

PORT OF TALLINN

Consolidated Report for the 6 Months Ended on 30 June 2017

Translation of the Estonian Original

PORT OF TALLINN

(AS Tallinna Sadam)

**AS TALLINNA SADAM
(PORT OF TALLINN)****CONSOLIDATED REPORT 6 MONTHS 2017**

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Legal form	Limited company (AS)
Auditor	AS Deloitte Audit Eesti

TABLE OF CONTENTS

MANAGEMENT REPORT	4
CONSOLIDATED INTERIM FINANCIAL STATEMENTS	7
MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME	9
CONSOLIDATED STATEMENT OF CASH FLOWS	10

MANAGEMENT REPORT

1. COMPANY OVERVIEW

AS Tallinna Sadam is the largest complex of cargo and passenger ports and harbours in Estonia. Its ports are navigable and easily accessible throughout the year and deep enough to receive all vessels passing through the Danish Straits.

The core business line of AS Tallinna Sadam, the parent of the group, is rendering port services in the capacity of a landlord port whose tasks involve managing and developing infrastructure as well as organising the traffic of vessels in the port basin. The parent holds five harbours: The Old City Harbour (known as the passenger harbour) in the centre of Tallinn, together with the Old City Marina for small vessels (opened in 2010); the former cargo harbour, currently a harbour servicing mostly ship repair companies, in Paljassaare; Estonia's largest cargo harbour in Muuga; the cargo 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 ice-breaking vessel was purchased at a secondary market. Since the beginning of 2013 ice-breaker Botnica has been used under a 10-year contract for rendering ice-breaking services to the state of Estonia for Estonian ports in the Gulf of Finland. Off icebreaking season the multi-functional icebreaker is leased out for various maritime support operations.

In October 2016, rendering a ferry service with passenger ferries between the mainland and major islands of Estonia was commenced as a new business line in accordance with the passenger transport public service contract signed, subsequent to winning the tender, with the state of Estonia at the end of 2014 for a ten-year period (from 1 October 2016 to 30 September 2026).

As at the end of the first half of 2017, 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 ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	100%	Rendering a ferry service with passenger ferries

2. RESULTS OF OPERATIONS

In the first half of 2017 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 0.8m tons, or by 7%, down to 9.9m tons. AS Tallinna Sadam dipped from 8th position to 9th among the largest cargo ports on the eastern coast of the Baltic Sea. The number of passengers continued to grow, up by 4.3% to a total of 4.8 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 subsidiary TS Laevad rendered passenger ferry services between the mainland and major islands of Estonia, that was not provided during the first half of 2016. In April 2017, the last, fourth new passenger ferry Piret was obtained from shipyard. 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 2016/17 looked for off-shore services contract in the diminished market depressed by low oil price. As a result of first six months, total revenue (net sales and other income together) of the group increased by 31%, operating and other expenses grew by 61%, profit before income tax grew by 5%, while net profit decreased by 9% due to larger dividend income tax expense. Passenger ferry service as a new service for the group, rendered through subsidiary OÜ TS Laevad had the largest impact in the change of group's revenues and expenses.

The cargo volume of the largest ports on the eastern coast of the Baltic Sea grew by 13.4m tons or 5.9% in the first half of 2017, amounting to 240m tons. Cargo volume grew the most in the ports of Ust-Luga (6.1m tons), Ventspils (2.4m tons), St.Petersburg (1.8m tons), and Sillamäe (1.0m tons). The largest drop of cargo volume was recorded in ports of Primorsk (1.2m tons), Tallinn (0.8m tons), and Riga (0.8m tons). Development of cargo volume by types of cargo was driven by growth in dry bulk, mostly on account of coal, also by some growth in general cargo on account of containers and ro-ro cargo, while the volume of liquid bulk remained unchanged.

