

AS TALLINK GRUPP

CONSOLIDATED ANNUAL REPORT 2012

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Main activity maritime transportation
(passenger & cargo transport)



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COMPANY OVERVIEW

Tallink Grupp with its subsidiaries (hereinafter also referred to as “the Group”) is the leading European ferry operator in offering high quality mini-cruise and passenger transport services in the Baltic Sea region as well as a leading provider of ro-ro cargo services on selected routes. The Group provides its services on various routes between Finland and Sweden, Estonia and Finland, Estonia and Sweden, and Latvia and Sweden under the brand names of “Tallink” and “Silja Line”. The Group has a total fleet of 18 vessels that include cruise ferries, high-speed ro-pax ferries and ro-ro cargo vessels. In addition, the Group operates four hotels in Tallinn and one in Riga.

STRATEGY

The Group’s vision is to be the market pioneer in Europe by offering excellence in leisure and business travel and sea transportation services.

The Group’s strategy is to

- Strive for the highest level of customer satisfaction.
- To increase the volumes and strengthen the market position in the region.
- To develop a wide range of quality services for different customers and to pursue new growth opportunities.
- To reach an optimal debt level that will allow sustainable dividends.

A modern fleet, a wide route network, a strong market share and brand awareness together with high safety, security and environmental standards are the main competitive advantages for the Group. They are the cornerstones for successful and profitable operations.

MANAGEMENT REPORT

The Group's 2012 financial year lasted for 12 months (1 January 2012 - 31 December 2012). Due to the change of the financial year, the comparative financial year, 2011, lasted for 16 months (1 September 2010 - 31 December 2011). The financial years are therefore not directly comparable. In the Management Report, the 2011 comparative figures also include discontinued operations.

In 2012 the Group continued stable growth. In accordance with the strategy, the Group increased volumes and strengthened its market share. Together with improved customer satisfaction, higher revenue per passenger was achieved. Overall, the Group's profitability increased and financial ratios improved.

During the 2012 financial year a total of 9.26 million passengers travelled on the Group's vessels. The Group's consolidated revenue for 2012 was EUR 943.9 million (EUR 1,178.3 million in 2011). Gross profit was EUR 201.2 million (EUR 238.7 million in 2011), EBITDA EUR 165.5 million (EUR 199.1 million in 2011). Net profit for 2012 was EUR 56.3 million (EUR 37.5 million in 2011), representing earnings per share of EUR 0.084 (EUR 0.056 in 2011).

During 2012 the Group focused on upgrading and improving its visibility and appearance in the electronic sales channels. The Group's new consumer marketing web pages were upgraded. Throughout the year, a new version of the online booking engine was developed. The emphasis was on making the online booking system simple, easy to use and convenient and its prices transparent. Tallink's mobile booking application was launched for the Android and Apple mobile platforms.

In December 2012 the Group signed a new five-year loan agreement in the amount of EUR 440 million to refinance several of its older loans. In result of the refinancing the Group's total loan repayment schedule for the next four years was reduced to ensure a stronger liquidity position.

The key highlights of the 2012 financial year were the following:

- Adverse weather in the first half of the year, which impacted the attractiveness of travelling
- Development of the online sales channels
- Increased revenue per passenger
- Sale of cargo vessel Kapella and the holding company
- Refinancing of a significant portion of debt

KEY FIGURES OF THE FINANCIAL YEAR 2012

	2012	2011
Continuing operations	EUR	EUR
Revenue from continuing operations (million)	943.9	1,153.0
Gross profit from continuing operations (million)	201.2	251.4
Net profit from continuing operations (million)	56.3	51.7
Group total including discontinued operations		
Revenue (million)	943.9	1,178.3
Gross profit (million)	201.2	238.7
Net profit for the period (million)	56.3	37.5
EBITDA (million)	165.5	199.1
Depreciation and amortization (million)	71.0	95.3
Investments (million)	9.4	13.3
Weighted average number of ordinary shares outstanding	669,882,040	669,882,040
Earnings per share	0.084	0.056
Number of passengers	9,264,561	11,818,870
Number of cargo units	283,973	382,869
Average number of employees	6,868	6,720
	31.12.2012	31.12.2011
Total assets (million)	1,741.8	1,799.5
Total liabilities (million)	981.0	1,094.5
Interest-bearing liabilities (million)	840.4	959.6
Net debt (million)	774.8	884.2
Total equity (million)	760.8	705.1
Equity ratio (%)	43.7%	39.2%
Number of ordinary shares outstanding ¹	669,882,040	669,882,040
Shareholders' equity per share	1.14	1.05
Ratios²		
Gross margin (%)	21.3%	20.3%
EBITDA margin (%)	17.5%	16.9%
Net profit margin (%)	6.0%	3.2%
Return on assets (ROA)	5.4%	5.7%
Return on equity (ROE)	7.8%	5.5%
Return on capital employed (ROCE)	6.4%	6.5%
Net debt to EBITDA	4.7	5.4

EBITDA: Earnings before net financial items, share of profit of equity accounted investees, taxes, depreciation and amortization

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

Equity ratio: total equity / total assets

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

Gross margin: gross profit / net sales

EBITDA margin: EBITDA / net sales

Net profit margin: net profit / net sales

ROA: Earnings before net financial items, taxes / Average total assets

ROE: Net profit/ Average shareholders' equity

ROCE: Earnings before net financial items, taxes / (Total assets – Current liabilities (average for the period))

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

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

¹ Share numbers exclude own shares.

² Calculations for the comparative financial year have been made using the total figures which include discontinued operations

SALES

The Group's consolidated revenue amounted to EUR 943.9 million in 2012. Restaurant and shop sales on-board and on mainland of EUR 517.5 million contributed more than half of total revenue. Ticket sales amounted to EUR 241.0 million and sales of cargo transport to EUR 102.8 million. The distribution of sales between operational segments remained more or less stable compared to the previous financial year.

Geographically, 38% or EUR 364.0 million of revenue came from the Finland-Sweden route and 32% or EUR 308 million from the Estonia-Finland route. Revenue from the Sweden-Estonia route was EUR 115 million or 12% and from the Sweden-Latvia route EUR 66 million or 7%. Revenue from lease of vessels that were previously on the Finland-Germany route and stronger sales at the mainland shops thanks to higher passenger traffic increased the share of revenue generated by other geographical segments to 10.4% (EUR 99.3 million).

The following tables provide an overview of the distribution of revenue from continuing operations between the Group's geographical and operational segments:

Geographical segments	2012	2011
Finland - Sweden	38.2%	40.8%
Estonia - Finland	32.3%	31.8%
Estonia - Sweden	12.1%	12.0%
Latvia - Sweden	7.0%	6.9%
Other	10.4%	8.5%

Operational segments	2012	2011
Restaurant and shop sales on-board and on mainland	54.8%	54.0%
Ticket sales	25.5%	26.6%
Sales of cargo transportation	10.9%	12.1%
Accommodation sales	1.7%	1.7%
Income from leases of vessels	3.1%	2.2%
Other sales	4.0%	3.4%

EARNINGS

Gross profit was EUR 201.2 million (EUR 238.7 million in 2011), EBITDA EUR 165.5 million (EUR 199.1 million in 2011). Net profit for 2012 was EUR 56.3 million (EUR 37.5 million in 2011). Basic and diluted earnings per share were EUR 0.084 (EUR 0.056 in 2011).

The cost of goods related to sales at shops and restaurants, which is the largest operating cost item, amounted to EUR 213.7 million (EUR 252.9 million in 2011). The cost of goods as a percentage of sales has increased slightly due to changes in the structure of geographical sales. Accordingly, the proportion of sales on the Finland-Estonia route, where the cost of goods is higher, has increased, whereas the share of the Finland-Sweden routes, where the cost of goods is more favourable, has decreased.

Fuel costs for 2012 were EUR 143.9 million (EUR 168.4 million in 2011). Fuel costs were impacted by smaller fuel consumption due to the discontinuance of the Finland-Germany route and an increase in fuel price. Measured in euros, in 2012 the average market price of the reference fuel (Fuel oil 1%) was approximately 13% higher than in the 2011 calendar year.

The Group's personnel expenses amounted to EUR 180.5 million (EUR 227.6 million in 2011). The average number of employees in the 2012 financial year was 6,868 (6,720 in 2011).

Administrative expenses for 2012 amounted to EUR 44.1 million and marketing expenses to EUR 65.4 million (EUR 55.0 million and 78.2 million respectively in 2011).

Depreciation and amortisation of the Group's assets was EUR 71.0 million (EUR 95.3 million in 2011). There were no changes in depreciation policies in 2012. There were no impairment losses related to the Group's property, plant, equipment and intangible assets.

The Group's net finance costs for 2012 amounted to EUR 41.0 million (EUR 65.0 million in 2011). Interest expense is the largest component in finance costs. In 2012, interest expense was EUR 39.9 million (EUR 56.2 million in 2011). Expenses from derivatives amounted to EUR 6.3 million (EUR 13.2 million in 2011).

The Group's exposure to credit risk, liquidity risk and market risks, and its financial risk management activities are described in the notes to the financial statements.

LIQUIDITY AND CASH FLOW

The net operating cash flow for 2012 was EUR 160.6 million (EUR 203.4 million in 2011).

Net cash used in investing activities was EUR 11.1 million (EUR 20.2 million in 2011) of which EUR 9.4 million (EUR 13.3 million in 2011) resulted from purchases of property, plant, equipment and intangible assets. These were mainly investments related to improvements to ships and investments in the electronic sales channels such as consumer-facing web pages and online and mobile booking applications.

In the 2012 financial year, the Group's net repayments of existing loans and leases totalled EUR 117.9 million (EUR 112.2 million in 2011). Interest payments were EUR 34.0 million (EUR 53.1 million in 2011).

As of 31 December 2012, the Group's cash and cash equivalents totalled EUR 65.6 million (EUR 75.4 million as of 31 December 2011). In addition, available unused overdraft credit lines amounted to EUR 50 million (EUR 46.8 million in 2011).

In management's opinion, the Group has sufficient liquidity to support its operations.

FINANCING SOURCES

The Group finances its operations and investments with operating cash flows, debt and equity financing, and potential proceeds from disposals of assets. At 31 December 2012, the Group's interest-bearing liabilities as a percentage of capitalization (interest-bearing liabilities and shareholders' equity) was 52.5% compared to 57.6% at 31 December 2011. The decrease results from a EUR 119.2 million decrease in interest-bearing liabilities and a EUR 55.7 million increase in equity.

LOANS AND BORROWINGS

At the end of the 2012 financial year, interest-bearing liabilities totalled EUR 840.4 million, 12.4% down from the end of the previous financial year. In December 2012 the Group signed a five-year loan agreement on EUR 440 million to refinance several older loans and to settle the deferred amounts that had been agreed with creditors in 2009. Through refinancing, the Group's total loan repayment schedule for the next four years was modified and annual repayments were decreased to ensure a stronger liquidity position.

Available overdraft limits were not in use at the end of the financial year and remain available for the Group to maintain the liquidity position if needed.

All interest-bearing liabilities have been incurred in euros.

SHAREHOLDERS' EQUITY

Consolidated equity increased by 7.9%, from EUR 705.1 million to EUR 760.8 million, mainly on account of net profit for the financial year. Shareholders' equity per share, excluding own shares, was EUR 1.14. At the end of the 2012 financial year, the Group's share capital amounted to EUR 404,290,000. For further information about shares, please see the "Shares and Shareholders" section of this report.

VESSELS AND OTHER INVESTMENTS

The Group's main revenue-generating assets are vessels, which account for approximately 87% of total assets. At the end of the financial year, the Group owned 18 vessels. Their types and operations at the end of the financial year are described in the table below:

Vessel name	Vessel type	Built/renovated	Route	Other information
Baltic Princess*	Cruise ferry	2008	Finland-Estonia	overnight cruise
Superstar	High-speed ro-pax	2008	Finland-Estonia	shuttle service
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Silja Europa*	Cruise ferry	1993	Finland-Sweden	overnight cruise
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Sweden	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Silja Festival	Cruise ferry	1986	Sweden-Latvia	overnight cruise
Superfast VII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VII"
Superfast VIII	High-speed ro-pax	2001	Chartered out	renamed "Stena Superfast VIII"
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed "Atlantic Vision"
Regina Baltica	Cruise ferry	1980	Short term charter	
Vana Tallinn	Cruise ferry	1974	Available for charter	renamed "Adriatica Queen"

* Baltic Princess was rerouted to the Finland-Sweden operations and Silja Europa was rerouted to the Finland-Estonia operations at the beginning of 2013.

As of 31 December 2012 the value of the ships amounted to EUR 1,509.9 million (EUR 1,570.1 million at the end of 2011). The Group's vessels are regularly valued by 2 to 3 independent international shipbrokers who are also approved by the creditors and mortgagees.

The Group has no new vessels under construction.

All of the Group's vessels have protection and indemnity insurance (P&I), hull and machinery insurance (H&M) and they meet all applicable safety regulations.

The Group does not have any substantial ongoing research and development projects.

MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2012 financial year was 9.26 million. The total number of cargo units carried by the Group's vessels was 284.0 thousand. Discontinuance of the Finland - Germany route in August 2011 mainly impacted the cargo volumes.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2012 and 2011 financial years.

	2012	2011
Passengers		
Finland-Sweden	3,076,378	4,080,828
Estonia-Finland	4,496,429	5,569,896
Estonia-Sweden	959,586	1,194,364
Latvia-Sweden	732,168	909,756
Finland-Germany (discontinued)	0	64,026
Total	9,264,561	11,818,870

Cargo units		
Finland-Sweden	93,602	128,643
Estonia-Finland	136,142	154,029
Estonia-Sweden	36,442	59,280
Latvia-Sweden	17,787	24,279
Finland-Germany (discontinued)	0	16,638
Total	283,973	382,869

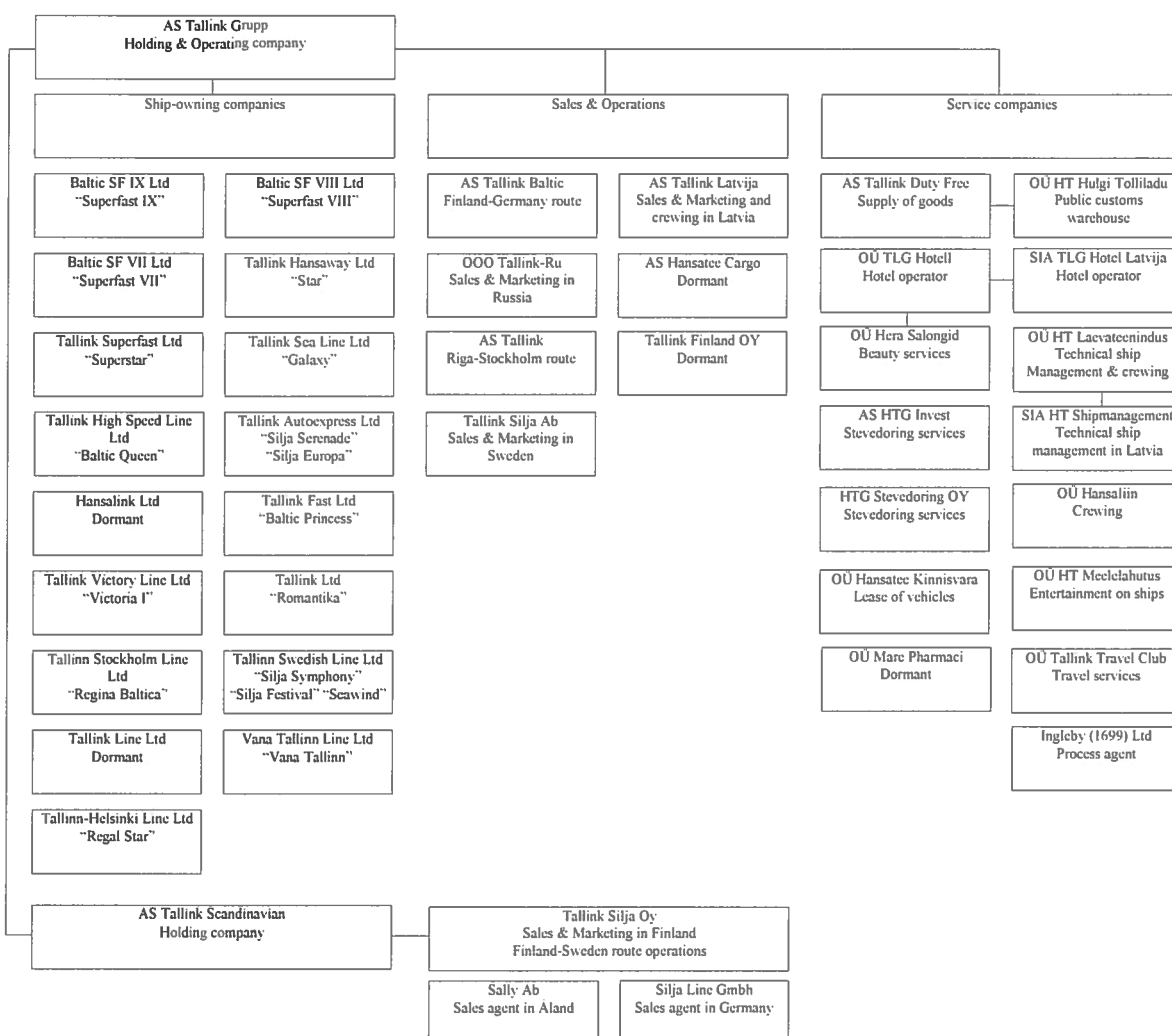
Passenger vehicles		
Finland-Sweden	168,285	208,371
Estonia-Finland	785,001	933,157
Estonia-Sweden	72,655	93,908
Latvia-Sweden	92,897	118,315
Finland-Germany (discontinued)	0	19,763
Total	1,118,838	1,373,514

The Group's market shares on routes operated during the 2012 financial year were as follows:

- The Group carried approximately 59% of passengers and 52% of ro-ro cargo on the route between Tallinn and Helsinki.
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.
- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm.
- The Group carried approximately 55% of passengers and 35% of ro-ro cargo on the routes between Finland and Sweden.

