TALLINNA SADAM

Unaudited interim condensed consolidated report for the 12 months ended 31 December 2018

AS Tallinna Sadam

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UNAUDITED INTERIM CONDENSED CONSOLIDATED REPORT FOR THE 12 MONTHS ENDED 31 DECEMBER 2018

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Beginning of financial year	**1 January**
End of financial year	**31 December**
Beginning of interim reporting period	**1 January**
End of interim reporting period	**31 December**
Legal form	**Limited company (AS)**
Auditor	**KPMG Baltics OÜ**

CONTENTS

MANAGEMENT REPORT 4
MANAGEMENT'S CONFIRMATION AND SIGNATURES 11
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 12
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 13
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS 14
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 15
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 16
1. REPORTING ENTITY 16
2. ACCOUNTING POLICIES 16
3. OPERATING SEGMENTS 17
4. CASH AND CASH EQUIVALENTS 18
5. TRADE AND OTHER RECEIVABLES 19
6. INVESTMENT IN AN ASSOCIATE 20
7. PROPERTY, PLANT AND EQUIPMENT 20
8. TRADE AND OTHER PAYABLES 21
9. LOANS AND BORROWINGS 21
10. EQUITY 22
11. REVENUE 23
12. OTHER INCOME 24
13. OPERATING EXPENSES 24
14. COMMITMENTS 25
15. CONTINGENT LIABILITIES 25
16. INVESTIGATIONS CONCERNING THE GROUP 25
17. RELATED PARTY TRANSACTIONS 26

MANAGEMENT REPORT

In 2018, the full-year volume of cargo handled at the Group's harbours grew again after several years, rising to 20.6 million tonnes, and the number of passengers[1] served set a new record for the 11th year in a row, reaching 10.62 million. Revenue surged to a record-high EUR 130.6 million. Revenue growth was supported, among other factors, by charter revenue generated by the icebreaker Botnica outside the icebreaking season and an additional volume of passenger ferry service provided during the summer. Operating profit and adjusted EBITDA[2] improved as well. The year ended in a net profit of EUR 24.4 million, EUR 2.0 million less than the year before due to growth in income tax expense on dividends. Income tax on dividends grew by EUR 14.2 million in connection with a larger dividend – the Group declared a record dividend of EUR 105 million compared to EUR 48 million in 2017.

In the fourth quarter of 2018, the volume of cargo handled grew slightly while the number of passengers declined somewhat compared to the same period in 2017. Revenue and profit figures, including adjusted EBITDA, improved. Revenue grew by EUR 2.5 million to EUR 29.6 million and net profit improved by EUR 7.6 million to EUR 8.6 million.

KEY PERFORMANCE INDICATORS OF THE GROUP

Indicator	Unit	12 months 2018	12 months 2017	Change	%	Q4 2018	Q4 2017	Change	%
Revenue	EUR '000	130,635	121,295	9,340	7.7%	29,572	27,089	2,483	9.2%
Operating profit	EUR '000	52,075	40,317	11,758	29.2%	9,011	1,577	7,434	471.4%
Adjusted EBITDA[2]	EUR '000	74,380	66,521	7,859	11.8%	14,683	12,814	1,869	14.6%
Depreciation, amortisation and impairment	EUR '000	-22,345	-26,430	4,085	-15.5%	-5,829	-11,397	5,568	-48.9%
Income tax	EUR '000	-26,199	-11,955	-14,244	119.1%	51	45	6	13.3%
Profit for the period	EUR '000	24,423	26,425	-2,002	-7.6%	8,600	989	7,611	769.6%
Investments	EUR '000	14,251	35,847	-21,596	-60.2%	6,128	6,393	-265	-4.1%
Number of employees (average)		496	508	-12	-2.4%	-5	-2	-3	150.0%
Cargo volume	t '000	20,608	19,182	1,427	7.4%	5,028	4,928	100	2.0%
Number of passengers	'000	10,619	10,560	59	0.6%	2,314	2,336	-22	-1.0%
Number of vessel calls		7,652	7,716	-64	-0.8%	1,841	1,757	84	4.8%
Total assets at period-end	EUR '000	623,639	597,137	26,502	4.4%	623,639	597,137	26,502	4.4%
Net debt[3] at period-end	EUR '000	171,049	228,646	-57,597	-25.2%	171,049	228,646	-57,597	-25.2%
Equity at period-end	EUR '000	367,674	325,792	41,882	12.9%	367,674	325,792	41,882	12.9%
Number of shares at period-end	'000	263,000	185,203	77,797	42.0%	263,000	185,203	77,797	42.0%
Operating profit/revenue		39.9%	33.2%			30.5%	5.8%		
Adjusted EBITDA/revenue		56.9%	54.8%			49.7%	47.3%		
Profit for the period/revenue		18.7%	21.8%			29.1%	3.7%		
EPS: Profit for the period/weighted average number of shares	EUR	0.11	0.14	-0.04	-25.1%	0.03	0.01	0.03	512.3%
Equity/number of shares	EUR	1.40	1.76	-0.36	-20.5%	1.40	1.76	-0.36	-20.5%

