase of property, plant and equipment

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Cash flows	**-781 436**	**-433 766**	**-49 943**	**-27 723**
Set-offs	-10 284	-1 312	-657	-84
Reclassifications	-587	-28	-38	-2
Co-financing received	0	-10 753	0	-687
Non-monetary payments	-30 585	-5 619	-1 955	-359
Paid for the previous financial year	34 324	25 272	2 195	1 615
Outstanding balance at end of the period (Note 15)	-45 917	-34 324	-2 935	-2 194
Total adjustments	*-53 049*	*-26 764*	*-3 390*	*-1 710*
Purchases and reconstruction (Note 12)	**834 485**	**460 530**	**53 333**	**29 433**

28. CONTINGENT LIABILITIES

The tax authorities may at any time inspect the Group's tax books and records within 6 years subsequent to the reported tax year, and upon finding errors impose additional tax assessments and penalties. The tax authorities have neither initiated nor conducted any tax inspections at the Group companies or a single-case inspection in the financial year and in the comparable period. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

The loan contracts concluded by the Group set out certain limits for the Group's consolidated financial indicators. The set limits have not been exceeded.

From 2003, the Group has a contractual obligation to prepare a territory under a terminal for its cooperation partner with the due date of 31 December 2006. As at 31 December 2007, the Group had not yet started to prepare the territory under the terminal which pursuant to the agreements entered into can lead to the obligation to pay contractual penalties. If the completion date for the territory under the terminal would be set at 31 December 2009 (i.e. length of construction period of ca. 18 months), the estimated contractual penalty would amount to EEK 19.6 million (EUR 1.3 million). Pursuant to current legislation and considering the client's interest in cooperation, the Group's management considers the realisation of penalties related to the completion of the terminal unlikely and no provision has been set up in the balance sheet specifically for the purpose of covering potential contractual penalties.

Pursuant to rental and right of superficies contracts, AS Tallinna Sadam has the obligation to compensate for the fair value of subsequent expenditure incurred for the facilities erected by the lessee or made to the assets of AS Tallinna Sadam after the contract's expiry. At the time of preparing the annual report, the amount of such a liability could not be determined reliably.

29. EVENTS AFTER THE BALANCE SHEET DATE

AS Tallinna Sadam is a company whose shares are owned by the state. During each financial year, the amount of dividends payable to the state budget is established by the order of the Government of the Republic of Estonia. According to the order of the Government of the Republic of Estonia, the dividends payable from the net profit of 2007 amount to EEK 100 000 thousand (EUR 6 391 thousand). Income tax on dividends is EEK 26 582 thousand (EUR 1 699 thousand).

30. CONTINUITY OF OPERATIONS

As at 31 December 2007, the Group's current liabilities exceeded its current assets by EEK 428 million (EUR 27.3 million). The Group's financial statements have been prepared under the going concern assumption. Management estimates that negative working capital will not cause any financial difficulties for the Group in 2008. The negative working capital mostly relates to the one-year bond issued by the Group at the end of 2007 with the value of EEK 401 million (EUR 25.6 million) which is planned to be refinanced at the end of 2008. Considering the Group's cash flows from operating activities and the capital structure, management has no reason to doubt the Group's ability to raise additional debt.

31. SUPPLEMENTATY DISCLOSURES ON THE PARENT COMPANY

The financial information of the Parent Company comprises separate primary statements of the Parent Company, the disclosure of which is required by the Estonian Accounting Act. The primary statements of the Parent Company have been prepared using the same accounting policies that have been used for the preparation of the consolidated financial statements. Investments into subsidiaries are accounted for at cost in the Parent Company's primary statements.

