

PORT OF  TALLINN

**Consolidated Report for the
6 Months Ended on 30 June 2016**

Translation of the Estonian Original

PORT OF TALLINN

(AS Tallinna Sadam)

**AS TALLINNA SADAM
(PORT OF TALLINN)****CONSOLIDATED REPORT 6 MONTHS 2016**

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|------------------------------------|---|
| Commercial Registry no. | 10137319 |
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| Beginning of financial year | 1 January |
| End of financial year | 31 December |
| Legal form | Limited company (AS) |
| Auditor | AS Deloitte Audit Eesti |

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MANAGEMENT REPORT

1. COMPANY OVERVIEW

AS Tallinna Sadam is Estonia's largest complex of cargo and passenger harbours. All harbours are navigable round the year, well accessible and with sufficient depth, ready to receive all vessels passing through the Danish Straits.

The principal business of AS Tallinna Sadam as the Group's parent undertaking is provision of port services as a landlord-type port responsible for infrastructure management and development as well as arrangement of vessel traffic in the port area. The parent company is the owner of five harbours: Old City harbour located in the centre of Tallinn and known as a passenger harbour together with Old City Marina for yachts opened in 2010; the former cargo harbour, currently a harbour servicing mostly ship repair companies, in Paljassaare; the largest cargo harbour of Estonia in Muuga; the cargo and passenger harbour in Paldiski (Paldiski South Harbour); and the harbour in Saaremaa, meant mostly for receiving cruise liners.

At the end of 2012, AS Tallinna Sadam entered a new business sector – a multi-functional icebreaking vessel was purchased at a secondary market. Since the beginning of 2013 icebreaker Botnica has been used under a 10-year contract for rendering icebreaking services to the state of Estonia for Estonian ports in the Gulf of Finland. Outside the icebreaking season the multi-functional icebreaker is leased out for various maritime support operations.

As a result of winning the tender, AS Tallinna Sadam signed a contract with the state of Estonia at the end of 2014 for rendering a ferry connection service between the Estonian mainland and major islands. The contract was concluded for a period of ten years from 1 October 2016 to 30 September 2026. Contracts were also signed with two shipbuilding yards for the construction of four new passenger ferries – two ferries for the Kuivastu-Virtsu and two for the Rohuküla-Heltermaa route.

As at the end of the first half of 2016, the consolidation group of AS Tallinna Sadam includes in addition to the Parent Company:

| Name of the company | Holding | Main activity |
|---------------------|---------|---|
| OÜ TS Energia | 100% | Rendering of electricity, water and heat distribution and transmission services in the Group's ports and harbours |
| OÜ TS Shipping | 100% | Rendering icebreaking and other maritime support services with multifunctional icebreaker Botnica |
| OÜ TS Laevad | 100% | Organising passenger ferry traffic |

2. RESULTS OF OPERATIONS

In the first half of 2016 the development of cargo volume of AS Tallinna Sadam was influenced again the most by decline of liquid bulk, resulting in a drop of cargo volume by 1.3m tons, or by 11%, down to 10.7m tons. AS Tallinna Sadam stepped from 8th position to 7th among the largest cargo ports on the eastern coast of the Baltic Sea. The number of passengers continued to grow, up by 5.2% to a total of 4.6 million. By the number of passengers, AS Tallinna Sadam stayed the third largest among the larger ports of northern and eastern coasts of the Baltic Sea. The icebreaker Botnica continued provision of ice-breaking service for Estonian ports in the Finnish Gulf according to the contract with state authorities and after end of ice-breaking season of 2015/16 looked for off-shore services contract in the diminished market depressed by low oil price. The subsidiary TS Laevad continued preparations to start ferry operations from October between the Estonian mainland and larger islands by observing the construction of four new passenger ferries, while continuing with crewing processes and developing of service systems. As a result of the first 6 months, group sales decreased by 2%, costs related to main activities decreased by 8%, while net profit decreased by 8% due to decline of other income.

The cargo volume of the largest ports on the eastern coast of the Baltic Sea did not change much in the first half of 2016, decreasing by 2.2m tons or 0.9%, amounting to 230m tons. Cargo volume grew the most in the largest ports: in Primorsk (2.7m tons), Ust-Luga (2.3m tons), and in Klaipeda-Butinge (1.4m tons). The largest drop of cargo volume was recorded in Ventspils (3.4m tons), Riga (2.4m tons), St.Petersburg (2.1m tons), and Tallinn (1.3m tons). Development of cargo volume by types of cargo was driven by decline of liquid and dry bulk which exceeded the growth of general cargo.

The cargo volume of AS Tallinna Sadam changed quite unevenly across cargo groups. Liquid bulk exerted the largest impact, by dropping 1.9m tons or by 26% mostly on the account of cargo received by railway. Also containers and general cargo saw a slight decrease, by 0.02m tons or 2% (in TEUs a decrease of 4.5%) and 0.03m tons or 10%, respectively. Growth was seen in dry bulk by 0.45m tons or 34% and ro-ro by 0.11m tons or 5%. As a result of the changes, the share of liquid bulk in total cargo volume of AS Tallinna Sadam declined to 51%,

followed by ro-ro cargo with share of 21% and dry bulk with 16.6% (in the first half of 2015: 61%, 17.8% and 11.0%, respectively). By shipment direction, cargo volume consisted of 61% transit, 17% import, and 22% export cargo (in the first half of 2015, the respective figures were 69%, 15% and 16%).