GROUP STRUCTURE

At the reporting date, the Group consisted of 45 companies. All of the subsidiaries are wholly-owned companies of AS Tallink Grupp. The following diagram represents the Group's structure at the reporting date:



The Group also owns:

- 34% of AS Tallink Takso

PERSONNEL

On 31 December 2012, the Group employed 6,747 employees (6,740 on 31 December 2011).

As at 31 December	2012	2011*	Change
Onshore total	1,555	1,568	-0.8%
<i>Estonia</i>	795	776	2.4%
<i>Finland</i>	493	527	-6.5%
<i>Sweden</i>	184	191	-3.7%
<i>Latvia</i>	65	60	8.3%
<i>Germany</i>	6	6	0.0%
<i>Russia</i>	12	8	50.0%
At sea	4,614	4,594	0.4%
Hotel**	578	578	0.0%
Total	6,747	6,740	0.1%

* Statistical methodologies applied by Group companies have been harmonized resulting in different comparative historical information than disclosed previously.

** The number of hotel personnel is not included in the total number of onshore personnel.

In the 2012 financial year, staff costs in the cost of sales were EUR 131.6 million (EUR 168.4 million in 2011). Staff costs related to administrative staff and sales & marketing staff were EUR 17.8 million and EUR 31.1 million respectively (EUR 19.7 million and EUR 39.5 million respectively in 2011)

SHARES AND SHAREHOLDERS

As of 31 December 2012 AS Tallink Grupp had a total of 673,817,040 shares issued and fully paid. There were no changes in the amount of shares during the 2012 financial year.

All the shares are of the same kind and each share carries one vote at the shareholders' general meeting. The par value of each share is EUR 0.6. No preference shares or shares with special rights have been issued. According to the articles of association AS Tallink Grupp, shares can be freely transferred. No authorization needs to be obtained in order to buy or sell AS Tallink Grupp shares.

As a result of share buybacks carried out during the period of December 2007-January 2008 the Group owns 3,935,000 own shares, which represent 0.584% of shares issued.

On 8 February 2011, the annual general meeting of AS Tallink Grupp set the main terms of a share option programme that allows issuing options for up to 15 million shares until 31 August 2013. In accordance with the programme, the Group issued options during the 2011 and 2012 financial years. At 31 December 2012, the Group had outstanding 14,927,500 share options (7,317,500 at the end of 2011) of which 7,480,000 were held by the Management Board and Supervisory Council and 7,447,500 by other Group employees. Each option gives the right to purchase one share in AS Tallink Grupp. The options issued represent around 100% of the total authorized option programme limit and 2.2% of total shares outstanding. The terms and conditions of exercise of the issued share options are as follows: non-transferable; exercisable not earlier than 36 months from issue; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case of existing shares will be purchased from the market; the options are to be settled by physical delivery of shares. The outstanding share options have no dilutive effect due to their exercise price being higher than the average price in the stock market during the period.

According to the resolution of the general meeting of 26 January 2009, the Company was granted the right to acquire its own shares subject to the following conditions:

- 1) The Company may acquire own shares within five years as from the adoption of the resolution.
- 2) The total nominal value of the shares owned by the Company may not exceed 10% of share capital.
- 3) The price payable for one share may not be more than the highest price paid on the Tallinn Stock Exchange for a share in AS Tallink Grupp at the day when the share is acquired.
- 4) Own shares are to be paid for using the assets exceeding share capital, the mandatory legal reserve and share premium.

No share buybacks have been performed since 26 January 2009.

The Management Board of AS Tallink Grupp has not been granted the right to issue new shares.

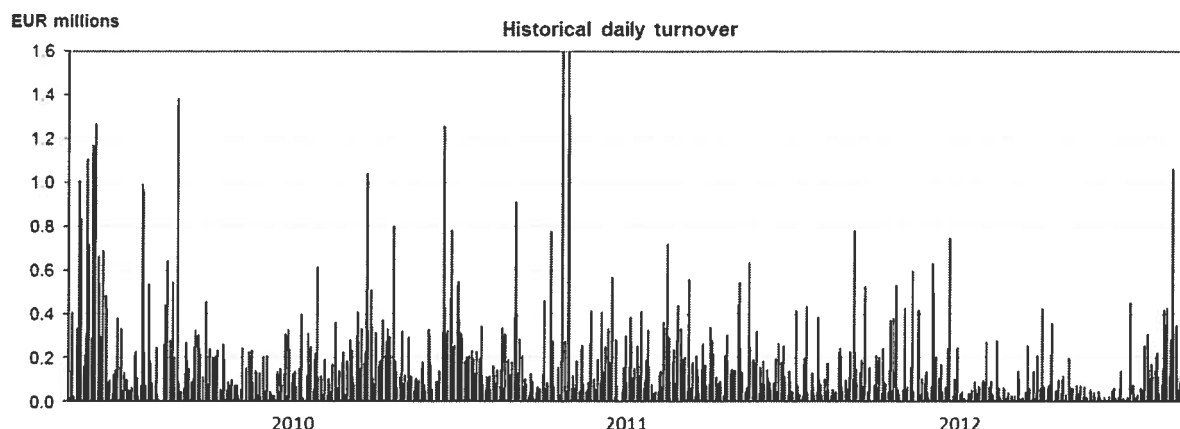
TRADING

The shares of AS Tallink Grupp are traded on the NASDAQ OMX Tallinn Stock Exchange under the symbol TAL1T (REUTERS: TAL1T.TL, BLOOMBERG: TAL1T ET).

During the 2012 financial year, there were transactions with 42,152,920 AS Tallink Grupp shares on the Tallinn Stock Exchange. The highest daily average share price on the Tallinn Stock Exchange was EUR 0.87 and the lowest daily average share price was EUR 0.59. The weighted average share price in 2012 was EUR 0.66. The average daily turnover of AS Tallink Grupp shares on the Tallinn Stock Exchange was EUR 0.1 million.

The following charts give an overview of the performance of the share price and trading on the Tallinn Stock Exchange during the last three years, from 1 January 2010 to 31 December 2012.





The table below presents the distribution of share capital by size of share ownership as of 31 December 2012:

Ownership size	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 - 99	594	5.03%	25,628	0.00%
100 - 999	3,272	27.68%	1,522,315	0.23%
1,000 - 9,999	6,925	58.58%	15,515,722	2.30%
10,000 - 99,999	883	7.47%	22,140,674	3.29%
100,000 - 999,999	104	0.88%	26,972,641	4.00%
1,000,000 - 9,999,999	35	0.30%	102,371,866	15.19%
10,000,000 +	7	0.06%	505,268,194	74.99%
TOTAL	11,820	100.00%	673,817,040	100.00%

As of 31 December 2012, 6.4% of the Group's shares were held by individuals.

The table below presents the investors of the Group by investor type at 31 December 2012:

Investor type	No. of shareholders	No. of shares	% of share capital
Principal shareholder, Infotar AS	1	241,276,164	35.81%
Institutional investors	1265	389,312,905	57.77%
Private individuals	10594	43,227,971	6.42%

The table below presents the 10 largest shareholders of the Group at 31 December 2012:

Shareholder	No. of shares	%
INFOTAR AS	241,276,164	35.81%
BALTIC CRUISES HOLDING, L.P.	105,961,960	15.73%
NORDEA BANK FINLAND PLC/ NON-RESIDENT LEGAL ENTITIES	66,424,130	9.86%
ING LUXEMBOURG S.A.	44,092,066	6.54%
SKANDINAVISKA ENSKILDA BANKEN AB. SWEDISH CLIENTS	19,906,909	2.95%
JP MORGAN CHASE BANK/ITS LONDON CLIENT'S ACCOUNT VANGUARD MARKETING CORPORATION	14,895,640	2.21%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	12,711,325	1.89%
MELLON TREATY OMNIBUS	7,146,934	1.06%
FIREBIRD REPUBLICS FUND LTD	7,122,614	1.06%
SKANDINAVISKA ENSKILDA BANKEN FINNISH CLIENTS	5,973,045	0.89%

SHAREHOLDERS' AGREEMENT

1. Major shareholders of the Group entered into a shareholders' agreement on August 2006. The agreement was amended in December 2012. The main terms of the agreement are published on the Group's website. The material provisions of the amendments stipulate that instead of CVCI the party to the agreement is Baltic Cruises Holding L.P. (Baltic Cruises) who assumed all the rights and obligations of CVCI and that the parties to the agreement have to notify each other after 30 April 2013 of the contemplated increases of their shareholding in AS Tallink Grupp (Tallink) in a manner enabling all other parties to participate in the proposed transaction on a pro-rata basis with their respective holdings in Tallink or give them the possibility to acquire shares from other persons on a pro-rata basis with their respective holdings. Until 30 April 2013 Baltic Cruises has the right to increase its holding without notifying the other parties to the agreement. Also, until 30 April 2013 the parties to the agreement, with the exception of Baltic Cruises, have agreed not to acquire the shares of Tallink. The parties to the agreement have agreed that there is the right to acquire the shares of Tallink of up to 0.1% per annum of the share capital of Tallink without the obligation to notify the other parties or wait with the acquisition until 30 April 2013.
2. The following shareholders – Amber 2, Baltic Cruises, Firebird and KJK Fund SICAV-SIF ("KJK") – concluded a commitment letter on 3 December 2012 in respect that until 30 April 2013 Firebird and KJK undertake not to acquire Tallink shares without Baltic Cruises' consent and Amber 2 and its affiliates undertake not to dispose of Tallink shares without Baltic Cruises' consent if as a result of such disposal Amber 2 and its affiliates retain in their ownership 50% or less of the Tallink shares the aforementioned persons owned on 5 September 2006.

TAKEOVER BIDS

The Group has not concluded any agreement with its management or employees that contain the provisions of compensation payment in case of takeover bid.

DIVIDENDS

The Group's strong expansion and growth have been achieved thanks to significant investments in the recent past. To support these investments, no dividends have been paid and profits have been reinvested which has resulted in strong shareholders' equity. Additionally, the Group's policy has been to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

At the annual general meeting held on 8 February 2011, management introduced the strategic target of reaching the optimal debt level which would allow the Group to start paying dividends. In management's opinion, a comfortable level for the Group's equity ratio to total assets is between 40% and 50% and the net debt ratio to EBITDA below 5.

In the 2012 financial year no dividends were paid. Most of the cash flow was used to repay the Group's bank loans and to increase the Group liquidity.

In management's opinion, the Group's financial position has improved to a level which allows the Group to pay dividends. Management will propose to the shareholders' general meeting a dividend distribution of EUR 0.05 per share, i.e. EUR 33,494,102 in aggregate.

CORPORATE GOVERNANCE REPORT

This report is made in accordance with the Estonian Accounting Act and gives an overview of the governance of AS Tallink Grupp and its compliance with the requirements of the Corporate Governance Recommendations (CGR) of the NASDAQ OMX Tallinn Stock Exchange. The Group follows most of the articles of the CGR except where indicated otherwise in this report.

ORGANIZATION AND ADMINISTRATION

Pursuant to the Commercial Code and the articles of association of AS Tallink Grupp (the Company), the right of decision and the administration of the Company are divided between the shareholders represented by the shareholders' general meeting, the Supervisory Council and the Management Board.

SHAREHOLDERS' GENERAL MEETING

The Company's highest governing body is the shareholders' general meeting. The primary duties of the general meeting are to approve the annual report and the distribution of dividends, elect and remove members to the Supervisory Council, elect auditors, pass resolutions on any increase or decrease in share capital, change the articles of association and resolve other issues, which are the responsibility of the general meeting by law. According to the law, the articles of association can be amended only by the shareholders' general meeting. In such a case it is required that 2/3 of the participating votes are for it.

Every shareholder or his/her proxy with a relevant written power of attorney may attend the general meeting, discuss the items on the agenda, ask questions, make proposals and vote.

The Group publishes a notice of an annual general meeting and an extraordinary general meeting at least three weeks in advance in a national daily newspaper, in the stock exchange information system and on the Company's website at www.tallink.com. The notice includes information on where the meeting will be held.

The agenda of the meeting, the Board's proposals, draft resolutions, comments and other relevant materials are made available to the shareholders before the general meeting on the Company's website and in the stock exchange information system. The shareholders may ask questions before the general meeting by sending an email to info@tallink.ee.

The Company has not made it possible to observe and attend general meetings through electronic channels as there has not been any need for it (CGR 1.3.3).

In the reporting period AS Tallink Grupp held the annual general meeting on 7 June 2012. The meeting was attended by the Management Board members Enn Pant, Andres Hunt, Janek Stalmeister and Lembit Kitter. The Supervisory Council members present were Toivo Ninnas, Kustaa Äimä, Ain Hanschmidt, Eve Pant, Ashwin Roy and Kalev Järvelill. The meeting was also attended by the Company's auditor Andres Root. The chairman of the meeting was Aare Raig. The meeting was held in Estonian. The attending shareholders represented 470,285,207 votes, i.e. 70.20% of all votes.

There were no extraordinary general meetings during the 2012 financial year.

THE SUPERVISORY COUNCIL

The Supervisory Council engages in oversight and longer-term management activities such as supervising the Management Board and approving business plans, acting in the best interest of all shareholders. No

residency requirements apply to the members of the Supervisory Council. The Supervisory Council reports to the general meeting of the shareholders.

The Supervisory Council consists of 5 to 7 members. Members of the Supervisory Council are elected for periods of three years at a time. The Supervisory Council elects one of its members as chairman. For electing a member to the Supervisory Council his or her written consent is needed. The general meeting of the shareholders may remove any member of the Supervisory Council without a reason. Such a decision requires 2/3 of the votes represented at the general meeting. A member of the Supervisory Council may resign without a reason by informing the general meeting of the shareholders about the resignation.

The Supervisory Council is responsible for supervising management of the Company and organization of its operations. The Supervisory Council determines the principles for the Company's strategy, organization, annual operating plans and budgets, financing and accounting. The Supervisory Council elects the members of the Management Board and determines their salaries and benefits.