Liquid bulk exerted again the largest impact to the cargo volume of AS Tallinna Sadam, decreasing by 1.3m tons or by 23% on the account of cargo received both by railway and sea. Volume of other cargo groups increased, most in case of ro-ro and dry bulk, by 0,24m tons or 11% and 0.12m tons or 7%, respectively. Smaller growth was seen in general cargo (by 0,08m tons or 27%) and containers (by 0,05m tons or 6%, in TEUs 5%). As a result of the changes, the share of liquid bulk in total cargo volume of AS Tallinna Sadam declined to 43%, followed by ro-

ro cargo with share of 25% and dry bulk with 19% (in the first half of 2016: 51%, 21% and 16.6%, respectively). By shipment direction, cargo volume consisted of 56% transit, 20% import, and 24% export cargo (in the first half of 2016, the respective figures were 61%, 17% and 22%). The number of passengers grew by 197th to a total of 4.8m, mainly on the account of Tallinn-Helsinki and Tallinn-Stockholm lines, as well as cruise passengers (by 176th, 12th and 41th passengers, respectively).

In the first half of 2017 the port accommodated 873 cargo vessel calls and 2,860 passenger line and cruise vessel calls (as for the first half of 2016 873 and 2,723, respectively).

The multifunctional ice-breaker Botnica did not earn charter income in the first half, after the end of 2016/17 ice-breaking season. Charter contract for the summer-fall period of 2017 is still targeted, but oil companies under pressure by the continuously low oil price have cut their order books for offshore works, leading to decreased demand, growing competition and lower charter prices on the off-shore operations' vessel market.

In the first half of 2017 OÜ TS Laevad carried 0.94m passengers and 0.4m vehicles on ferry lines between Estonia's mainland and largest islands during 9,400 journeys accomplished according to the volume of service ordered by the state. Also, ticket sales and other systems related to passenger services were improved to ensure more comfortable and easily accessible service for passengers.

The consolidated total revenue (net income and other income together) of AS Tallinna Sadam in the first half of 2017 amounted to EUR 68.5m, increasing by EUR 16.2m or 31%. Total expenses increased by EUR 14.3m or by 61% to EUR 38.0m. Growth of revenues and expenses arose from passenger ferry services as a new service that was not yet rendered in the first half of 2016. By type of expense, growth was related to operating expenses, mostly on account of rental cost of temporary replacement vessels due to delay in delivery of new passenger ferries from shipyards. Rental cost of replacement vessels was compensated by late penalty fees received from shipyards, recorded under other income. The average number of employees in the first half of 2017 for the consolidation group was 502 (381 for the same period in 2016), increasing due to the start of passenger ferry operations in OÜ TS Laevad.

The operating margin¹, reflecting efficiency of the main operations of the consolidation group was 44.5%, decreasing compared to last year's respective figure (54.7%) as a result of relatively larger growth of expenses than that of revenues due to starting the passenger ferry services as a new line of business. Operating profit totalled EUR 30.5m, increasing by EUR 1.9m or 7%. The increase was caused by nominally larger growth of revenues compared to growth of expenses. Net finance cost totalled EUR 0.89m, increasing by EUR 0.38m due to both the ending of capitalisation of interest cost during the construction period of passenger ferries and to increase of borrowed capital. In the first half of 2017 EBITDA² amounted to EUR 40.4m, growing by EUR 3.4m or 9.3% compared to EUR 37.0m in the same period last year.

The consolidated net profit for the first half of 2017 amounted to EUR 17.7m, which is EUR 1.8m or 9% less than for the same period in previous year. The profit decreased mostly due to increase of income tax expense on dividends by EUR 3.25m. The consolidated profit before income tax amounted to EUR 29.7m, which is EUR 1.5m or 5% more than the figure of previous year.

In the first half of 2017 record-high EUR 48.0m was fixed as the amount of dividends payable by AS Tallinna Sadam to state budget in 2017, accompanied by income tax expense on dividends by EUR 12.0m. According to agreement with the Ministry of Finance, the dividend shall be paid out in the second half of year. In 2016, dividend in the amount of EUR 35.0m was paid out, accompanied by income tax expense on dividends by EUR 8.8m.

In the first half of 2017 the investments of the consolidation group totalled EUR 24.5m. Largest share of investments was related to construction of new passenger ferries (incl. last payments for 3 new ferries' construction and reception), in total of EUR 19.7m. Investments into construction of new infrastructure objects and renovation of existing objects totalled EUR 4.8m, which was EUR 1.9m more than in the same period last year. Regarding the traditional port operations, the largest investment of EUR 4m 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 5.5%, decreasing from last year's figure of 6.7% due to decrease of net profit and growth of total assets. When calculating the return on assets on the basis of adjusted profit⁴, the return on assets in the first half of 2017 yields 9.2%, compared to 9.7% a year earlier.