CARGO AND PASSENGER TRAFFIC

In 2018, cargo throughput at the Group's harbours grew by 1.4 million tonnes to 20.6 million tonnes, i.e. by 7.4%. In terms of cargo types, growth was driven by liquid bulk cargo (+1.4 million tonnes, i.e. +19%) and supported by steadier growth in ro-ro cargo (+0.3 million tonnes, i.e. +5.5%). Changes in the volumes of other cargo types were smaller: dry bulk cargo -0.2 million tonnes (-6%), general cargo +28 thousand tonnes (4.5%) and containers -27 thousand tonnes (-1.4%). In terms of TEUs, however, the volume of containers grew by 7.2 TEUs, i.e. by 3% to 223 thousand TEUs.

[1] The number of passengers does not include passengers of the ferry segment that travelled between Estonia's mainland and biggest islands.
[2] Adjusted EBITDA = profit before depreciation, amortisation and impairment losses, amortisation of government grants, finance income and costs (net) and income tax expense
[3] Loans and borrowings less cash and cash equivalents

In the fourth quarter of 2018, the Group's harbours handled 5.0 million tonnes of cargo, an increase of 0.1 million tonnes, i.e. 2.0%, compared to the same period in 2017. Growth resulted mainly from a rise in liquid bulk cargo (+0.2 million tonnes, i.e. +13%). However, the positive effect of the latter was weakened by a decrease in dry bulk cargo (-0.1 million tonnes, i.e. -11%). Changes in the volumes of other cargo types were smaller. Growth in the volume of liquid bulk cargo is partly attributable to a low basis of comparison as well as the oil price, which trended upward, increasing demand for terminal services. Steady growth in the volume of ro-ro cargo is attributable to busy vessel traffic between Tallinn and Helsinki, strengthening trade relations in the region and a favourable economic cycle.

The number of passengers hit a record for the 11th year in a row. The annual figure grew by 59 thousand, i.e. by 0.6% to the highest-ever 10.62 million passengers. Growth was underpinned by a rise in the number of traditional cruise passengers (+72 thousand, i.e. +12.8%). The number of passengers on the main routes remained at the same level as the year before, breaking the previous uptrend.

In the fourth quarter, the number of passengers declined by 22 thousand, i.e. by 1.0%, through a decrease in the number of passengers travelling on the most popular Tallinn-Helsinki route and the Tallinn-Stockholm route.

REVENUE, EXPENSES AND PROFIT

Revenue for the fourth quarter improved by EUR 2.5 million, i.e. 9.2% year on year, and annual revenue for 2018 grew by EUR 9.3 million, i.e. by 7.7%, to a record-high EUR 130.6 million. In terms of revenue streams, the strongest improvement occurred in charter revenue that grew by EUR 4.3 million to EUR 8.9 million through additional charter revenue generated by the multifunctional icebreaker Botnica in the summer of 2018. Revenue from domestic passenger ferry service between the mainland and biggest islands grew by EUR 2.9 million to EUR 29.5 million. This is mainly attributable to an additional vessel that was put into service at the request of the state (the customer of the ferry service) to increase service capacity during the summer season (June to August) but the impacts of the indexation of contractual fees and charges and growth in the number of trips made also played a role. Revenue from vessel dues grew by EUR 2.7 million, i.e. 6%, to EUR 48.5 million, primarily through a rise in the number of tanker and cruise ship calls, which resulted from growth in the volume of liquid bulk cargo and the number of cruise passengers. Revenue from the sale of electricity grew by EUR 0.5 million, i.e. 9%, to EUR 5.8 million through the combined effect of a decrease in sales volumes at cargo harbours and a rise in the price of electricity sold by the Group as an intermediary. Revenue from cargo charges and operating leases decreased somewhat (by EUR 0.8 million and EUR 0.5 million respectively). Cargo charge revenue declined due to the combined effect of a decrease in penalty income and lower cargo charge revenue from vessel-terminal-vessel cargo. Rental income decreased because some areas (e.g. the premises of the former Muuga coal terminal) were temporarily not rented out due to change of operators and the expansion of traffic areas reduced rental areas in the Group's main passenger harbour – the Old City Harbour. Passenger fee revenue grew by EUR 0.1 million to EUR 17.1 million, i.e. 0.6%, which is comparable to growth in the number of passengers.

Other income for 2018 decreased by EUR 4.0 million because in 2017 the Group recognised penalty income of EUR 3.75 million received from shipyards for delays in the delivery of new passenger ferries which in 2018 did not arise.