Balance sheet

in thousands of	EEK	EEK	EUR	EUR
as at 31 December	2007	2006	2007	2006
ASSETS				
Current assets				
Cash and cash equivalents	269 601	511 854	17 231	32 713
Available-for-sale financial assets	2 855	2 855	182	182
Other financial assets at fair value through profit and loss	0	34 855	0	2 228
Derivatives	11 427	9 078	730	580
Current portion of finance lease receivable	3 037	2 906	194	186
Trade and other receivables	121 588	98 197	7 771	6 276
Total current assets	**408 508**	**659 745**	**26 108**	**42 165**
Non-current assets				
Investments in subsidiaries	100 040	102 080	6 394	6 524
Investments in joint ventures	2 040	0	130	0
Non-current portion of finance lease receivable	74 775	77 812	4 779	4 973
Other long-term receivables	6 078	7 704	388	493
Property, plant and equipment	6 162 753	5 554 654	393 872	355 007
Total non-current assets	**6 345 686**	**5 742 250**	**405 563**	**366 997**
Total assets	**6 754 194**	**6 401 995**	**431 671**	**409 162**
LIABILITIES				
Current liabilities				
Current portion of bonds and long-term loans	608 435	185 282	38 886	11 842
Short-term provisions	17 756	16 163	1 135	1 033
Supplier and other payables	181 829	100 685	11 621	6 434
Total current liabilities	**808 020**	**302 130**	**51 642**	**19 309**
Non-current liabilities				
Long-term borrowings	1 453 504	1 661 386	92 896	106 182
Government grants	11 455	17 900	732	1 144
Other long-term payables	0	3 712	0	237
Total non-current liabilities	**1 464 959**	**1 682 998**	**93 628**	**107 563**
Total liabilities	**2 272 979**	**1 985 128**	**145 270**	**126 872**
OWNERS' EQUITY				
Share capital at nominal value	2 786 204	2 755 619	178 071	176 116
Statutory reserve capital	275 562	275 000	17 612	17 576
Hedge reserve	8 642	8 494	552	543
Retained earnings	1 077 192	786 162	68 845	50 245
Net profit for the financial year	333 615	591 592	21 321	37 810
Total equity	**4 481 215**	**4 416 867**	**286 401**	**282 290**
Total liabilities and equity	**6 754 194**	**6 401 995**	**431 671**	**409 162**

Note 31 continued

Income statement

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Other income	1 089 696	1 100 439	69 644	70 331
Operating expenses	33 929	193 611	2 168	12 375
Personnel expenses	-264 069	-243 294	-16 877	-15 549
Depreciation and impairment	-165 997	-143 941	-10 609	-9 200
Other expenses	-192 293	-178 383	-12 290	-11 401
Other income	-19 611	-924	-1 253	-59
Operating profit	**481 655**	**727 508**	**30 783**	**46 497**
Finance income and expenses				
Finance income	13 220	11 864	845	758
Finance costs	-76 645	-62 650	-4 899	-4 004
Total finance income and expenses	**-63 425**	**-50 786**	**-4 054**	**-3 246**
Profit before tax	**418 230**	**676 722**	**26 729**	**43 251**
Income tax expenses	-84 615	-85 130	-5 408	-5 441
Net profit for the financial year	**333 615**	**591 592**	**21 321**	**37 810**