At present, the Supervisory Council has six members: Mr. Toivo Ninnas – Chairman, Ms. Eve Pant, Mr. Ain Hanschmidt, Mr. Lauri Kustaa Äimä, Mr. Ashwin Roy and Mr. Kalev Järvelill. The members of the Supervisory Council have the knowledge and experience necessary to fulfil their duties following the Corporate Governance Recommendations and legislation.

The meetings of the Supervisory Council are held according to need, but at least once in every three months. The Supervisory Council convened five times during the 2012 financial year. The Company's operations, development, strategies, targets and budget were discussed. Five resolutions were adopted in writing without convening a meeting.

The members of the Supervisory Council avoid conflicts of interest and observe the prohibition on competition. The Supervisory Council and the Management Board work closely in the best interests of the Company and its shareholders, acting in accordance with the articles of association. Confidentiality rules are followed on exchanging information.

The remuneration of the Supervisory Council was decided at the shareholders' general meeting on 7 June 2012. Accordingly, the remuneration of the chairman is EUR 2,500 per month and the remuneration of other members of the Supervisory Council is EUR 2,000 per month. There are no other benefits for members of the Supervisory Council.

The direct shareholdings and granted share options of the members of the Supervisory Council at the end of the 2012 financial year were the following:

	Shares	Share options
Toivo Ninnas	19,200	740,000
Eve Pant	530,000	740,000
Ain Hanschmidt	1,800,000	740,000
Lauri Kustaa Äimä	237,000	740,000
Ashwin Roy	0	0
Kalev Järvelill	1,276,800	740,000

THE MANAGEMENT BOARD

The Management Board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example on entering into contracts on behalf of the Company. The Management Board is independent in their decisions and follows the best interests of the Company's shareholders.

The Management Board must adhere to the decisions of the general meeting of the shareholders and lawful orders of the Supervisory Council. The Management Board ensures, with its best efforts, that the Company complies with the law and that the Company's internal audit and risk management functions operate effectively.

The Management Board consists of 3 to 7 members. The members and the chairman of the Management Board are elected by the Supervisory Council for periods of three years at a time. For electing a member to the Management Board his or her written consent is needed. The chairman of the Management Board may propose that the Supervisory Council also appoint a vice chairman of the Management Board, who fulfils the chairman's duties in the absence of the chairman. Every member of the Management Board may represent the Company alone in any legal and business matter. According to the law the Supervisory Council may recall any member of the Management Board without a reason. A member of the Management Board may resign without a reason by informing the Supervisory Council about the resignation.

At present, the Management Board has six members. Mr. Enn Pant, Chairman, is responsible for leading the Board and general and strategic management of the Group. Mr. Andres Hunt, Vice Chairman, is responsible for fulfilling the chairman's duties in his absence and for legal matters and technical management. Mr. Janek Stalmeister is responsible for IT, hotel operations, supply of goods and duty free operations, finance and investor relations. Mr. Lembit Kitter is responsible for the Group's daily operations, development and human resources. In 2012 two new members were appointed to the Management Board: Mr. Peter Roose who is responsible for the Group's sales & marketing and Ms. Kadri Land who is responsible for cargo operations and regional offices. The Supervisory Council has concluded service agreements with the members of the Management Board.

In 2012 the remuneration of the members of the Group's Management Board was EUR 1.4 million.

The remuneration of the Management Board is determined by the Supervisory Council according to the CGR. The Supervisory Council has adopted the Principles of remuneration of the management of AS Tallink Grupp. According to the document, besides work benefits, termination benefits and a share option programme, the members of the Management Board are eligible to annual bonuses of up to three-months' remuneration that are paid when the Group's results are profitable. The pay and benefits of individual Board members are not disclosed as the Group believes that such detailed information is insignificant for investors and is outweighed by the possible harm and discomfort to the members of the Management Board from the disclosure of sensitive personal information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

Members of the Management Board avoid conflicts of interest and observe the prohibition on competition.

The direct shareholdings and granted share options of the members of the Management Board at the end of the 2012 financial year were the following:

	Shares	Share options
Enn Pant	3,632,413	740,000
Andres Hunt	822,000	740,000
Lembit Kitter	0	740,000
Jane Stalmeister	45,000	740,000
Peter Roose	39,588	410,000
Kadri Land	39,792	410,000

AUTHORITY OF THE MEMBERS OF THE MANAGEMENT BOARD TO ISSUE AND ACQUIRE SHARES

According to the resolution of the general meeting of 26 January 2009, the Company was granted the right to acquire its own shares subject to the following conditions:

- 1) The Company may acquire own shares within five years as from the adoption of the resolution.
- 2) The total nominal value of the shares owned by the Company may not exceed 10 % of share capital.
- 3) The price payable for one share may not be more than the highest price paid on the Tallinn Stock Exchange for a share of AS Tallink Grupp at the day when the share is acquired.
- 4) Own shares are to be paid for using the assets exceeding share capital, the mandatory legal reserve and share premium.

The Management Board has no right to issue the Company's shares.

DISCLOSURE OF INFORMATION

The Company follows the CGR in its information disclosure procedures and treats all shareholders equally. All the released information is published in Estonian and in English on the websites of the Company and the Tallinn Stock Exchange as well as through the OAM system managed by the EFSA.

Meetings with investors have been arranged on an ad hoc basis as and when requested by the investors. The information shared at the meetings is limited to data already disclosed. The Company has published the times and locations of significant meetings with investors. The presentations made to investors are available on the Company's website. However, the Group does not meet the recommendation to publish the time and location of each individual meeting with investors and to allow all shareholders to participate in these events as it would be impractical and technically difficult to arrange (CGR 5.6).

FINANCIAL REPORTING AND AUDITING

Preparation of financial reports and statements is the responsibility of the Company's Management Board. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and relevant Estonian regulations. The company issues quarterly interim financial reports and the annual report.

The Company's annual report is audited and then approved by the Supervisory Council. The annual report together with the written report of the Supervisory Council is sent for final approval to the shareholders' general meeting.

The notice of the shareholders' general meeting includes information on the auditor candidate. The Company observes the auditors' rotation requirement. The audit fee and the auditors' responsibilities are set out in an agreement concluded between the Company and the auditor.

To the knowledge of the Company, the auditors have fulfilled their contractual obligations and have audited the Company in accordance with International Standards on Auditing.

For better risk management and control, the Company has established an Audit Committee and an Internal Audit Department.

The Internal Audit Department took part in the process of preparing the annual report. Internal audits are conducted to check that information presented in the annual report is reliable.

The consolidated financial statements for the 2012 financial year were audited by KPMG Baltics.

AUDIT COMMITTEE

The Supervisory Council has elected two persons to the Audit Committee: Mr. Ain Hanschmidt and Ms. Mare Puusaag. The Audit Committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal control, the process of auditing annual and consolidated accounts, and the independence of the audit firm and the auditor representing the audit firm on the basis of the law. The Audit Committee is responsible for making recommendations and proposals to the Supervisory Council.

SUBSTANTIAL SHAREHOLDERS

INFORTAR AS	241,276,164	35.81%
BALTIC CRUISES HOLDING, L.P.	105,961,960	15.73%

The related party transactions are disclosed in the notes to the financial statements.

KEY MANAGEMENT PERSONNEL

SUPERVISORY COUNCIL

Mr. Toivo Ninnas (born 1940) - Chairman of the Supervisory Council since 1997

- Served at ESCO (Estonian Shipping Company) 1973 to 1997 in various positions, Director General since 1987.
- Graduated from the Far Eastern High Engineering Maritime College (FEHEMC), maritime navigation, in 1966.
- Direct shareholding of 19,200 shares and 740,000 share options

Ms. Eve Pant (born 1968) - Member of the Supervisory Council since 1997

- Graduated from the Tallinn School of Economics, Estonia, in 1992
- Direct shareholding of 530,000 shares and 740,000 share options

Mr. Ain Hanschmidt (born 1961) - Member of the Supervisory Council since 2005, also from 1997 to 2000

- Chief Executive Officer of AS Infortar
- For years he served as Chairman of the Management Board of AS SEB Eesti Ühispank
- Graduated from the Tallinn Polytechnic Institute (Tallinn University of Technology), Estonia in 1984
- Direct shareholding of 1,800,000 shares and 740,000 share options

Mr. Lauri Kustaa Äimä (born 1971) - Member of the Supervisory Council since 2002

- Managing Director of KJK Capital Oy
- Chairman of the Management Board, KJK Fund SICAV-SIF and Amber Trust II SCA
- Vice-chairman of the Management Board, Amber Trust SCA

- Holds a Master's degree in Economics from the University of Helsinki, Finland, 1997
- Direct shareholding of 237,000 shares and 740,000 share options

Mr. Ashwin Roy (born 1975) - Member of the Supervisory Council since 2009

- Partner with CVC Private Equity. Has led all of CVC Private Equity's transactions in the Baltic States. Transactor with CVC since 2001. Involved in several CVC transitions across Central and Eastern Europe and Turkey. Has led all of CVC's transactions in the Baltic States.
- Previously a fund manager at Societe Generale Asset Management covering private and listed equities in Central and Eastern Europe.
- Has also worked for PriceWaterhouseCoopers in London for 3.5 years, in audit and transaction support.
- He is a UK qualified Chartered Accountant and holds an MA (Hons) in Economics (First Class), from King's College, University of Cambridge, UK.

Mr. Kalev Järvelill (born 1965) - Member of the Supervisory Council since 2007

- Member of the Supervisory Council of AS Infortar
- He was a member of the Management Board of AS Tallink Grupp from 1998 to 2006
- General Director of the Estonian Tax Board from 1995 to 1998
- Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1993
- Direct shareholding of 1,276,800 shares and 740,000 share options

MANAGEMENT BOARD

Mr. Enn Pant (born 1965) - Chairman of the Management Board since 1996, Chief Executive Officer

- Member of the Supervisory Council of AS Infortar
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated from the Faculty of Economics, University of Tartu, Estonia, in 1990
- Direct shareholding of 3,632,413 shares and 740,000 share options

Mr. Andres Hunt (born 1966) - Member of the Management Board since 2002

- Has been with the Group since 1998 in the positions of Financial Director and Chief Financial Officer
- Director of Tax Policy Department at the Ministry of Finance of Estonia from 1995 to 1998
- Graduated from the Faculty of Economics, Academy of Agriculture, Estonia, in 1992
- Direct shareholding of 822,000 shares and 740,000 share options

Mr. Lembit Kitter (born 1953) - Member of the Management Board, since 2006

- Worked in the banking sector in Estonia since 1992 at leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank
- Graduated the Faculty of Economics, University of Tartu, Estonia, in 1976
- Direct shareholding of nil shares and 740,000 share options

Mr. Janek Stalmeister (born 1974) - Member of the Management Board since 2009, Chief Financial Officer

- Has been with the Group since 1999 in the positions of Financial Advisor, Treasurer and Financial Director

- Has worked as a stock broker, Deputy CEO and CEO at AS HT Finants
- Head of the External Debt Division at the Estonian Ministry of Finance from 1994 to 1997
- Graduated from the Faculty of Economics, International University "LEX", Estonia, in 1999
- Direct shareholding of 45,000 shares and 740,000 share options

Mr. Peter Roose (born 1969) - Member of the Management Board since 2012, Group Sales and Marketing Director

- Has been with the Group since 2005 in the positions of Sales and Marketing Director
- Has worked as CEO at OÜ TLG Meedia and CEO at AS DDB Brand Sellers Estonia
- Graduated with a BA in Economics from Wilfrid Laurier University, Canada, in 1999
- Direct shareholding of 39,588 shares and 410,000 share options

Mrs. Kadri Land (born 1964) - Member of the Management Board since 2012, Managing Director of Tallink Silja AB

- Has been with the Group since 2005 in the position of Managing Director at Tallink Silja AB
- Has worked as editor and broadcaster in Sveriges Radio and Voice of America
- Graduated from the Faculty of Chemistry and Physics, University of Tartu, Estonia, in 1987
- Direct shareholding of 39,792 shares and 410,000 share options

SAFETY & SECURITY

In the Group's operations the safety and security of people, environment and property are of the utmost importance. Tallink's Safety Management System adheres to the ISM (International Safety Management) and ISPS (International Ship Port Facility Security) Codes and the requirements according to the ISO 14001 environmental management standard to guarantee that the operations of the ships and onshore organization prevent accidents, loss of human lives and environmental damages caused to the marine environment. The Safety Management System is audited by Lloyds Register and the Estonian, Swedish, Latvian, and Finnish Maritime Administrations.

The Group's safety and security management operations are aimed at maintaining and developing safe procedures for ships and creating a safe ship environment for both the crew and passengers. The crew's safety and security management skills are consistently developed, tested and practiced through drills and exercises in cooperation with the authorities. The skills are improved by identifying the known risk factors and areas, and practicing related procedures. In addition, the crew's environmental safety awareness is continuously improved.

The objective of the Group's Safety Management System is to ensure that valid rules and requirements set out by the IMO (International Maritime Organization), the EU (European Union), the maritime authorities, the certification bodies and other maritime organizations as well as their applicable regulations and standards are adhered to.

Ship masters are responsible for the onboard safety and security operations of the ships managed by the Group. The task of the onshore organization is to supervise, support and develop safety and security work.

All the Group's vessels carry lifesaving equipment which meets the highest safety standards and are always ready for immediate use. Nevertheless the Group's highest-level nautical and good-seamanship practices

together with top-level safety and security organizations are designed to prevent situations where all this safety equipment should be put in use.

ENVIRONMENTAL & CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that environmental protection and management is one of its highest priorities. Every effort is to be made to preserve and protect the environment from marine and atmospheric pollution and any other form of pollution, including office-based waste.

The Group's vessels are maintained and operated in accordance with the MARPOL convention (the International Convention for the Prevention of Pollution from Ships). This ensures that air and sea pollution is kept to the lowest practicable levels.

The Group operates a zero spill policy. The Group's objective is to eliminate the possibility of pollution at source by ensuring that high standards of safety and awareness are maintained and that all relevant legislation and conventions are followed for both its sea and shore activities. Additionally, the Group is committed to continuous improvement of the methods that are used to carry out and achieve this objective, including the use of equipment and practices that minimise waste generation.

Selection of international certificates held by Group companies:

- ISO 14001:2004 Environmental Certificate by Lloyds Register
- MARPOL Sewage Pollution Prevention Certificate
- MARPOL Air Pollution Prevention Certificate
- IAFS International Anti-Fouling System Certificate
- MARPOL Oil Pollution Prevention Certificate
- Document of Compliance for Anti-fouling System
- MARPOL Garbage Pollution Prevention Attestation
- Document of Compliance by Lloyds Register
- Document of Compliance by Estonian Maritime Administration
- Document of Compliance by Finnish Maritime Administration
- Document of Compliance by Swedish Maritime Administration
- Document of Compliance by Latvian Maritime Administration

As a major tax-payer in Estonia, Finland and Sweden, the Group believes that financial success can only be guaranteed through responsible and sustainable development. Therefore, each year, the Group gives a significant share of its success back to society and the environment in which the Company operates.

Group entities are actively involved in supporting many public initiatives and events, especially youth and sports organizations. Being one of the largest Estonian companies in terms of the number of employees, it has always been the Group's goal to encourage its employees to participate in social events for the sake of the environment and society.

There are many areas which the Group supports and sponsors. The environment, children and young people, and sports are areas which are considered to be the most important in all the countries in which Tallink has its operations.

A more detailed overview of the environmental and social responsibility policies and activities are provided in the Group's Environmental and Corporate Social Responsibility Report.

OUTLOOK

The Group's focus is prioritized on the core operations to continue the growth in the revenue and profitability according to the strategy.

Management foresees no major changes in the Group's operations in the 2013 financial year whereas the uncertainties in the overall economic environment will continue to exist and fuel prices will remain high. The Group's results are expected to improve in the 2013 financial year. Recent development activities, investments in the online sales channels and the CRM system, and dynamic pricing should underpin growth and improvements in results.

RISKS

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

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

MANAGEMENT BOARD'S CONFIRMATION

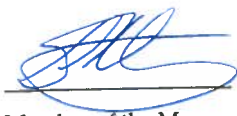
The Management Board confirms that to the best of their knowledge the management report of AS Tallink Grupp for the 2012 financial year presents a true and fair view of significant events and their impact on the Group's results and financial position and includes an overview of the main risks and uncertainties.