¹ operating profit/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

In the first half of 2017, the return on equity⁵ of AS Tallinna Sadam was 10.6%, slightly down from previous year's figure of 11.6% due to compound effect of decline of both net profit and owner's equity. The corresponding figure based on adjusted profit was 17.9%, compared to 16.8% from the previous year.

The total borrowings of the consolidation group increased by EUR 64.3m compared to the same date in previous year and amounted to EUR 241.4m as at 30 June 2017.

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 8-10 for the 6 months ended 30 June 2017, 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 2017) 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



Margus Vihman
Member of the Management Board

Tallinn, 31 July 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros (unaudited)	30.06.2017	31.12.2016
ASSETS		
Current assets		
Cash and cash equivalents	56 138	49 918
Trade and other receivables	9 435	17 276
Inventories	363	378
Total current assets	65 936	67 572
Non-current assets		
Investments in joint venture	1 162	1 086
Other long-term receivables	362	362
Property, plant and equipment	583 295	568 533
Intangible assets	1 181	1 155
Total non-current assets	586 000	571 136
Total assets	651 936	638 708
LIABILITIES		
Current liabilities		
Borrowings	113 384	118 018
Derivative financial instruments	733	1 008
Payable to shareholders	48 000	0
Provisions	0	1 156
Government grants	1 109	917
Taxes payable	615	9 436
Supplier and other payables	18 427	8 384
Total current liabilities	182 268	138 919
Non-current liabilities		
Borrowings	128 035	128 035
Government grants	23 639	23 703
Other payables	1 091	1 083
Total non-current liabilities	152 765	152 821
Total liabilities	335 033	291 740
EQUITY		
Share capital at nominal value	185 203	185 203
Statutory reserve capital	18 520	18 520
Hedge reserve	-732	-1 008
Retained earnings	96 252	104 775
Profit for the period	17 660	39 478
Total equity	316 903	346 968
Total liabilities and equity	651 936	638 708

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

in thousands of euros (unaudited)	6 months 2017	6 months 2016
Sales	55 811	51 732
Other income	12 668	519
Operating expenses	-20 110	-9 741
Personnel expenses	-7 878	-5 479
Depreciation and impairment	-9 726	-8 305
Other expenses	-290	-139
Operating profit	30 475	28 587
Finance income and costs		
Finance income	197	20
Finance costs	-1 088	-530
Finance costs - net	-891	-510
Profit/loss from investments in joint venture under equity method of accounting	76	109
Profit before income tax	29 660	28 186
Income tax expense	-12 000	-8 750
Profit for the period	17 660	19 436

Consolidated statement of comprehensive income

in thousands of euros (unaudited)	6 months 2017	6 months 2016
Profit for the period	17 660	19 436
Other comprehensive income		
Revaluation of derivatives	275	-545
Total other comprehensive income	275	-545
Total comprehensive income for the period	17 935	18 891

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of euros (unaudited)	6 months 2017	6 months 2016
Cash receipts from sale of goods and services	56 913	52 051
Cash receipts related to other income	10 801	2 030
Payments to suppliers	-22 976	-12 376
Payments to and on behalf of employees	-7 631	-6 015
Payments for other expenses	-677	-145
Income tax paid on dividends	-8 657	-7 762
Cash flows from operating activities	27 773	27 783
Purchases of property, plant and equipment (PPE)	-15 854	-18 773
Purchases of intangible assets	-362	-346
Proceeds from sale of PPE	501	222
Proceeds from connection fees	28	0
Proceeds from government grants for non-current assets	0	334
Interest received	8	13
Cash used in investing activities	-15 679	-18 550
Redemption of bonds	-1 250	-1 250
Repayments of loans	-3 383	-18 383
Finance lease principal repayments	-1	-1
Interest paid	-1 239	-985
Other payments related to financing activities	-1	0
Cash used in financing activities	-5 874	-20 619
	6 220	-11 386
Cash and cash equivalents at beginning of the period	49 918	25 902
Change in cash and cash equivalents	6 220	-11 386
Cash and cash equivalents at end of the period	56 138	14 516