Cash flow statement

in thousands of	EEK 2007	EEK 2006	EUR 2007	EUR 2006
Cash receipts from sale of goods or services	1 164 386	1 203 412	74 418	76 912
Cash receipts from other income	13 593	7 913	869	506
Payments to suppliers	-407 851	-342 994	-26 066	-21 921
Payments to and on behalf of employees	-96 334	-102 602	-6 157	-6 558
Payments for other expenses	-24 396	-5 787	-1 559	-370
Income tax on dividends paid	-17 830	-83 420	-1 140	-5 332
Cash generated by operating activities	**631 568**	**676 522**	**40 365**	**43 237**
Purchases of property, plant and equipment (PPE)	-751 561	-415 018	-48 034	-26 524
Proceeds from sale of PPE	1 706	235 311	109	15 039
Investments into subsidiaries	0	361	0	23
Purchases of other financial investments	-36 851	-48 903	-2 355	-3 125
Proceeds from sale of other financial investments	72 730	40 000	4 648	2 556
Loans granted	-74 554	-56 278	-4 765	-3 597
Loan repayments received	60 453	49 003	3 864	3 132
Interest received	13 060	8 888	835	568
Cash used by investing activities	**-715 017**	**-186 636**	**-45 698**	**-11 928**
Issue of bonds	400 553	264 427	25 600	16 900
Redemption of bonds	0	-100 000	0	-6 391
Borrowings	0	203 406	0	13 000
Issue of bonds	-185 282	-147 578	-11 842	-9 432
Dividends paid	-300 000	-285 000	-19 173	-18 215
Interest paid	-73 874	-56 736	-4 721	-3 626
Other payments related to financing activities	-201	-259	-13	-17
Cash used by financing activities	**-158 804**	**-121 740**	**-10 149**	**-7 781**
TOTAL CASH FLOWS	**-242 253**	**368 146**	**-15 482**	**23 528**
Cash and cash equivalents at beginning of the period	511 854	143 708	32 713	9 185
Change in cash and cash equivalents	-242 253	368 146	-15 482	23 528
Cash and cash equivalents at end of the period	269 601	511 854	17 231	32 713

Note 31 continued

Statement of changes in equity

in thousands of EEK	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Total equity
Equity as at 31 December 2005	**2 750 000**	**275 000**	**-6 030**	**1 071 162**	**4 090 132**
Revaluation of hedging instruments	0	0	14 524	0	**14 524**
Net income recognised directly in equity	*0*	*0*	*14 524*	*0*	***14 524***
Net profit for the financial year	0	0	0	591 592	**591 592**
Total recognised income and expenses for 2006	*0*	*0*	*14 524*	*591 592*	***606 116***
Increase of share capital	5 619	0	0		**5 619**
Dividends declared	0	0	0	-285 000	**-285 000**
Equity as at 31 December 2006	**2 755 619**	**275 000**	**8 494**	**1 377 754**	**4 416 867**
Less carrying amount of subsidiaries and associates	0	0	0	-102 080	**-102 080**
Plus carrying amount of subsidiaries and associates had the equity method been applied	0	0	0	111 958	**111 958**
Adjusted unconsolidated equity as at 31 December 2006	**2 755 619**	**275 000**	**8 494**	**1 387 632**	**4 426 745**

in thousands of EEK	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Total equity
Equity as at 31 December 2006	**2 755 619**	**275 000**	**8 494**	**1 377 754**	**4 416 867**
Revaluation of hedging instruments	0	0	148	0	**148**
Net income recognised directly in equity	*0*	*0*	*148*	*0*	***148***
Net profit for the financial year				333 615	**333 615**
Total recognised income and expenses for 2007	*0*	*0*	*148*	*333 615*	***333 763***
Increase of share capital	30 585	0	0	0	**30 585**
Transfers to reserve capital	0	562	0	-562	**0**
Dividends declared	0	0	0	-300 000	**-300 000**
Equity as at 31 December 2007	**2 786 204**	**275 562**	**8 642**	**1 410 807**	**4 481 215**
Less carrying amount of subsidiaries and associates	0	0	0	-100 040	**-100 040**
Plus carrying amount of subsidiaries and associates had the equity method been applied	0	0	0	112 135	**112 135**
Adjusted unconsolidated equity as at 31 December 2007	**2 786 204**	**275 562**	**8 642**	**1 422 902**	**4 493 310**