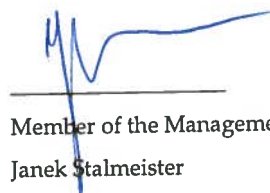
Chairman of the Management Board
Enn Pant



Vice Chairman of the Management Board
Andres Hunt



Member of the Management Board
Lembit Kitter



Member of the Management Board
Janek Stalmeister



Member of the Management Board
Peter Roose



Member of the Management Board
Kadri Land

Tallinn, 18.04.2013

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	In thousands of EUR		Notes
	2012	2011	
Continuing operations			
Revenue	943,868	1,152,994	4
Cost of sales	-742,669	-901,597	5
Gross profit	201,199	251,397	
Marketing expenses	-65,407	-78,172	5
Administrative expenses	-44,081	-54,988	5
Other income	3,659	1,291	
Other expenses	-1,654	-1,326	
Result from operating activities	93,716	118,202	
Finance income	5,269	4,277	5
Finance costs	-46,249	-69,324	5
Profit from the sale of a subsidiary	783	0	5
Share of profit/loss of equity-accounted investees	19	-157	12
Profit before income tax	53,538	52,998	
Income tax	2,764	-1,302	6
Net profit from continuing operations	56,302	51,696	
Loss from discontinued operations	0	-14,220	4
Net profit for the period	56,302	37,476	
Other comprehensive income			
Exchange differences on translating foreign operations	-563	76	21
Changes in fair value of cash flow hedges	0	-705	21, 26
Other comprehensive income/expense for the period	-563	-629	
Total comprehensive income for the period	55,739	36,847	
Profit attributable to:			
Equity holders of the Parent	56,302	37,476	
Total comprehensive income attributable to:			
Equity holders of the parent	55,739	36,847	
Basic and diluted earnings per share (in EUR per share)	0.084	0.056	7
Basic and diluted earnings per share – continuing operations (in EUR per share)	0.084	0.077	7

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Date/kuupäev.....18.04.2013

Signature/allkiri.....KPMG

The notes on pages 31 to 86 are an integral part of these consolidated financial statements.

KPMG, Tallinn

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December	In thousands of EUR		Notes
	2012	2011	
ASSETS			
Current assets			
Cash and cash equivalents	65,600	75,421	8
Trade and other receivables	42,555	35,152	9
Prepayments	5,151	7,087	10
Inventories	29,426	25,198	11
	142,732	142,858	
Non-current assets			
Investments in equity-accounted investees	245	226	12
Other financial assets	296	2,551	13
Deferred income tax assets	12,264	9,452	6
Investment property	300	300	14
Property, plant and equipment	1,526,995	1,583,002	15
Intangible assets	58,999	61,153	16
	1,599,099	1,656,684	
TOTAL ASSETS	1,741,831	1,799,542	
LIABILITIES AND EQUITY			
Current liabilities			
Interest-bearing loans and borrowings	103,685	145,261	17
Trade and other payables	92,988	86,793	18
Deferred income	25,458	25,226	19
Derivatives	22,102	22,668	26
	244,233	279,948	
Non-current liabilities			
Interest-bearing loans and borrowings	736,699	814,305	17
Other liabilities	69	198	20
	736,768	814,503	
Total liabilities	981,001	1,094,451	
Equity			
Equity attributable to equity holders of the Parent			
Share capital	404,290	404,290	21
Share premium	639	639	21
Reserves	69,091	70,497	21
Retained earnings	286,810	229,665	
Total equity attributable to equity holders of the Parent	760,830	705,091	
Total equity	760,830	705,091	
TOTAL LIABILITIES AND EQUITY	1,741,831	1,799,542	

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KPMG, Tallinn

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	In thousands of EUR		Notes
	2012	2011	
Cash flows from operating activities			
Net profit for the period	56,302	37,476	
Adjustments:	109,768	164,038	
Depreciation and amortisation	71,001	95,283	15, 16
Net gain on disposals of property, plant and equipment	-45	-56	
Net interest expense	39,637	55,773	5
Net expense from derivatives	3,410	11,071	5
Profit from subsidiaries	-783	0	5
Profit/loss from equity-accounted investees	-19	157	12
Net foreign exchange gain/loss related to investing and financing activities	-669	-19	
Share option programme reserve	0	527	
Income tax	-2,764	1,302	6
Changes in receivables and prepayments related to operating activities	-5,568	10,898	
Changes in inventories	-4,228	-5,163	
Changes in liabilities related to operating activities	6,782	-3,711	
Income tax paid	-40	-107	
	163,016	203,431	
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	-9,449	-13,258	15, 16
Proceeds from disposals of property, plant, equipment	50	84	
Proceeds from/ payments for settlement of derivatives	-3,976	-7,236	
Proceeds from subsidiaries	1,992	0	5
Acquisition of equity-accounted investees	0	-169	12
Acquisition of other investments	-34	-5	
Interest received	297	380	
	-11,120	-20,204	
Cash flows used in/from financing activities			
Proceeds from loans	440,000	0	
Redemption of loans	-557,848	-112,093	
Payment of finance lease liabilities	-56	-114	
Interest paid	-36,434	-53,087	
Payment of transaction costs related to loans	-7,379	0	
	-161,717	-165,294	
TOTAL NET CASH FLOW	-9,821	17,933	
Cash and cash equivalents:			
- at the beginning of period	75,421	57,488	
- increase / decrease	-9,821	17,933	
- at the end of period	65,600	75,421	8

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Date/kuupäev.....18.04.2013
Signature/allkiri.....*[Signature]*
KPMG, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December, in thousands of EUR

	Share capital ¹	Share premium ¹	Trans-lation reserve ¹	Ships' revaluation reserve ²	Cash flow hedge reserve ¹	Mandatory legal reserve ¹	Reserve for treasury shares ¹	Share option programme reserve ³	Retained earnings	Equity attributable to equity holders of the Parent	Total equity
As of 31 August 2010	430,648	639	385	64,811	705	10,869	-4,163	0	163,823	667,717	667,717
Net profit for the year 2010/2011	0	0	0	0	0	0	0	0	37,476	37,476	37,476
Total other comprehensive income for the year 2010/2011 (Note 21)	0	0	76	0	-705	0	0	0	0	-629	-629
Total comprehensive income for the year 2010/2011	0	0	76	0	-705	0	0	0	0	36,847	36,847
Transfer from profit for 2009/2010	0	0	0	0	0	1,093	0	0	-1,093	0	0
Transfer from revaluation reserve	0	0	0	-3,101	0	0	0	0	3,101	0	0
Decrease of share capital	-26,358	0	0	0	0	0	0	0	26,358	0	0
Transactions with owners, recognised directly in equity											
Share-based payment transactions (Note 22)	0	0	0	0	0	0	0	527	0	527	527
As of 31 December 2011	404,290	639	461	61,710	0	11,962	-4,163	527	229,665	705,091	705,091
Net profit for the year 2012	0	0	0	0	0	0	0	0	56,302	56,302	56,302
Total other comprehensive income for the year 2012 (Note 21)	0	0	-563	0	0	0	0	0	0	-563	-563
Total comprehensive income for the year 2012	0	0	-563	0	0	0	0	0	56,302	55,739	55,739
Transfer from profit for 2010/2011	0	0	0	0	0	1,874	0	0	-1,874	0	0
Transfer from revaluation reserve	0	0	0	-2,717	0	0	0	0	2,717	0	0
As of 31 December 2012	404,290	639	-102	58,993	0	13,836	-4,163	527	286,810	760,830	760,830

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The notes on pages 34 to 86 are an integral part of these consolidated financial statements.

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¹ For further information see also Note 21 Share Capital and Reserves

² For further information see also Note 15 Property, Plant and Equipment and Note 21 Share Capital and Reserves

³ For further information see also Note 22 Share Option Programme

The notes on pages 31 to 86 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The consolidated financial statements of AS Tallink Grupp (the "Parent") and its subsidiaries (together referred to as the "Group") For the year ended 31 December 2012 were authorised for issue by the Management Board on 18 April 2013.

According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the Management Board must be agreed by the Supervisory Council, and approved by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the Management Board and the right to request that a new annual report be prepared.

AS Tallink Grupp is a public limited company incorporated and domiciled in Estonia, with a registered office at Sadama 5/7 Tallinn. AS Tallink Grupp's shares have been publicly traded on the Tallinn Stock Exchange since 9 December 2005.

The principal activities of the Group are related to marine transportation (passenger and cargo transportation). Further information on the principal activities of the Group is presented in Note 4 Segment Information. As of 31 December 2012 the Group employed 6,747 people (6,610 as of 31 December 2011).

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Note 2 BASIS OF PREPARATION

Due to the change of the financial year the comparative financial year lasted for 16 months from 1 September 2010 until 31 December 2011. As the reporting year consists of 12 months from 1 January 2012 until 31 December 2012, the figures of the financial years are not fully comparable. The change of the financial year was decided by the shareholders' general meeting on 8 February 2011.

2.1. Statement of compliance

The consolidated financial statements of AS Tallink Grupp and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (hereinafter: IFRS EU).

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value
- ships are measured at fair value
- liabilities for equity settled share-based payment arrangements are measured at fair value.

2.3. Functional and presentation currency

The figures reported in the financial statements are presented in euros, which is the Parent company's functional currency. All financial information presented in euros has been rounded to the nearest thousand except when otherwise indicated.

2.4. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Financial instruments – whether derivatives qualify for hedge accounting

As of 31 December 2012, the Group had entered into three derivative agreements (31 December 2011: three agreements). The Group has determined that interest rate derivatives do not qualify for cash flow hedge accounting. See Notes 26 and 3.3. for more detailed information on the interest rate swap agreements and related accounting policies.

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Operating leases – the Group as lessee

As of 31 December 2012, the Group had entered into lease agreements for five hotel buildings and two office buildings (31 December 2011: five hotel buildings and two office buildings). Management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 23 for more detailed information on the minimum lease payments of the lease agreements.

The following assumptions and estimation uncertainties have a risk of resulting in a material adjustment in the next financial year:

Fair value of ships

For the purpose of revaluation, the Group determined the fair value of its ships as of 31 December 2012. The fair value of ships depends on many factors, including the year of building, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Further details are given in Note 3.4 and Note 15.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of 31 December 2012 amounted to EUR 11,066,000 (31 December 2011: EUR 11,066,000). Further details are given in Note 16.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. Further details are given in Note 6.

Customer loyalty programme

Customer loyalty programme (Club One) applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group recognises credits that it awards to customers as a separately identifiable component of revenue, which is deferred at the date of the initial sale.

Determination of useful life of property, plant and equipment and intangible assets

Management has estimated the useful lives and residual values of property, plant and equipment and intangible assets, taking into consideration the volumes of business activities, historical experience in this area and future outlook. Management's opinion of the useful lives of the Group's property, plant and equipment and the Group's intangible assets is disclosed in Notes 15 and 16 respectively.

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Note 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3.1. Basis of consolidation*Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements comprise the financial statements of AS Tallink Grupp and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Investments in equity-accounted investees

Equity-accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity.

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Equity-accounted investees are accounted for using the equity method (equity-accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign currency

Foreign currency transactions

The Parent's functional currency and presentation currency is the euro. Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation for qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

3.3. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents are cash on hand, call deposits, short-term bank deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the financial liability. A financial liability is derecognised when the underlying obligation is discharged or cancelled or expires.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

An instrument is classified as an instrument at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

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The Group's investments in equity and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses and foreign currency differences on available-for-sale instruments, are recognised in other comprehensive income and presented in equity.

Derivative financial instruments, including hedge accounting

The Group uses derivative financial instruments such as swaps, options and forwards to hedge its risks associated with changes in exchange rates and interest rates and fuel price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or loss arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the financial year.

The fair value of interest rate derivative contracts is determined using generally accepted valuation methods such as Cox-Ingersoll-Rose Model, Black & Scholes Model, Calibration of Volatility, Monte Carlo Simulation or Hull-White Model.

For the purpose of hedge accounting, hedges are classified into:

- fair value hedges
- cash flow hedges

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and presented in the hedging reserve in equity, while any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

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Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for treasury shares. When treasury shares are subsequently sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3.4. Property, plant and equipment

Recognition and measurement

Property, plant and equipment, except ships, are measured at cost, less any accumulated depreciation and any impairment.

Cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs (see 3.9). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Ships are measured at fair value (i.e. at a revalued amount) less depreciation charged subsequent to the date of the revaluation. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

At the revaluation date, the carrying amount of ships is replaced with their fair value at the date of revaluation and accumulated depreciation is eliminated. Any revaluation surplus is recognised in other comprehensive income and presented in the revaluation reserve in equity. A revaluation deficit is recognised in loss, except that a deficit offsetting a previous surplus on the same asset, previously recognised in other comprehensive income, is offset against the surplus in the "revaluation of ships".

An annual transfer from the revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Subsequent costs

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised (e.g. replacements of parts of some items, dry-dockings with intervals of two or five years) are added to the carrying amount of the assets, if the recognition criteria are met, i.e. (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognised. All other expenditures are recognised as an expense in the period in which they are incurred.

Depreciation

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Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is discontinued when the carrying value of an asset equals its residual value. The residual value of ships is based on their estimated realisable value at the end of their useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of assets as follows:

▪ buildings	5 to 50 years
▪ plant and equipment	3 to 10 years
▪ ships	17 to 35 years
▪ other equipment	2 to 5 years

Land is not depreciated.

Depreciation is calculated separately for two components of a ship: the vessel itself and dry-docking expenses as a separate component. This is based on the industry accounting practice.

The depreciation charge is calculated for each part of a ship on a straight-line basis over the estimated useful life as follows:

▪ ships	17 to 35 years
▪ capitalised dry-docking expenses	2 to 5 years

The residual values, depreciation methods and useful lives of items of property, plant and equipment are reviewed at least at each financial year-end and, if an expectation differs from previous estimates, the change is accounted for as a change in an accounting estimate.

From 1 September 2006 the residual value is calculated as a percentage of the gross carrying amount of the ship. The residual value for ships is 15%.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss (in "other operating income" or "other operating expenses") in the financial year the asset is derecognised.

3.5. Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition see note 3.1.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

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Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is capitalised only when the Group can demonstrate (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete and its ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure attributable to the asset during development.

Following the initial recognition of development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project. Amortisation of the asset begins when development is completed and the asset is available for use.

Other intangible assets

Other intangible assets (the licences and development costs of IT programs, acquired customer contracts) are initially recognised at cost. The cost of intangible assets acquired as part of an acquisition of a business is their fair value as at the date of acquisition. Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category according to the function of the intangible asset.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated on a straight-line basis over the estimated useful life of an intangible asset as follows:

- | | |
|---------------------------|---------------|
| ▪ trademarks | 20 years |
| ▪ other intangible assets | 5 to 10 years |

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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3.6. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, rather than for sale in the ordinary course of business, use in the supply of goods or services, or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified to property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

3.7. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The costs of inventories, consisting mostly of fuel, and merchandise purchased for resale are assigned by using the weighted average cost method and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing the inventories to their existing location and condition.

3.8. Borrowing costs

Borrowing costs are recognised as an expense when incurred, except those, which are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale (e.g. new ships). Borrowing costs related to the building of new ships are capitalised as part of the cost of related assets up to the delivery date.

3.9. Impairment**Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

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The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10. Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus plan if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.11. Share-based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees became unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share purchase plan is measured by independent appraisers. The fair value of the employee share options and share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the spot price on the measurement date, the exercise price of the instrument, expected volatility, the option maturity date, the risk-free interest rate and expected dividends.

3.12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risk specific to the liability. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where discounting is used, the increase in the provision due to the passage of time is recognised in "finance costs".

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.13. Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

The Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and lease payments are recognised as operating lease expenses on a straight-line basis over the lease term.

The Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

3.14. Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates and sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods – sales in restaurants and shops

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, i.e. at the time of selling the goods to the customer at the retail stores, bars and restaurants, generally for cash or by card payment.

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Ticket sale and sale of cargo transport

Revenue from tickets and cargo transport is recognised as the services are rendered. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to prepaid tickets and cargo shipments.