The number of passengers grew by 227th to a total of 4.6m, mainly on the account of Tallinn-Helsinki and Tallinn-Stockholm lines. The number of cruise passengers decreased by 7th passengers or 3.4%.

In the first half of 2016 the port accommodated 873 cargo vessel calls and 2,693 passenger line and cruise vessel calls (as for the first half of 2015 875 and 2,594, respectively).

The multifunctional ice-breaker Botnica did not earn charter income after the end of 2015/16 ice-breaking season. Charter contract for the summer-fall period of 2016 is still targeted, but oil companies under pressure by the continuously low oil price have cut their order books for offshore works, leading to a growing competition and lower charter prices on the off-shore operations' vessel market.

The consolidated sales of AS Tallinna Sadam in the first half of 2016 amounted to EUR 51.7m, decreasing by EUR 1.2m or 2.3%. The costs related to main activities decreased by EUR 2.1m or 8% to EUR 23.5m. Decrease of expenses was mostly driven by operating costs, foremost by decrease of repair cost of fixed assets. The drop of costs was related mostly to traditional port activities as well as to the ice-breaker Botnica. The average number of employees in the first half of 2016 for the consolidation group was 381 (363 for the same period in 2015), increasing due to the gradual crewing by the passenger ferry operations unit.

The operating margin¹, reflecting efficiency of the main operations of the consolidation group was 54.5%, increasing compared to last year's respective figure (51.5%) as a result of decreasing operating costs. Operating profit totalled EUR 28.6m, decreasing by EUR 1.5m or 5%. The decrease was caused by decreasing of other income that in the previous year contained one-time compensation fee for early termination of Botnica's long-term charter contract for summer-time offshore work. Net finance cost totalled EUR 0.51m, decreasing by EUR 0.21m mostly due to decrease of average interest rate for the Group. In the first half of 2016 EBITDA² amounted to EUR 37.4m compared to EUR 38.9m in the same period last year, decreasing by 3.9%.

The consolidated net profit for the first half of 2016 amounted to EUR 19.4m, which is EUR 1.6m or 7.6% less than for the same period in previous year. The profit decreased due to drop in other income by EUR 3.2m mostly on account of Botnica's compensation fee described above. Income tax expense increased by EUR 0.3m, including an increase of EUR 0.95m from dividend income tax, that was compensated by income tax on Botnica's compensation fee in the amount of EUR 0.6m, recorded in first half of 2015 and that did not occur in 2016. The consolidated profit before income tax amounted to EUR 28.2m, which is EUR 1.3m or 4.3% below the figure of previous year.

In the first half of 2016 EUR 35.0m was fixed as the amount of dividends payable by AS Tallinna Sadam to state budget in 2016, accompanied by income tax expense on dividends by EUR 8.75m. According to agreement with the Ministry of Finance, the dividend shall be paid out latest at the second half of November. In 2015, dividend in the amount of EUR 31.2m was paid out in the second half of the year, accompanied by income tax expense on dividends by EUR 7.8m.

In the first half of 2016 the investments of the consolidation group into construction of new infrastructure objects and renovation of existing objects totalled EUR 2.9m, which was EUR 2.9m less than in the same period last year. Largest share of investments was related to construction of four new passenger ferries that together with amounts recorded as prepayments totalled EUR 16.5m. Regarding the traditional port operations, the largest investment of EUR 1m was partial cost of investments in passenger vessel accommodation equipment and passenger traffic schemes in the northern and southern parts of Old City Harbour.

The return on assets³ of AS Tallinna Sadam was 6.7%, decreasing from last year's figure of 7.5% due to decrease of net profit. When calculating the return on assets on the basis of adjusted profit⁴, the return on assets in the first half of 2016 yields 8.2%, compared to 8.9% a year earlier.

In the first half of 2016, the return on equity⁵ of AS Tallinna Sadam was 11.6%, slightly down from previous year's figure of 12.1% due to decline of both net profit and owner's equity. The corresponding figure based on adjusted profit was 14.2%, compared to 14.3% from the previous year.

The total borrowings of the consolidation group increased by EUR 38.5m compared to the same date in previous year and amounted to EUR 177.1m as at 30 June 2016.

¹ (operating profit before other income and -expenses)/sales

² earnings before interests, taxes, depreciation and amortisation

³ annualised profit/average volume of assets in the period

⁴ profit has been adjusted by income tax expense on dividends and one-time profit from sale of assets

⁵ annualised profit/average volume of equity in the period

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

By approving the consolidated interim financial statements the Management Board confirms the correctness and completeness of the data of AS Tallinna Sadam and its related companies presented on pages 7 – 9 for the 6 months ended 30 June 2016, including:

1. the consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards as they have been adopted by the European Union;
2. the consolidated interim financial statements present a true and fair view of the financial position, the cash flows and the results of operations of the group;
3. all known material circumstances that became evident before the date of approving (31 July 2016) of these statements have been appropriately accounted for and presented in the consolidated interim financial statements;
4. AS Tallinna Sadam and its subsidiaries are going concerns.