Note 31 continued

in thousands of EUR	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Total equity
Equity as at 31 December 2005	**175 757**	**17 576**	**-385**	**68 460**	**261 408**
Revaluation of hedging instruments	0	0	928	0	**928**
Net income recognised directly in equity	*0*	*0*	*928*	*0*	***928***
Net profit for the financial year	0	0	0	37 810	**37 810**
Total recognised income and expenses for 2006	*0*	*0*	*928*	*37 810*	***38 738***
Increase of share capital	359	0	0	0	**359**
Dividends declared	0	0	0	-18 215	**-18 215**
Equity as at 31 December 2006	**176 116**	**17 576**	**543**	**88 055**	**282 290**
Less carrying amount of subsidiaries and associates	0	0	0	-6 524	**-6 524**
Plus carrying amount of subsidiaries and associates had the equity method been applied	0	0	0	7 155	**7 155**
Adjusted unconsolidated equity as at 31 December 2006	**176 116**	**17 576**	**543**	**88 686**	**282 921**

in thousands of EUR	Share capital at nominal value	Statutory reserve capital	Hedge reserve	Retained earnings	Total equity
Equity as at 31 December 2006	**176 116**	**17 576**	**543**	**88 055**	**282 290**
Revaluation of hedging instruments	0	0	9	0	**9**
Net income recognised directly in equity	*0*	*0*	*9*	*0*	***9***
Net profit for the financial year	0	0	0	21 322	**21 322**
Total recognised income and expenses for 2007	*0*	*0*	*9*	*21 322*	***21 331***
Increase of share capital	1 955	0	0	0	**1 955**
Transfers to reserve capital	0	36	0	-36	**0**
Dividends declared	0	0	0	-19 173	**-19 173**
Adjustment				-2	**-2**
Equity as at 31 December 2007	**178 071**	**17 612**	**552**	**90 166**	**286 401**
Less carrying amount of subsidiaries and associates	0	0	0	-6 394	**-6 394**
Plus carrying amount of subsidiaries and associates had the equity method been applied	0	0	0	7 168	**7 168**
Adjusted unconsolidated equity as at 31 December 2007	**178 071**	**17 612**	**552**	**90 940**	**287 175**

Adjusted unconsolidated retained earnings represent the amount that is available for distribution to the shareholders according to the Accounting Act of the Republic of Estonia.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS Tallinna Sadam

We have audited the accompanying consolidated financial statements of AS Tallinna Sadam and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As at 31 December 2007 the Group had property, plant and equipment with a total carrying amount of 0.9 billion kroons on which we were not able to get reasonable assurance that no impairment provision is required. The Group's property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses as permitted by IAS 16 'Property, Plant and Equipment'. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In 2007 there was a significant change in market conditions which resulted in a sharp decrease of transit cargo volumes. In its impairment analyses the management estimated that in subsequent years transit cargo volumes will recover. Therefore the management has concluded that no provision for impairment is necessary. As these analyses are based on forecasts which are not founded upon current market conditions, we could not obtain reasonable assurance that the recovery in volumes will occur. We were unable to satisfy ourselves as to the carrying amounts of fixed assets by other audit procedures, therefore we are not able to obtain reasonable assurance as to whether any impairment loss should be recorded.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

29 February 2008

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION PROPOSAL

The Management Board of AS Tallinna Sadam proposes to allocate the net profit in the amount of EEK 335 831 823 (EUR 21 463 565) for the financial year ended 31 December 2007 as follows:

to statutory reserve capital	EEK 3 058 500	(EUR 195 474)
to retained earnings	EEK 332 773 323	(EUR 21 268 091)

Ain Kaljurand
Chairman of the Management Board

Allan Kiil
Member of the Management Board

APPROVAL OF THE SUPERVISORY BOARD

The Supervisory Board of AS Tallinna Sadam approved the consolidated annual report of AS Tallinna Sadam for the financial year ended 31 December 2007, which includes the management report, the financial statements, the profit allocation proposal and the independent auditor's report.

03 April 2008

Neinar Seli	Kalev Lillo	Eerik-Niiles Kross
Randel Länts	Priit Paiste	Tõnis Palts
Indrek Raudne		Märt Vooglaid