Sales of hotel accommodation

Revenue from sales of hotel accommodation is recognised when the rooms have been used by the clients. At financial year-end, a revenue deferral is recorded for the part of the revenue that has not yet been earned in relation to prepaid room days.

Revenue from travel packages

The Group sells packages, which consist of a ship ticket, accommodation in a hotel not operated by the Group and tours in different cities not provided by the Group. The Group recognises the sales of packages in its revenue in full instead of recognising only the commission fee for accommodations, tours and entertainment events, as the Group (1) is able to determine the price of the content of the package; (2) has discretion in selecting the suppliers for the service ; and (3) bears credit risk. Revenue from sales of packages is recognised when the package is used by the client.

Charter income

Charter income arising from operating leases of ships is accounted for on a straight-line basis over the lease terms. Income arising from finance leases (when the Group is a lessor) is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

Customer Loyalty Programme

For the customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (Club One points) and ticket sale. For further information see Note 19.

3.15. Government grants

Government grants are initially recognised as deferred income where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants related to an expense item are recognised as a reduction of the expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

3.16. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. Borrowing costs not directly attributable to the acquisition or construction of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

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Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

3.17. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or expense, in which case income tax is also recognised in other comprehensive income or expense.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the distribution of dividends. See below *Group companies in Estonia*.

Deferred tax is recognised providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Group companies in Estonia

According to the Estonian Income Tax Act, for Group companies registered in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax (calculated as 21/79 of the net dividends). The Parent's potential tax liability from the distribution of its retained earnings as dividends is not recorded in the statement of financial position. The amount of the potential tax liability from the distribution of dividends depends on the time, amount and sources of the dividend distribution.

Income tax from the payment of dividends is recorded as income tax expense in the period in which the dividends are declared.

Group companies in Cyprus

According to the income tax law of Cyprus, the net profit of shipping companies registered in Cyprus and operating with ships registered in the Cyprus ship register or/and having their business outside Cyprus, and the dividends paid by these companies, are not subject to income tax. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause deferred income tax.

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Other foreign Group companies

In accordance with the income tax laws of other jurisdictions, the company's net profit adjusted for temporary and permanent differences determined by the local income tax acts is subject to current income tax in those countries in which the Group companies have been registered.

Tax to be paid is reported under current liabilities and deferred tax positions are reported under non-current assets or liabilities.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 23.

3.18. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which: represents a separate major line of business or geographical area of operations; is part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.19. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees, if any.

3.20. Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Group's Management Board that is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Management Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing related products or services (operational segment), which is subject to risks and returns that are different from those of other segments.

Segment information is presented in respect of the Group's geographical segments (by routes).

Inter-segment pricing is determined on an arm's length basis.

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Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of expenses that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include administrative expenses, interest expense, income tax expense and other expenses that arise at the Group level and are related to the Group as a whole. Expenses incurred at the Group level on behalf of a segment are allocated to the segment on a reasonable basis, if these expenses relate to the segment's operating activities and can be directly attributed or allocated to the segment.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are those liabilities that are incurred by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Expenses, assets and liabilities which are not directly related to a segment or cannot be allocated to a segment are presented as unallocated expenses, assets and liabilities of the Group.

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.21. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.

The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

It is expected that the amendments, when initially applied, will not have a significant impact on the level of disclosure in the financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27(2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when it is exposed or has rights to variable returns from its involvements with the investee and it has the ability to affect those returns through its power over that investee and there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements

Effective for annual periods beginning on or after 1 January 2014.

IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- (i) A joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- (ii) A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in the consolidated financial statements.

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interest in Other Entities

Effective for annual periods beginning on or after 1 January 2014.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group does not expect the new standard to have any impact on the financial statements.

IFRS 13 Fair Value Measurement

Effective prospectively for annual periods beginning on or after 1 January 2013.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The Group does not expect IFRS 13 to have any impact on the financial statements

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Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

Effective for annual periods beginning on or after 1 July 2012

The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections and change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

Amendments to IAS 12 Deferred tax: Recovery of Underlying Assets

Effective for annual periods beginning on or after 1 January 2013.

The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

The Group does not expect the amendments to have any impact on the financial statements, since it does not result in a change in the Group's accounting policy.

IAS 19 (2011) Employee Benefits

Effective for annual periods beginning on or after 1 January 2013

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.

The amendments are not relevant to the Group's financial statements, since the Group does not have any defined benefit plans.

IAS 27 (2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014.

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*.

The Group does not expect IAS 27 (2011) to have any impact on the financial statements

IAS 28 (2011) Investments in Associates and Joint Ventures

Amendments effective for annual periods beginning on or after 1 January 2014.

There are limited amendments made to IAS 28 (2008):

(i) *Associates and joint ventures held for sale*. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale.

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For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

(ii) *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group does not expect the amendments to the standard to have any material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Effective for annual periods beginning on or after 1 January 2013.

The interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

The Group does not expect the interpretation to have any impact on the financial statements since it does not have any stripping activities.

3.22. Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.

Property, plant and equipment

The fair value of an item of property, plant and equipment recognised as a result of a business combination is based on its market value. The market value of property is the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property, plant and equipment is based on the market approach and cost approach using quoted market prices for similar items when available. The Group uses independent appraisers to determine the fair value of the ships. The frequency of revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is determined using the relief from royalty method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Investment property

Fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

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The Group uses independent appraiser, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

Derivatives

The fair value of interest rate swaps is based on independent appraisers' valuations. Fair values reflect the credit risk, interest rate risk and foreign exchange risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Deferred income

The amount allocated to the Club One points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the Club One points themselves is not directly observable. The fair value of the services for which the Club One points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. Such amount is recognised as deferred income.

3.25. Separate financial statements of the Parent company

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate financial statements (i.e. statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, collectively referred to as primary financial statements) of the Parent. The separate primary financial statements of AS Tallink Grupp are disclosed in Note 28 Primary Financial Statements of the Parent. These statements have been prepared using the same accounting policies and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries which are stated at cost in the separate primary financial statements of the Parent.

Note 4 SEGMENT INFORMATION

The Group's operations are organized and managed separately according to the nature of the different markets. The Group operates (1) three ships between Estonia and Finland, (2) three ships between Estonia and Sweden, (3) two ships between Latvia and Sweden, (4) five ships between Finland and Sweden, (5) four ships were leased out from the Group (Other), (6) one ship was not in operation (Other), (7) four hotels and seven shops in Estonia (Other) and (8) one hotel in Latvia (Other), which represent different business segments.

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 December 2012 and 31 December 2011.

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Geographical segments – by the location of assets

For the year ended 31 December
In thousands of EUR

2012	Estonia- Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland- Sweden route	Other	Elimination of inter- segment sales	Total
Revenue							
Sales to external customers	308,024	115,024	66,347	363,993	90,480	0	943,868
Inter-segment sales	0	0	0	0	8,788	-8,788	0
	308,024	115,024	66,347	363,993	99,268	-8,788	943,868
Result							
Segment result	86,529	12,841	-3,248	20,273	19,397	0	135,792
Unallocated expenses							-42,076
Net financial items							-40,980
Profit from subsidiaries							783
Share of profit of equity-accounted investees							19
Profit before income tax							53,538
Income tax							2,764
Net profit from continuing operations							56,302
Assets and liabilities							
Segment assets	397,088	316,151	147,742	532,727	275,497	-840	1,668,365
Unallocated assets							73,466
							1,741,831
Segment liabilities	24,923	11,558	8,071	41,941	26,233	-840	111,886
Unallocated liabilities							869,115

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The notes on pages 31 to 86 are an integral part of these consolidated financial statements.

2012 (continued)	Estonia- Finland route	Estonia-Sweden route	Latvia-Sweden route	Finland- Sweden route	Other	Elimination of inter- segment sales	Total
Other segment information							
Capital expenditures:							
- segment's property, plant and equipment ("PP&E")	91	294	110	6,821	2,249	0	9,565
- unallocated PP&E							1,722
- segment's intangible assets ("IA")	4	0	0	0	4	0	8
- unallocated IA							2,653
Depreciation	10,374	9,236	6,835	22,594	14,281	0	63,320
Unallocated depreciation							2,866
Amortisation	1	0	3	0	53	0	57
Unallocated amortisation							4,758

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2011	Estonia- Finland route	Estonia- Sweden route	Latvia- Sweden route	Germany- Finland route (Discontinued)	Finland- Sweden route	Other	Elimination of inter-segment sales	Elimination of discontinued operations	Total
Revenue									
Sales to external customers	370,816	139,785	79,963	25,322	474,896	87,534	0	-25,322	1,152,994
Inter-segment sales	0	0	0	0	0	12,041	-12,041	0	0
	370,816	139,785	79,963	25,322	474,896	99,575	-12,041	-25,322	1,152,994
Result									
Segment result	110,147	13,984	-4,242	-14,220	39,569	13,767	0	14,220	173,225
Unallocated expenses									
Net financial items									-55,023
Share of loss of equity accounted investees									-65,047
Profit before income tax									-157
Income tax									52,998
Net profit from continuing operations									-1,302
Assets and liabilities									51,696
Segment assets	405,095	324,604	154,045	0	545,345	285,657	-897	0	1,713,849
Unallocated assets									85,693
									1,799,542
Segment liabilities	21,103	10,225	6,912	0	59,136	6,997	-897	0	103,476
Unallocated liabilities									990,975
									1,094,451

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2011 (continued)	Estonia- Finland route	Estonia- Sweden route	Latvia- Sweden route	Germany- Finland route (Discontinued)	Finland- Sweden route	Other	Elimination of inter-segment sales	Elimination of discontinued operations	Total
Other segment information									
Capital expenditures:									
- segment's property, plant and equipment ("PP&E")	121	108	1,268	0	2,080	3,164	0	0	6,741
- unallocated PP&E									5,891
- segment's intangible assets ("IA")	0	0	0	0	0	59	0	0	59
- unallocated IA									567
Depreciation	14,390	12,413	9,193	5,543	31,423	12,139	0	-5,543	79,558
Unallocated depreciation									4,009
Amortisation	6	0	4	0	0	105	0	0	115
Unallocated amortisation									6,058

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Revenue by service

For the year ended 31 December

In thousands of EUR

	2012	2011
Ticket sales	241,022	313,817
Sales of cargo transport	102,789	142,146
Sales of accommodation	16,237	19,593
Restaurant and shop sales on-board and on mainland	517,450	636,182
Income from leases of vessels	28,959	25,558
Other	37,411	41,020
Revenue from discontinued operations	0	-25,322
Total revenue of the Group from continuing operations	943,868	1,152,994

Discontinued operations

In August 2011 the Group ended traffic between Germany and Finland. The comparative consolidated statement of comprehensive income has been presented to show the discontinued operation separately from continuing operations.

For the year ended 31 December

In thousands of EUR

	2012	2011
Results of discontinued operations		
Revenue	0	25,322
Expenses	0	-39,542
Results from operating activities	0	-14,220
Results from operating activities, net of tax	0	-14,220
Profit/loss for the period	0	-14,220
Basic earnings per share (EUR)	0	-0.021
Diluted earnings per share (EUR)	0	-0.021

All assets related to the "Germany and Finland route" segment were distributed between other geographical segments.

Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

For the year ended 31 December

	In thousands of EUR		Note
Cost of sales	2012	2011	
Cost of goods	-213,671	-252,905	
Port & stevedoring costs	-93,073	-122,859	
Fuel costs	-143,934	-182,753	
Staff costs	-131,583	-168,418	
Ships' operating expenses	-65,944	-87,480	
Depreciation and amortisation	-63,377	-85,216	15, 16

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Cost of package sales	-11,435	-14,946
Other costs	-19,652	-25,073
Cost of sales from discontinued operations	0	38,053
Total cost of sales from continuing operations	-742,669	-901,597

For the year ended 31 December

Marketing expenses

	In thousands of EUR		Note
	2012	2011	
Advertising expenses	-31,475	-36,143	
Staff costs	-31,113	-39,479	
Depreciation and amortisation	-1,272	-1,852	15, 16
Other costs	-1,547	-2,187	
Marketing expenses from discontinued operations	0	1,489	
Total marketing expenses from continuing operations	-65,407	-78,172	

For the year ended 31 December

Administrative expenses

	In thousands of EUR		Note
	2012	2011	
Staff costs	-17,829	-19,699	
Depreciation and amortisation	-6,352	-8,215	15, 16
Other costs	-19,900	-27,074	
Total administrative expenses	-44,081	-54,988	

Specification of staff costs included in the cost of sales, marketing expenses and administrative expenses:

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Wages and salaries	-152,468	-194,224
Social security costs	-24,045	-30,775
Staff training costs	-1,569	-1,292
Other staff costs	-2,443	-1,305
Total staff costs	-180,525	-227,596

Finance income and finance costs recognised in profit or loss

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Finance income		
Net foreign exchange gains	2,067	1,797
Income from derivatives	2,912	2,095
Interest income	290	385
	5,269	4,277

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Finance costs		
Interest expense	-39,927	-56,158
Expenses from derivatives	-6,322	-13,166
	-46,249	-69,324
Net finance costs	-40,980	-65,047

Profit from sale of a subsidiary

In August 2012 AS Tallink Grupp sold 100% of the voting shares in Kapella Shipping Ltd. The sales price was EUR 1,992,000. Kapella Shipping Ltd. was a ship-owning company incorporated in the Bahamas. The carrying values of the assets and liabilities of Kapella Shipping Ltd. were as follows:

	In thousands of EUR
	Carrying value
Cash and bank accounts	0
Property, plant & equipment	1,209
Total assets	1,209
Total liabilities	0
Net assets sold	1,209
Sales price	1,992
Gain from sale of the subsidiary	783

Cash flow on sale:

	In thousands of EUR
Net cash transferred with the subsidiary	0
Cash received	1,992

Note 6 INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, Latvian and Russian subsidiaries

In accordance with the Swedish, Finnish, Latvian and Russian tax laws, the company's net profit adjusted for temporary and permanent differences determined in the income tax acts is subject to income tax in Finland, Sweden, Latvia and Russia (in Finland the tax rate is 26%, in Sweden 22%, in Latvia 15% and in Russia 20%).

Income tax expense

Major components of the Group's income tax expense for the years ended 31 December:

	In thousands of EUR	
	2012	2011
Current period tax expense		
Finnish subsidiaries	-17	-55
Latvian subsidiary	-31	-35
Total current tax expense	-48	-90
Deferred tax income/expense		
Swedish subsidiaries	893	630
Finnish subsidiaries	1,919	-1,842
Total deferred tax expense	2,812	-1,212

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Total income tax expense excluding discontinued operations	2,764	-1,302
Tax expense from continuing operations	2,764	-1,302
Total tax expense	2,764	-1,302

Reconciliation of the effective tax rate

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Profit/loss for the period	56,302	37,476
Total income tax	2,764	-1,302
Profit/loss excluding income tax	53,538	38,778
Effect of tax rates in foreign jurisdiction	-48	-90
Current year tax losses carried forward	14,172	3,991
Derecognition of previously recognised tax losses	-12,118	-6,214
Change in deferred tax liabilities	758	1,011
	2,764	-1,302

Deferred tax assets and liabilities

According to Russian, Latvian, Finnish and Swedish legislation it is permissible for taxation purposes to use higher depreciation and amortisation rates and thereby accomplish a postponement of tax payments. These postponements are shown as a deferred tax liability. The Finnish and Swedish subsidiaries have also carry-forwards of tax losses, which are considered in the calculation of the deferred tax asset.

Deferred tax assets and liabilities are attributable to the following

As of 31 December

In thousands of EUR

	Assets		Liabilities	
	2012	2011	2012	2011
Tax loss carry-forward ¹	-22,451	-20,397	0	0
Property, plant and equipment	-40	-40	0	0
Intangible assets	0	0	10,227	10,985
Tax assets / liabilities	-22,491	-20,437	10,227	10,985
Offset of assets and liabilities	10,227	10,985	-10,227	-10,985
Tax assets/ liabilities	-12,264	-9,452	0	0

¹ Tax loss carry forward expires in 2013-2022**Movements in temporary differences during the year**

	Balance 31 December 2011	Recognised in profit or loss	Balance 31 December 2012
Tax loss carry-forward	-20,397	-2,054	-22,451
Property, plant and equipment	-40	0	-40
Intangible assets	10,985	-758	10,227
	-9,452	-2,812	-12,264

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Note 7 EARNINGS PER SHARE (EPS)

Basic EPS are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Group has issued 14,927,500 share options. The outstanding share options are non-dilutive.