Valdo Kalm
Chairman of the Management Board



Marko Raid
Member of the Management Board

Tallinn, 29 July 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| in thousands of euros (unaudited) | 30.06.2016 | 31.12.2015 |
|--------------------------------------|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 14 516 | 25 902 |
| Trade and other receivables | 9 689 | 9 312 |
| Total current assets | 24 205 | 35 214 |
| Non-current assets | | |
| Investments in joint venture | 820 | 710 |
| Other long-term receivables | 447 | 476 |
| Property, plant and equipment | 553 783 | 544 189 |
| Intangible assets | 831 | 495 |
| Total non-current assets | 555 881 | 545 870 |
| Total assets | 580 086 | 581 084 |
| LIABILITIES | | |
| Current liabilities | | |
| Borrowings | 6 079 | 25 710 |
| Derivative financial instruments | 1 376 | 831 |
| Payable to shareholders | 35 000 | 0 |
| Provisions | 100 | 965 |
| Government grants | 1 100 | 917 |
| Supplier and other payables | 14 182 | 14 018 |
| Total current liabilities | 57 837 | 42 441 |
| Non-current liabilities | | |
| Borrowings | 171 053 | 171 043 |
| Government grants | 23 430 | 23 695 |
| Other payables | 1 208 | 1 238 |
| Total non-current liabilities | 195 691 | 195 976 |
| Total liabilities | 253 528 | 238 417 |
| EQUITY | | |
| Share capital at nominal value | 185 203 | 185 203 |
| Statutory reserve capital | 18 520 | 18 520 |
| Hedge reserve | -1 376 | -831 |
| Retained earnings | 104 775 | 108 907 |
| Profit for the period | 19 436 | 30 868 |
| Total equity | 326 558 | 342 667 |
| Total liabilities and equity | 580 086 | 581 084 |

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**Consolidated statement of income**

| in thousands of euros (unaudited) | 6 months 2016 | Restated 6 months 2015 |
|---|----------------------|-----------------------------------|
| Sales | 51 732 | 52 941 |
| Other income | 519 | 3 754 |
| Operating expenses | -9 741 | -11 572 |
| Personnel expenses | -5 479 | -5 519 |
| Depreciation and impairment | -8 305 | -8 580 |
| Other expenses | -139 | -971 |
| Operating profit | 28 587 | 30 053 |
| Finance income and costs | | |
| Finance income | 20 | 20 |
| Finance costs | -530 | -744 |
| Finance costs - net | -510 | -724 |
| Profit/loss from investments in joint venture under equity method of accounting | 109 | 114 |
| Profit before income tax | 28 186 | 29 443 |
| Income tax expense | -8 750 | -8 406 |
| Profit for the period | 19 436 | 21 037 |

Consolidated statement of comprehensive income

| in thousands of euros (unaudited) | 6 months 2016 | Restated 6 months 2015 |
|--|----------------------|-----------------------------------|
| Profit for the period | 19 436 | 21 037 |
| Other comprehensive income | | |
| Revaluation of derivatives | -545 | 291 |
| Total other comprehensive income | -545 | 291 |
| Total comprehensive income for the period | 18 891 | 21 328 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| in thousands of euros (unaudited) | 6 months 2016 | 6 months 2015 |
|--|----------------|----------------|
| Cash receipts from sale of goods and services | 52 051 | 56 860 |
| Cash receipts related to other income | 2 030 | 1 135 |
| Payments to suppliers | -12 376 | -17 588 |
| Payments to and on behalf of employees | -6 015 | -6 086 |
| Payments for other expenses | -145 | -412 |
| Income tax paid on dividends | -7 762 | 0 |
| Cash flows from operating activities | 27 783 | 33 909 |
| Purchases of property, plant and equipment (PPE) | -18 773 | -37 146 |
| Purchases of intangible assets | -346 | -70 |
| Proceeds from sale of PPE | 222 | 31 |
| Proceeds from government grants for non-current assets | 334 | 0 |
| Interest received | 13 | 9 |
| Cash used in investing activities | -18 550 | -37 176 |
| Redemption of bonds | -1 250 | -1 250 |
| Loans received | 0 | 22 003 |
| Repayments of loans | -18 383 | -27 767 |
| Finance lease principal repayments | -1 | 0 |
| Interest paid | -985 | -951 |
| Other payments related to financing activities | 0 | -6 |
| Cash used in financing activities | -20 619 | -7 971 |
| | -11 386 | -11 238 |
| Cash and cash equivalents at beginning of the period | 25 902 | 11 871 |
| Change in cash and cash equivalents | -11 386 | -11 238 |
| Cash and cash equivalents at end of the period | 14 516 | 633 |