At 31 December 2012 the Group held 3,935,000 of the AS Tallink Grupp shares as treasury shares. The total cost of the share buyback transactions of 3,935,000 shares was EUR 4,163 thousand including fees of EUR 4,000.

In thousands

As of 31 December 2011

As of 31 December 2012

Shares issued	Treasury shares	Shares outstanding
673,817	3,935	669,882
673,817	3,935	669,882

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Weighted average number of ordinary shares outstanding (in thousands)	669,882	669,882
Net profit/loss attributable to equity holders of the Parent	56,302	37,476
Basic and diluted EPS (EUR per share)	0.084	0.056
Basic and diluted EPS – continuing operations (EUR per share)	0.084	0.077

Note 8 CASH AND CASH EQUIVALENTS

As of 31 December

	In thousands of EUR	
	2012	2011
Cash at bank and in hand	58,546	68,832
Short-term deposits	7,054	6,589
Total cash and cash equivalents	65,600	75,421

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2012 the rates were in the range of 0.08-1.20% and in 2010/2011 in the range of 0.10-1.40%).

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the statement of financial position as of 31 December 2012 range from 1 January 2013 (over-night deposits) to 14 January 2013. As of 31 December 2012 and 31 December 2011 short-term deposits of EUR 7,014,000 and EUR 6,405,000 respectively could only be used for repayment of bank loans.

The Group's exposure to interest rate risk is disclosed in Note 26.

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Note 9 TRADE AND OTHER RECEIVABLES

As of 31 December

	In thousands of EUR	
	2012	2011
Trade receivables	28,521	24,258
Allowance for doubtful trade receivables (Note 26)	-679	-1,437
Government grants receivable	8,663	8,076
Other receivables	6,050	4,248
Accrued interest income	0	7
Total trade and other receivables	42,555	35,152

During the reporting period EUR 37,699,000 was deducted from the cost of sales in connection with government subsidies related to seamen's salaries in Finland and Sweden (2011: EUR 46,321,000).

During the reporting period EUR 82,000 of the trade receivables was expensed as doubtful and uncollectible (2011: EUR 229,000).

The Group's exposure to the credit and currency risks of receivables is disclosed in Note 26.

Note 10 PREPAYMENTS

As of 31 December

	In thousands of EUR	
	2012	2011
Prepaid expenses	4,366	6,179
Tax prepayments	785	908
Total prepayments	5,151	7,087

The balance of prepaid expenses includes mostly prepayments for insurance.

As of 31 December

	In thousands of EUR	
	2012	2011
Tax prepayments		
VAT	755	872
Salary-related taxes	0	20
Income tax	14	16
Prepaid excise duties	16	0
Total tax prepayments	785	908

Note 11 INVENTORIES

As of 31 December

	In thousands of EUR	
	2012	2011
Raw materials (mostly fuel)	4,430	4,652
Goods for sale	24,996	20,546
Total inventories	29,426	25,198

In 2012 the write-down of inventories amounted to EUR 72,000 (2011: EUR 117,000). The write-downs are included in cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of fuel price increases. At 31 December 2012 there were no derivative contracts for fuel outstanding. For more information see Note 26.

Note 12 INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

In December 2011 the share capital of AS Tallink Takso was increased by EUR 169,218. The change in share capital was registered in December 2011. AS Tallink Grupp's interest in AS Tallink Takso's equity remained 34%.

The Group has investments in the following equity-accounted investees:

As of 31 December 2012

Name of equity-accounted investee	Country of incorporation	Interest	Acquisition cost in thousands EUR	Equity in thousands EUR
AS Tallink Takso	Estonia	34%	1,343	720
Total			1,343	720

	In thousands of EUR	
	2012	2011
Investments at the beginning of financial year	226	214
Acquisition of shares	0	169
Share of profit/loss of equity-accounted investee	19	-157
Investments at the end of financial year	245	226

Key figures of equity-accounted investees

As of 31 December 2012, in thousands of EUR

Name of equity-accounted investee	Owner-ship (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/loss
AS Tallink Takso	34%	880	216	1,096	246	130	376	2,290	2,235	55

AS Tallink Takso's figures as of 31 December 2012 are unaudited.

As of 31 December 2011, In thousands of EUR

Name of equity-accounted investee	Owner-ship (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/loss
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AS Tallink Takso	34%	797	333	1,130	233	232	465	2,441	2,899	-458
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Note 13 OTHER FINANCIAL ASSETS

As of 31 December

	In thousands of EUR	
	2012	2011
Available-for-sale financial assets	211	177
Lease receivables	0	2,229
Other receivables	85	145
Total other financial assets	296	2,551

Note 14 INVESTMENT PROPERTY

	In thousands of EUR
Fair value at 31 December 2011	300
Fair value at 31 December 2012	300

The property belongs to Tallink Silja Oy. The Group acquired the property on the purchase of Silja Oy. The Group used the valuation of an independent valuer with relevant professional qualification and with recent experience in the location and category of the investment property being valued. The investment property does not give rise to any rental income or direct expenses.

Note 15 PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total	Note
Book value as of 31 August 2010	5,934	1,651,486	5,655	25	1,663,100	
Additions	195	6,066	6,349	22	12,632	
Exchange rate differences	88	0	7	0	95	
Disposals	0	-3,687	-28	0	-3,715	
Depreciation for the year	-2,043	-83,808	-3,259	0	-89,110	
Book value as of 31 December 2011	4,174	1,570,057	8,724	47	1,583,002	
Additions	2,901	2,404	5,583	399	11,287	
Exchange rate differences	106	0	0	0	106	
Disposals	0	-1,209	-5	0	-1,214	
Depreciation for the year	-1,528	-61,363	-3,295	0	-66,186	
Book value as of 31 December 2012	5,653	1,509,889	11,007	446	1,526,995	
As of 31 December 2011						
-gross carrying amount	9,625	1,651,873	25,069	47	1,686,614	
- accumulated depreciation	-5,451	-81,816	-16,345	0	-103,612	
As of 31 December 2012						
-gross carrying amount	12,632	1,648,993	28,756	446	1,690,827	
- accumulated depreciation	-6,979	-139,104	-17,749	0	-163,832	

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Assets held under finance leases

	In thousands of EUR	
	2012	2011
Book value at the beginning of the year	82	195
Depreciation for the year	-74	-113
Book value at the end of the year, incl.	8	82
- cost	372	372
- accumulated depreciation	-364	-290

The Group leases out ships under contracts, which are presented as finance leases. The future minimum lease payments under non-cancellable leases are as follows:

As of 31 December

In thousands of EUR

	2012	2011
< 1 year	0	1,034
1-5 years	0	2,229
Total	0	3,263

AS Tallink Grupp terminated Vana Tallinn's charter agreement, because the charterers failed to pay the charter hire and insure the vessel in accordance with their obligation.

Revaluation of ships

The Group used the valuations of two independent appraisers to determine the fair value of the ships. Fair value was determined by reference to market-based evidence. The frequency of revaluations depends on changes in fair values. When fair value differs materially from the carrying amount, further revaluation is performed. The latest revaluation of ships was performed as of 31 August 2010. As a result of the revaluations, the carrying amount of the Group's ships was increased by EUR 21,967,000, which was taken directly to the Group's equity and the carrying amount of the Group's ships was decreased by EUR 21,494,000 of which EUR 20,237,000 was taken directly from equity and the remaining EUR 1,257,000 was expensed as an impairment loss.

If the ships were measured using the cost model, the carrying amounts would be as follows:

31 December 2012	In thousands of EUR
Cost	1,821,103
Accumulated depreciation	-370,207
Net carrying amount	1,450,896
31 December 2011	In thousands of EUR
Cost	1,829,447
Accumulated depreciation	-321,100
Net carrying amount	1,508,347

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Due to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as of 31 December 2012 by EUR 2,717,000 (2011: EUR 3,101,000) and retained earnings were increased by the same amount.

As of 31 December 2012 the Group's ships with a book value of EUR 1,509,889 (2011: EUR 1,570,057,000) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 17).

Note 16 INTANGIBLE ASSETS

In thousands of EUR	Goodwill ¹	Trademark ²	Other ³	Total	Note
Book value as of 31 August 2010	11,066	46,138	9,496	66,700	
Additions	0	0	626	626	
Amortisation for the year	0	-3,888	-2,285	-6,173	
Book value as of 31 December 2011	11,066	42,250	7,837	61,153	
Additions	0	0	2,661	2,661	
Amortisation for the year	0	-2,916	-1,899	-4,815	
Book value as of 31 December 2012	11,066	39,334	8,599	58,999	
As of 31 December 2011					
- cost	11,066	58,288	20,171	89,525	
- accumulated amortisation	0	-16,038	-12,334	-28,372	
As of 31 December 2012					
- cost	11,066	58,288	22,743	92,097	
- accumulated amortisation	0	-18,954	-14,144	-33,098	

¹ Goodwill in the amount of EUR 11,066,000 is related to the Estonia-Finland route segment. In the impairment test of goodwill related to the Estonia-Finland routes, the recoverable amount was identified based on value in use. Management calculated value in use using the results and margins achieved in the 2012 financial year, a revenue growth rate of 0% p.a. and a discount rate of 6%. Five-year cash flow to perpetuity value was used.

² A trademark of EUR 58,288,000 was recognised in connection with the acquisition of Silja OY Ab. The fair value of the trademark at the acquisition date was determined using the relief from royalty method. For testing purposes the average revenue growth rate of 0%, royalty rate of 2.25% and discount rate of 6% were used.

³ Other intangible assets include the licences and development costs of IT programs of EUR 22,743,000. The licenses have finite lives and are amortised over 10 years. Amortisation of intangible assets is recorded in profit or loss under cost of sales, marketing expenses and administrative expenses.

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Note 17 INTEREST-BEARING LOANS AND BORROWINGS

As of 31 December

In thousands of EUR

2012

	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2013	4	0	4
Long-term bank loans	2013-2021	103,681	736,699	840,380
Total borrowings		103,685	736,699	840,384

As of 31 December

In thousands of EUR

2011

	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2012-2013	56	4	60
Long-term bank loans	2012-2021	145,205	814,301	959,506
Total borrowings		145,261	814,305	959,566

As of 31 December 2012 the Group had the right to use bank overdrafts of up to EUR 50,000,000 (2011: EUR 46,842,000). Bank overdrafts are secured with a commercial pledge of EUR 20,204,000 (2011: EUR 20,204,000) and mortgages on ships (see Note 15). In the year ended 31 December 2012 the average effective interest rate of bank overdrafts was EURIBOR + 2.15% (2011: EURIBOR + 2.3%). As of 31 December 2012 and 31 August 2011 the balance of overdrafts in use was EUR nil.

In the year ended 31 December 2012 the weighted average interest rate of the Group's variable rate bank loans was EURIBOR + 2.40 (2011: EURIBOR + 2.36%).

As of 31 December 2012 AS Tallink Grupp had given guarantees to HSH Nordbank AG, Nordea Bank Plc, Danske Bank A/S and HSBC Bank Plc. for loans of EUR 407,759,000 (2011: 776,989,000) granted to overseas subsidiaries.

Overseas subsidiaries have given guarantees to Nordea Bank Finland Plc for a loan granted to AS Tallink Grupp. As of 31 December 2012 the book value of the loan was EUR 432,621,000 (31 December 2011: EUR nil). Primary securities for the loan are the ships belonging to the overseas subsidiaries and a pledge of the shares in these subsidiaries.

AS Tallink Grupp has given a guarantee to HSH Nordbank AG for a loan granted to Tallink Silja Oy. As of 31 December 2012 the book value of the loan was EUR nil (31 December 2011: EUR 182,517,000). Primary securities for the loans are a pledge of the shares in Tallink Silja Oy and mortgages on several of the Group's ships.

The Group has issued counter guarantees to the commercial banks that have issued guarantees to several governmental authorities in favour of Group entities, required to perform the Group's daily operations. As of 31 December 2012 the total amount of the guarantees was EUR 3,514,000 (2011: EUR 3,506,000). The guarantees issued are not recognised in the statement of financial position as, according to historical experience, none of them has turned into an actual liability.

In loan agreements signed with banks, the Group has agreed to comply with financial covenants related to ensuring certain equity, liquidity and other ratios. As of 31 December 2012 the Group was in compliance with all financial covenants.

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Note 18 TRADE AND OTHER PAYABLES

As of 31 December	In thousands of EUR	
	2012	2011
Trade payables	45,977	42,402
Other payables	572	726
Payables to employees	17,820	19,642
Interest payable	3,180	5,788
Tax liabilities	15,487	11,728
Other accruals	9,952	6,507
Total trade and other payables	92,988	86,793

The Group's exposure to currency and liquidity risks is disclosed in Note 26.

As of 31 December	In thousands of EUR	
	2012	2011
Tax liabilities		
Salary-related taxes	10,849	8,145
Excise duties	2,099	1,138
VAT	2,531	2,429
Income tax	6	0
Other taxes	2	16
Total tax liabilities	15,487	11,728

Note 19 DEFERRED INCOME

As of 31 December	In thousands of EUR	
	2012	2011
Club One points	12,769	13,817
Prepaid revenue	12,689	11,409
Total deferred income	25,458	25,226

The Group measures the liability for outstanding Club One points in combination of the value of its services and the averages of the Club One points used to redeem the services, taking into account the pattern of use of the points by the customers and the expiry rates of the points. The calculations are performed for each segment.

Note 20 OTHER LIABILITIES

As of 31 December	In thousands of EUR	
	2012	2011
Broker fee liability	0	129
Other	69	69
Total other liabilities	69	198

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Note 21 SHARE CAPITAL AND RESERVES

As of 31 December

	2012	2011
The number of shares issued and fully paid (in thousands)	673,817	673,817
Total number of shares of EUR 0.60 each (in thousands)	673,817	673,817

As of 31 December

	In thousands of EUR	
	2012	2011
Share capital (authorised and registered)	404,290	404,290
Total share capital	404,290	404,290
Share premium	639	639
Total share premium	639	639

According to the articles of association of the Parent effective as from 8 February 2011, the maximum number of common shares is 2,133,333,333. Each share grants one vote at the shareholders' general meeting. Shares acquired by the transfer of ownership are eligible for participating in and voting at a general meeting only if the ownership change is recorded in the Estonian Central Registry of Securities at the time used to determine the list of shareholders for the given shareholders' general meeting.

Common shares grant their holders all the rights provided for under the Estonian Commercial Code – the right to participate in the general meeting, the distribution of profits, and the distribution of residual assets upon the dissolution of the company; the right to receive information from the Management Board about the activities of the Company; a pre-emptive right to subscribe for new shares in proportion to the sum of the par values of the shares already held when share capital is increased, etc.

In relation to the adoption of the euro in Estonia, on 8 February 2011 the annual general meeting decided to decrease share capital. As a result, retained earnings were increased; no distributions were made to shareholders. On 7 March 2011 the change in share capital was registered in the Commercial Register. The registered share capital of AS Tallink Grupp amounts to EUR 404,290,000, the number of shares is 673,817,000 and the nominal value of a share is EUR 0.60.

Reserves

As of 31 December

	In thousands of EUR	
	2012	2011
Translation reserve	-102	461
Ships' revaluation reserve	58,993	61,710
Mandatory legal reserve	13,836	11,962
Reserve for treasury shares	-4,163	-4,163
Share option programme reserve (Note 22)	527	527
Total reserves	69,091	70,497

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Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Ships' revaluation reserve

The revaluation reserve relates to the revaluation of ships. The ships' revaluation reserve may be transferred directly to retained earnings when the ship is disposed of. However, some of the revaluation surplus may be transferred when the ship is used by the Group. In such a case, the amount of surplus transferred is the difference between depreciation based on the revalued carrying amount of the ship and depreciation based on the original cost of the ship. The Group uses the latter alternative.

Mandatory legal reserve

The mandatory legal reserve has been formed in accordance with the Estonian Commercial Code. The mandatory legal reserve is formed by means of yearly net profit transfers. At least 1/20 of net profit must be transferred to the mandatory legal reserve, until the reserve amounts to 1/10 of share capital. The mandatory legal reserve may be used to cover losses and to increase share capital but it may not be used for making distributions to owners.

Reserve for treasury shares

Reserve for treasury shares comprises the cost of the AS Tallink Grupp's shares held by the Group. At 31 December 2012 the Group held 3,935,000 of the AS Tallink Grupp's shares (2011: 3,935,000 shares).

Share option programme reserve

The share option programme reserve comprises the fair value of the share option programme measured at the grant date.

Note 22 SHARE OPTION PROGRAMME

In December 2012 the Group issued 7,610,000 share options (June 2011: 7,317,500) of which 3,850,000 (2011: 3,510,000) to the Management Board and Supervisory Council and 3,760,000 (2011: 3,807,500) to other Group employees. Each option gives right to purchase one share of AS Tallink Grupp. The share options were issued in accordance of the Share Option Programme on which a resolution was adopted at the shareholders' general meeting on 8 February 2011. The options issued represent around 51% (2011: 49%) of the total authorized limit and 1.1% (2011: 1.1%) of the total shares outstanding. The terms and conditions of the issued share options are the following: exercisable not earlier than 36 months from issue or 21 December 2015 and not later than 21 June 2016; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case of existing shares purchased from the market; the options are to be settled by physical delivery of shares (2011: exercisable not earlier than 36 months from issue or 31 May 2014 and not later than 30 November 2014; exercise price EUR 0.858 in the case of new shares issued or average acquisition cost in the case existing shares purchased from the market; the options are to be settled by physical delivery of shares).

The fair value of the services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model as of the grant date. The Group used an independent external advisor for the valuation of the share options. In addition to the terms and conditions of the share options the following inputs were used: spot price of 0.848 at 20 December 2012; expected volatility of 30% based on historical analysis; the options' average time to maturity which was 42 months; effective dividend yield of 3.5% (based on the equity analysts' consensus) and a risk-free interest rate of 0.336%.

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Share option programme

	Key Management Personnel	Senior Employees	Key Management Personnel	Senior Employees
	2012	2012	2011	2011
Fair value at grant date (EUR)	0.125	0.125	0.072	0.072
Share price at grant date (EUR)	0.848	0.848	0.72	0.72
Exercise price (EUR)	0.858	0.858	0.858	0.858
Expected volatility (%)	30	30	30	30
Expected life (months)	42	42	42	42
Expected dividend yield (%)	3.5	3.5	3.4-8.1	3.4-8.1
Risk-free interest rate (%)	0.336	0.336	1.411	1.411

	Number of options	Weighted average exercise price
Outstanding at 01 September 2010	0	
Granted during the year	7,317,500	0.858
Outstanding at 31 December 2011	7,317,500	0.858
Exercisable at 31 December 2011	7,317,500	0.858
Outstanding at 1 January 2012	7,317,500	0.858
Granted during the year	7,610,000	0.858
Outstanding at 31 December 2012	14,927,500	0.858
Exercisable at 31 December 2012	14,927,500	0.858

At 31 December 2012 14,927,500 (2011: 7,317,500) share options were valid and outstanding. The average remaining time to maturity of the outstanding share options is 17-42 months. The following table summarises information about options outstanding at 31 December 2012:

	Outstanding options	Average remaining time to maturity (months)	Exercise price
Options issued 2011	7,317,500	17-23	0.858
Options issued 2012	7,610,000	36-42	0.858

The total expense charged for the services

	In thousands of EUR	
	2012	2011
Options issued 2011 ¹	0	527
Options issued 2012 ²	0	0

¹ The value of options issued in 2011 of EUR 527,000 was recorded as an expense, because the options did not have vesting conditions

² The value of options issued at the end of 2012 of EUR 951,000 will be recorded as an expense during the vesting period of 36 months from the beginning of 2013.

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The outstanding share options are non-dilutive due to their exercise price being higher than the average price in the stock market during the period. The average price in the stock market in the 2012 financial year was EUR 0.65 (2011: EUR 0.71).

Note 23 CONTINGENCIES AND COMMITMENTS

Legal claims

On 30 June 2005 AS Tallink Grupp and AS Hansatee Cargo filed complaints with Tallinn Administrative Court against the Estonian Maritime Administration and the Ministry of Transport and Communications, claiming for the amount of unlawfully collected and paid lighthouse and ice breaking dues. The total amount of AS Tallink Grupp's claim is EUR 1,256,000 and that of AS Hansatee Cargo is EUR 754,000. Tallinn Administrative Court did not satisfy the claims by its ruling of 20 October 2008.

AS Tallink Grupp and AS Hansatee Cargo filed an appeal but Tallinn Circuit Court did not satisfy it by its ruling of 30 June 2009. The Group filed a cassation appeal to the Supreme Court but the latter decided not to accept it by its regulation of 25 November 2009. On 18 May 2010 AS Tallink Grupp and AS Hansatee Cargo filed an appeal to the European Court of Human Rights. So far the appeal has not been ruled upon. The receivable has not been recognised in the financial statements.

AS Tallink Grupp, AS Hansatee Cargo and Tallink Silja OY filed a complaint with Helsinki District Court for recovery of harbour fees for the years 2001 until 2004. The total amount claimed is EUR 34,170,000 (of which AS Tallink Grupp's claim is EUR 13,163,000, AS Hansatee Cargo's claim is EUR 419,000 and Tallink Silja Oy's claim is EUR 20,588,000). The basis for the claim is that the Finnish state applied and demanded from the ships of EU member states incorrect harbour fees. The case has not been heard in court.

The receivable has not been recognised in the financial statements.

Key Management Personnel's termination benefits

Some members of the Key Management Personnel are entitled to termination benefits. At 31 December 2012 the maximum amount of such benefits was EUR 3,026,000 (EUR 760,000 in 2011). The Group has no formal plan for termination of service agreements with the Key Management Personnel.

Income tax on dividends

The Group's retained earnings as of 31 December 2012 were EUR 286,810,000 (2011: EUR 229,665,000). At 31 December 2012, the maximum income tax liability which would arise if retained earnings were fully distributed was EUR 60,230,000 (2011: EUR 48,230,000). The maximum income tax liability has been calculated using the income tax rate effective for dividends on the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as of 31 December 2012 (2011: 31 December 2011).

Non-cancellable operating leases

The Group as the lessee

The Group leases five hotel buildings under operating leases. The leases typically run for a period of ten years, with an option to renew the lease. Some lease payments are increased every year and some leases provide for additional rental payments that are based on the result of hotel operations. The non-cancellable lease payments from 1 January 2012 to 31 December 2012 were EUR 12,793,000 (2011: EUR 16,578,000).

In January 2008 the Group concluded a non-cancellable lease agreement with OÜ Fastinvest on an office building in Tallinn. The lease period of 10 years started in March 2009. The annual non-cancellable lease

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payment from 1 January 2012 to 31 December 2012 was EUR 931,000 (2011: EUR 1,174,000). From January 2013 the lessor has the right to increase lease payments by up to 6% per year.

In April 2011 the Group concluded a non-cancellable lease agreement with OY Hartela regarding an office building in Helsinki. The lease period of 10 years started in September 2011. The annual non-cancellable lease payment from 1 January 2012 to 31 December 2012 was EUR 724,000 (2011: EUR 241,000).

Minimum non-cancellable operating lease payments are as follows:

As of 31 December

In thousands of EUR

	2012	2011
< 1 year	13,654	13,456
1-5 years	55,823	60,448
>5 years	21,778	30,992
Total	91,255	104,896

The Group as the lessor

The Group's charter income from 1 January to 31 December 2012 was EUR 28,959,000 (2011: EUR 25,558,000).

Non-cancellable minimum charter payments are as follows:

As of 31 December

In thousands of EUR

	2012	2011
< 1 year	18,534	25,651
1-5 years	9,067	27,362
Total	27,601	53,013

Note 24 RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are related if one controls the other or exerts significant influence on the other party's operating decisions. The Group has transactions and balances with the following related parties:

a) The companies controlled by the Key Management Personnel

The Key Management Personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

b) Associated companies

The Key Management Personnel are members of the Group's Supervisory Council and Management Board.

The Group has entered into the following transactions with related parties and has the following balances with related parties.

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For the year ended 31 December

In thousands of EUR

	Relation- ship	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
2012					
AS Infortar - services	a	71	47	10	0
AS HT Valuuta - services	a	117	0	0	0
AS Vara HTG - leases	a	0	2,647	0	729
OÜ Sunbeam - leases	a	0	3,511	0	225
OÜ Topspa Kinnisvara - leases	a	0	2,507	0	0
OÜ Mersok - leases	a	0	9	0	0
OÜ Hansa Hotell - leases	a	0	828	0	33
OÜ Fastinvest - leases	a	0	1,121	0	0
SIA Happy Trails - leases	a	6	3,267	1	147
AS Vaba Maa - services	a	12	720	2	45
AS Gastrolink - goods	a	2	1,002	0	70
Eesti Laevaomanike Liit (Estonian Ship-owners' Association) - membership fee	a	0	13	0	0
AS Tallink Takso - services	b	0	83	0	7
SEB Tallink Tennis Team - services	a	6	50	0	0
2011					
AS Infortar - services	a	47	87	6	0
AS HT Valuuta - services	a	178	0	1	0
AS Vara HTG - leases	a	0	4,071	0	946
OÜ Sunbeam - leases	a	0	4,403	0	170
OÜ Topspa Kinnisvara - leases	a	0	3,241	0	0
OÜ Mersok - leases	a	0	12	0	0
OÜ Hansa Hotell - leases	a	0	1,031	0	0
OÜ Fastinvest - leases	a	0	1,412	0	0
SIA Happy Trails - leases	a	9	4,220	1	35
AS Vaba Maa - services	a	12	1,491	1	137
AS Gastrolink - goods	a	1	1,269	0	26
Eesti Laevaomanike Liit (Estonian Ship-owners' Association) - membership fee	a	0	13	0	0
AS Tallink Takso - services	b	0	119	0	13
SEB Tallink Tennis Team - services	a	0	10	0	0

Key Management Personnel's compensation

AS Tallink Grupp's members of the Management Board and members of the Supervisory Council are defined as the Key Management Personnel.

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The Key Management Personnel's compensation was as follows:

For the year ended 31 December

In thousands of EUR

	2012	2011
Short-term benefits	1,442	1,444
Share-based payments	481	253
Total	1,923	1,697

Some members of the Key Management Personnel are entitled to termination benefits. At 31 December 2012 the maximum amount of such benefits was EUR 3,026,000 (31 December 2011: EUR 760,000).

Note 25 GROUP ENTITIES

Group entities	Interest as of 31 December 2012	Interest as of 31 December 2011	Country of incorporation	Parent company
OÜ Hansaliin	100%	100%	Estonia	AS Tallink Grupp
OÜ Hansatee Kinnisvara	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Duty Free	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Laevateenindus	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Meelelahutus	100%	100%	Estonia	AS Tallink Grupp
AS Tallink	100%	100%	Estonia	AS Tallink Grupp
AS Hansatee Cargo	100%	100%	Estonia	AS Tallink Grupp
OÜ TLG Hotell	100%	100%	Estonia	AS Tallink Grupp
OÜ Tallink Travel Club	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Baltic	100%	100%	Estonia	AS Tallink Grupp
OÜ Mare Pharmaci	100%	100%	Estonia	AS Tallink Grupp
AS HTG Invest	100%	100%	Estonia	AS Tallink Grupp
Tallink Finland OY	100%	100%	Finland	AS Tallink Grupp
Tallink Latvija AS	100%	100%	Latvia	AS Tallink Grupp
Kapella Shipping Ltd ¹	0%	100%	Bahamas	AS Tallink Grupp
Tallink Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn-Helsinki Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Vana Tallinn Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Fast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Swedish Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Victory Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Hansalink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Autoexpress Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink High Speed Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Sea Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Superfast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VIII Ltd	100%	100%	Cyprus	AS Tallink Grupp

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Baltic SF IX Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Hansaway Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink-Ru OOO	100%	100%	Russia	AS Tallink Grupp
HTG Stevedoring Oy	100%	100%	Finland	AS Tallink Grupp
Ingleby (1699) Ltd.	100%	100%	UK	AS Tallink Grupp
OÜ HT Hulgi Tolliladu	100%	100%	Estonia	AS Tallink Duty Free
AS Tallink Scandinavian	100%	100%	Estonia	AS Tallink Grupp
Tallink Silja Oy	100%	100%	Finland	AS Tallink Scandinavian
Sally AB	100%	100%	Finland	Tallink Silja Oy
Tallink Silja AB	100%	100%	Sweden	AS Tallink Grupp
Silja Line Gmbh	100%	100%	Germany	Tallink Silja Oy Ab
OÜ Hera Salongid	100%	100%	Estonia	OÜ TLG Hotell
SIA HT Shipmanagement	100%	100%	Latvia	OÜ HT Laevateenindus
SIA TLG Hotel Latvija	100%	100%	Latvia	OÜ TLG Hotell

¹ In August 2012 Kapella Shipping was sold. For more information see Note 5.

Note 26 FINANCIAL RISK MANAGEMENT

Overview

Through use of financial instruments the Group is exposed to the following risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial department is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss that the Group would suffer if the counterparty failed to perform its financial obligations, and arises principally from the Group's receivables from customers and cash. The credit risk concentration related to accounts receivable is reduced due to the high number of customers.

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At the reporting date, the maximum credit risk was as follows:

As of 31 December

	In thousands of EUR	
	2012	2011
Available-for-sale financial assets	211	177
Cash and cash equivalents	65,600	75,421
Receivables	42,640	37,526
Total	108,451	113,124

The Group's exposure to credit risk is mainly influenced by the characteristics of each customer. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are individuals or legal entities, whether they are travel agents or customers with credit limits, and considering their geographic location, receivable aging profile, maturity and existence of previous financial difficulties. Trade receivables relate mainly to travel agents and customers with credit facilities. The credit risk concentration related to trade receivables is reduced by the high number of customers.

The Group's management has established a credit policy under which each new customer with a credit request is analysed individually for creditworthiness before the Group's payment terms and conditions are offered. Some customers are obliged to present a bank guarantee to meet the credit sale criteria. Customers are assigned credit limits, which represent the maximum exposure that does not require approval from the Group's management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only.

The Group establishes an allowance for impairment that represents its estimate of losses incurred on trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to trade receivables (individually significant exposures) and a collective loss component (established for groups of similar assets in respect of losses that have been incurred but not yet identified).

The aging of trade receivables at the reporting date was:

As of 31 December

Impairment losses	In thousands of EUR	
	2012	2012
	Gross	Impairment
Not past due	35,182	0
Past due 0-30 days	6,005	0
Past due 31-90 days	1,165	-162
Past due 91 days - one year	249	-47
Past due over one year	718	-470
Total	43,319	-679

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As of 31 December

Impairment losses

	In thousands of EUR	
	2011 Gross	2011 Impairment
Not past due	31,499	0
Past due 0-30 days	2,064	0
Past due 31-90 days	3,547	0
Past due 91 days - one year	1,125	-720
Past due over one year	728	-717
Total	38,963	-1,437

Movements in the impairment allowance for trade receivables:

	In thousands of EUR	
	2012	2011
Balance at 31 December and 31 August	1,437	1,298
Amounts written off	-840	-90
Impairment loss recognised	82	229
Balance at 31 December	679	1,437

Financial derivatives with a positive fair value for the Company, taking into account legal netting agreements (ISDA agreements), also represent a credit risk. Credit risk arising from financial transactions is reduced through diversification and accepting counterparties with high credit ratings only.

The Group holds cash and cash equivalents with banking groups that have investment grade credit ratings.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Groups' reputation.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans, bonds and debentures. The Group has established Group account systems (the Group's cash pools) in Estonia, Finland, Sweden and Latvia to manage the cash flows in the Group as efficiently as possible. Excess liquidity is invested in short-term money market instruments. AS Tallink Grupp maintains three committed bank overdraft facilities to minimize the Group's liquidity risk (see Note 17 for details).

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The following tables illustrate liquidity risk by periods when cash flows will fall due or may fall due on financial liabilities outstanding as of 31 December:

In thousands of EUR

2012	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Finance lease liabilities	-4	0	0	0	-4
Trade and other payables	-56,501	0	0	0	-56,501
Secured bank loan repayments	-106,411	-106,411	-519,232	-123,360	-855,414
Interest payments ⁽¹⁾	-28,381	-24,670	-59,399	-6,968	-119,418
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-4,898	-3,971	-5,613	-1,226	-15,708
Total	-196,195	-135,052	-584,244	-131,554	-1,047,045
2011	< 1 year	1-2 years	2-5 years	>5 years	Total
Non-derivative financial liabilities					
Finance lease liabilities	-56	-4	0	0	-60
Trade and other payables	-49,635	0	0	0	-49,635
Secured bank loan repayments	-148,147	-231,560	-419,346	-174,208	-973,261
Interest payments ⁽¹⁾	-30,993	-29,224	-53,897	-15,594	-129,708
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-3,969	-2,889	-3,789	-1,110	-11,757
Total	-232,800	-263,677	-477,032	-190,912	-1,164,421

⁽¹⁾ – expected, based on the interest rates and interest rate forward curves

⁽²⁾ – net cash flow, expected, based on the interest rates and interest rate forward curves

Guarantees issued are not recognised in the statement of financial position as, according to historical experience, none of them has turned into an actual liability.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Groups' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

Currency risk

The Group is exposed to exchange rate risk arising from revenues and operating expenses in foreign currencies, mainly in the US dollar (USD), the Swedish krona (SEK) and the Latvian lats (LVL). Exposure to USD results from the purchase of ship fuel and insurance and exposure to SEK and LVL arises from the fact as these are the operational currencies on some routes. The Latvian lats is the national currency of an EU member state whose exchange rate is fixed by the central bank of Latvia and is pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by the law. The impact of the fluctuation of the Swedish krona is considered immaterial to the financial statements.

The Group seeks to minimize currency risk by matching foreign currency inflows with outflows.

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The following tables present the Group's net currency risk exposure:

As of 31 December

In thousands of EUR

2012	EUR	USD	SEK	LVL	Other	Total
Cash and cash equivalents	53,039	36	10,746	1,422	357	65,600
Trade receivables, net of allowance	25,847	0	1,407	150	438	27,842
Other financial assets	5,962	0	8,836	0	0	14,798
	84,848	36	20,989	1,572	795	108,240
Current portion of borrowings	-103,681	0	0	0	0	-103,681
Trade payables	-34,373	-153	-10,586	-546	-319	-45,977
Other current payables	-20,725	0	-10,005	-786	-8	-31,524
Derivatives	-22,102	0	0	0	0	-22,102
Non-current portion of borrowings and other liabilities	-736,699	0	-69	0	0	-736,768
	-917,580	-153	-20,660	-1,332	-327	-940,052
Net currency risk exposure, EUR	-832,732	-117	329	240	468	-831,812

As of 31 December

In thousands of EUR

2011	EUR	USD	SEK	LVL	Other	Total
Cash and cash equivalents	71,282	21	3,014	795	309	75,421
Trade receivables, net of allowance	21,006	0	1,238	87	490	22,821
Other financial assets	11,863	0	2,842	0	0	14,705
	104,151	21	7,094	882	799	112,947
Current portion of borrowings	-145,261	0	0	0	0	-145,261
Trade payables	-29,112	-207	-12,441	-555	-87	-42,402
Other current payables	-31,926	0	0	-737	0	-32,663
Derivatives	-22,668	0	0	0	0	-22,668
Non-current portion of borrowings	-814,434	0	-69	0	0	-814,503
	-1,043,401	-207	-12,510	-1,292	-87	-1,057,497
Net currency risk exposure, EUR	-939,250	-186	-5,416	-410	712	-944,550

Interest rate risk

The Group is exposed to interest rate risk through funding and cash management activities. The interest rate risk – the possibility that the future cash flows from a financial instrument (cash flow risk) will change due to movements in market interest rates – applies mainly to bank loans. There are no material interest rate risks related to the assets of the Group.

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At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

As of 31 December

	In thousands of EUR	
	2012	2011
Fixed rate financial liabilities	55,803	71,036
Variable rate financial liabilities	784,581	888,530
Total	840,384	959,566

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2011.

As of 31 December

	In thousands of EUR	
	2012	2011
100 basis point increase	-7,846	-8,885
100 basis point decrease	7,846	8,885

The objective for the Group's interest rate risk management is to minimize interest expense and at the same time to optimize the volatility of future interest payments.

The Group uses interest rate derivatives to manage the interest rate risk of the debt portfolio. This typically involves swapping the variable interest rate for the fixed interest rate. Derivatives used include mainly interest rate swaps and interest rate options or their combinations.

The tables below show the expected cash flow from interest rate derivatives and their sensitivity to the change of 100 basis points in interest rates as an increase or a decrease in profit and equity.

As of 31 December

In thousands of EUR

2012	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-4,898	-3,971	-5,613	-1,226	-15,708
100 basis point increase	2,000	1,750	3,000	1,250	8,000
100 basis point decrease	-2,000	-1,750	-3,000	-1,250	-8,000

As of 31 December

In thousands of EUR

2011	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected	-3,969	-2,889	-3,789	-1,110	-11,757
100 basis point increase	1,999	1,999	3,479	2,221	9,698
100 basis point decrease	-2,001	-2,001	-3,483	-2,223	-9,708

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A 10 percent strengthening of the euro against the following currencies at the end of the financial year would have increased (decreased) profit or loss and equity by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2011.

As of 31 December

In thousand EUR

	2012 Profit or loss	2011 Profit or loss
USD	12	-19
SEK	-33	-542
LVL	-24	-41
Other	-47	71

Fair values of financial instruments

In the opinion of the Group's management there are no significant differences between the carrying values and fair values of financial assets and liabilities. The fair value for derivatives has been determined based on accepted valuation methods.

Hedge activities

All derivative financial instruments are recognised as assets or liabilities. They are stated at fair value regardless of their purpose. Many transactions constitute economic hedges but do not qualify for hedge accounting under IAS 39. Changes in the fair value of these derivative financial instruments are recognised directly in profit or loss: fair value changes on forward exchange contracts and currency options are recorded in exchange gains and losses and those on interest rate swaps and interest rate options in interest income and expense.

Where the effectiveness of the hedge relationship in a cash flow hedge is demonstrated, changes in fair value are recognised in other comprehensive income and included in the hedging reserve in shareholders' equity. They are released to match actual payments on the hedged item.

The fair values of hedged transactions at the end of the year were as follows:

As of 31 December

In thousands of EUR

	Hierarchy ⁽¹⁾	Maturity	2012		2011	
			Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 2	2014	100,000	-3,164	100,000	-4,347
Interest rate swap	Level 2	2019	100,000	-17,637	100,000	-15,291
Interest rate swap	Level 2	2018	70,000	-1,301	70,000	-3,030
Total derivatives with negative value				-22,102		-22,668

⁽¹⁾Fair value hierarchy and methodology

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all derivative financial instruments have been determined by an independent valuer with relevant professional qualifications and experience.

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The notes on pages 31 to 86 are an integral part of these consolidated financial statements.

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Capital Management

The Group considers total shareholders' equity as capital. As of 31 December 2012 the shareholders' equity was EUR 760,830,000 (2011: EUR 705,901,000). The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group has made significant investments in the recent past where strong shareholders' equity has been a major supporting factor for the investments. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

At the annual general meeting held on 8 February 2011, management introduced the strategic target of reaching the optimal debt level which would allow the Group to start paying dividends. In management's opinion, a comfortable level for the Group's equity ratio is between 40% and 50% and for the net debt to EBITDA ratio an indicator below 5.

The Group may purchase its own shares on the market; the timing of these purchases may depend on the market prices, the Group's liquidity position and business outlook. Additionally, legal factors may limit the timing of such decisions. Primarily the repurchased shares are intended to be cancelled or they may be used for issuing shares under the Group's share option programme. Currently the Group does not have a defined share buyback plan.

Note 27 SUBSEQUENT EVENTS

In April 2013 Hansalink Limited, a subsidiary of AS Tallink Grupp, and Viking Line ABP came to an agreement about the purchase of M/S Isabella. The transaction and the delivery of the vessel are scheduled to be completed during April 2013.

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**Note 28 PRIMARY FINANCIAL STATEMENTS OF THE PARENT
STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Continuing operations		
Revenue	415,715	496,348
Cost of sales	-335,617	-402,981
Gross profit	80,098	93,367
Marketing expenses	-23,845	-28,982
Administrative expenses	-15,690	-17,287
Other operating income	296	198
Other operating expenses	-42	-1,311
Results from operating activities	40,817	45,985
Finance income	4,601	3,155
Finance costs	-37,081	-56,176
Dividends received from subsidiaries	358	0
Profit from subsidiaries	1,988	0
Share of profit/loss of equity-accounted investees	19	-157
Net profit/loss from continuing operations	10,702	-7,193
Profit/loss from discontinued operations	0	-20,970
Net profit/loss for the period	10,702	-28,163
Other comprehensive income/expense		
Cash flow hedges	0	-705
Other comprehensive income/expense for the period	0	-705
Total comprehensive income/expense for the period	10,702	-28,868

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STATEMENT OF FINANCIAL POSITION

As of 31 December	In thousands of EUR	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	17,585	46,541
Receivables from subsidiaries	281,351	87,395
Receivables and prepayments	18,004	16,391
Tax assets	63	30
Inventories	9,932	9,242
	326,935	159,599
Non-current assets		
Investments in subsidiaries	225,267	148,780
Receivables from subsidiaries	392,464	135,645
Investments in equity-accounted investees	245	226
Other financial assets and prepayments	58	24
Property, plant and equipment	360,026	407,082
Intangible assets	8,419	7,547
	986,479	699,304
TOTAL ASSETS	1,313,414	858,903
LIABILITIES AND EQUITY		
Current liabilities		
Interest-bearing loans and borrowings	92,536	41,435
Payables and deferred income	190,414	137,367
Derivatives	22,102	22,668
Tax liabilities	2,841	2,699
	307,893	204,169
Non-current liabilities		
Interest-bearing loans and borrowings	747,531	407,446
	747,531	407,446
Total liabilities	1,055,424	611,615
Equity		
Share capital	404,290	404,290
Share premium	639	639
Reserves	10,200	8,326
Retained earnings	-157,139	-165,967
	257,990	247,288
TOTAL LIABILITIES AND EQUITY	1,313,414	858,903

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Signatures/Allkirjad.....

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STATEMENT OF CASH FLOWS

For the year ended 31 December

	In thousands of EUR	
	2012	2011
Cash flows used in/from operating activities		
Net profit/loss for the financial year	10,702	-28,163
Adjustments	87,849	119,808
Depreciation	50,122	88,812
Net interest expense	33,394	66,160
Income from subsidiaries	-1,988	0
Net gain/loss on disposals of tangible and intangible assets	2	-25,041
Other adjustments	6,319	-10,123
Changes in receivables related to operating activities	-534,940	-75,039
Change in inventories	-690	-1,068
Changes in liabilities related to operating activities	43,183	24,334
	-393,896	39,872
Cash flows used in investing activities		
Purchase of property, plant, equipment and intangible assets	-3,940	-1,323
Acquisition of subsidiaries	-60,000	0
Acquisition of equity-accounted investees	0	-169
Acquisition of other companies	-34	-5
Proceeds from sale of a subsidiary	1,992	0
Proceeds from/payments for settlement of derivatives	-3,976	-7,236
Interest received	45	265
	-65,913	-8,468
Cash flows from/used in financing activities		
Proceeds from loans	440,000	0
Interest paid	-1,768	-2,027
Payment of transactions costs related to loans	-7,379	0
	430,853	-2,027
TOTAL NET CASH FLOW	-28,956	29,377
Cash and cash equivalents:		
- at the beginning of period	46,541	17,164
- increase / decrease	-28,956	29,377
- at the end of period	17,585	46,541

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

In thousands of EUR

	Share capital	Share premium	Cash flow hedge reserve	Mandatory legal reserve	Reserve for treasury shares	Share option programme reserve	Retained earnings	Total equity
As of 31 August 2010	430,648	639	705	10,869	-4,163	0	-163,069	275,629
Net loss from cash flow hedges	0	0	-705	0	0	0	0	-705
Net loss for financial year 2010/2011	0	0	0	0	0	0	-28,163	-28,163
Allocation of profit for 2009/2010	0	0	0	1,093	0	0	-1,093	0
Decrease of share capital	-26,358	0	0	0	0	0	26,358	0
Contributions by and distributions to owners of the Company	0	0	0	0	0	527	0	527
As of 31 December 2011	404,290	639	0	11,962	-4,163	527	-165,967	247,288
Net profit for financial year 2012	0	0	0	0	0	0	10,702	10,702
Allocation of profit for 2010/2011	0	0	0	1,874	0	0	-1,874	0
As of 31 December 2012	404,290	639	0	13,836	-4,163	527	-157,139	257,990

Unconsolidated equity at 31 December

Interests under control and significant influence:

-carrying amount

-carrying amount under the equity method

Adjusted unconsolidated equity at 31 December

	2012	2011
Unconsolidated equity at 31 December	257,990	247,288
-carrying amount	-225,512	-149,006
-carrying amount under the equity method	728,352	606,809
Adjusted unconsolidated equity at 31 December	760,830	705,091

The notes on pages 31 to 86 are an integral part of these consolidated financial statements.

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Independent Auditors' Report

To the shareholders of AS Tallink Grupp

We have audited the accompanying consolidated financial statements of Tallink Grupp AS ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 26 to 86.

Management's Responsibility for the Financial Statements

Management 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 18 April 2013

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Licence No 17
Narva mnt. 5
Tallinn 10117

Andres Root
Authorized Public Accountant, No 9

PROFIT ALLOCATION PROPOSAL

The Management Board of AS Tallink Grupp proposes that the net profit for the financial year 1 January 2012 – 31 December 2012 of EUR 56,302,000 be allocated as follows:

- A transfer of EUR 2,815,100 to the mandatory legal reserve
- A dividend distribution of EUR 0.05 per share, i.e. EUR 33,494,102 in aggregate
- A transfer of EUR 19,992,798 to retained earnings



Chairman of the Management Board
Enn Pant



Vice Chairman of the Management Board
Andres Hunt



Member of the Management Board
Lembit Kitter



Member of the Management Board
Janek Stalmeister



Member of the Management Board
Peter Roose



Member of the Management Board
Kadri Land

Tallinn, 18.04.2013

SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL TO THE ANNUAL REPORT

The management board of AS Tallink Grupp has prepared the consolidated financial statements for the year 2012. The supervisory council of AS Tallink Grupp has reviewed the annual report of AS Tallink Grupp for the financial year 2012 and has approved it for presentation to the shareholders' general meeting. This annual report is signed by all members of the management board and supervisory council.

Chairman of the Supervisory Council

Toivo Ninnas

Date: 19. 04. 2013

Member of the Supervisory Council

Eve Pant

Date: 19. 04. 2013

Member of the Supervisory Council

Ashwin Roy

Date: 19. 04. 2013

Chairman of the Management Board

Enn Pant

Date: 19. 04. 2013

Member of the Management Board

Lembit Kitter

Date: 19. 04. 2013

Member of the Management Board

Peter Roose

Date: 19. 04. 2013

Member of the Supervisory Council

Ain Hanschmidt

Date: 19. 04. 2013

Member of the Supervisory Council

Lauri Kustaa Aima

Date: 19. 04. 2013

Member of the Supervisory Council

Kalev Järvelill

Date: 19. 04. 2013

Vice Chairman of the Management Board

Andres Hunt

Date: 19. 04. 2013

Member of the Management Board

Janek Stalmeister

Date: 19. 04. 2013

Member of the Management Board

Kadri Land

Date: 19. 04. 2013