Operating expenses decreased by EUR 3.7 million, i.e. 9%, mainly because in 2017 the Group incurred expenses of EUR 6.6 million from renting substitute ferries for providing ferry service between Estonia's mainland and biggest islands which in 2018 were not incurred. Charter costs of EUR 0.6 million in 2018 are related to an additional passenger ferry put in service for the summer season. Expenses from the write-down of receivables, which in 2017 resulted from the bankruptcy of a coal terminal operator, and research and development costs, which in the previous year were increased by the costs of preparing Masterplan 2030 for the Old City Harbour, decreased. The largest growth of operating expenses took place in non-current asset repair costs, which grew by EUR 1.4 million, mainly in connection with major repairs carried out at the Group's harbours. Energy costs grew by EUR 1.2 million, mostly in connection with growth in electricity sales and the impact of an additional ferry put in service for the summer season.

Personnel expenses grew by EUR 1.5 million, i.e. 8%, mostly in connection with the ferry service, chartering the multifunctional icebreaker Botnica out for the summer season, and harbour operations. The main contributing factors were the use of an additional ferry during the summer high season, slight growth in salaries and the recognition of a provision for compensation payable to members of the Parent company's management board under the non-competition clauses of their service contracts (a one-off expense).

Depreciation, amortisation and impairment decreased by EUR 4.1 million. On the one hand, this is attributable to a one-off impairment loss of EUR 5.9 million recognised in 2017 (for the icebreaker Botnica). On the other hand, this was influenced by growth in depreciation and amortisation. In the harbour business, the volume of non-current assets increased through the implementation of the Smart Port project and the completion of investments made in improving traffic areas at the Old City Harbour. In the ferry business, the last two of the four new ferries were completed at the end of the first quarter of 2017 so that their depreciation began from the second quarter of 2017.

Operating expenses for the fourth quarter of 2018 remained at the same level as in the fourth quarter of 2017. Personnel expenses grew by EUR 0.5 million, i.e. 11%, mainly because the icebreaker Botnica was chartered out for the summer season. Depreciation, amortisation and impairment decreased by EUR 5.6 million, i.e. 49%, due to the impact of an impairment loss on the icebreaker Botnica (EUR 5.9 million) recognised in the fourth quarter of 2017.

Operating profit for 2018 grew by EUR 11.8 million, i.e. 29%, to EUR 52.1 million through the combined effect of an increase in revenue and a decrease in expenses. Excluding the impact of a one-off impairment loss of EUR 5.9 million recognised in 2017, operating profit grew by EUR 5.9 million, i.e. 13%. Growth in operating profit improved the Group's operating margin from 33.2% to 39.9%.
Operating profit for the fourth quarter grew by EUR 7.4 million year on year, mainly due to the impact of an impairment loss recognised for the icebreaker Botnica in 2017.

Adjusted EBITDA for 2018 grew by EUR 7.9 million to EUR 74.4 million. The improvement was smaller than that of operating profit because the decline in depreciation, amortisation and impairment did not affect EBITDA. Adjusted EBITDA for the fourth quarter grew by EUR 1.9 million year on year, mainly through the impact of revenue from chartering the icebreaker Botnica out for the summer season which ended in November, and growth in the volume of liquid bulk cargo. Adjusted EBITDA margin for 2018 rose from 54.8% to 56.9%, underpinned by the combined effect of an increase in revenue and a decrease in expenses.

Finance costs (net) for 2018 decreased by EUR 315 thousand, i.e. 14%, mainly through a decline in the amount of interest-bearing liabilities and expenses related to derivative financial instruments. In the fourth quarter, net finance costs declined by EUR 165 thousand, i.e. 27%.

Profit before tax grew by EUR 12.2 million, i.e. 32% to EUR 50.6 million in 2018. Fourth-quarter profit before tax grew by EUR 7.6 million.
In connection with the declaration of a record dividend of EUR 105 million in 2018 compared to EUR 48 million in 2017, income tax expense increased by EUR 14.2 million to EUR 26.2 million. Due to larger income tax expense, 2018 ended in a net profit of EUR 24.4 million, a decrease of EUR 2.0 million compared to the profit earned in 2017. The net result for the fourth quarter was a profit of EUR 8.6 million compared to EUR 1.0 million for the fourth quarter of 2017.

INVESTMENT

In 2018, the Group invested EUR 14.3 million. The figure is 60% smaller than in 2017 when investments totalled EUR 35.8 million of which EUR 20 million was spent on the construction of new ferries. In 2018, the largest investments were made in the reconstruction of traffic areas and the implementation of automated traffic control systems (Smart Port) as well as the starting of reconstruction of Terminal D at the Old City Harbour. Investments made in the fourth quarter totalled EUR 3.7 million.

SEGMENT REPORTING

	12 months 2018					12 months 2017				
In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	49,897	41,718	30,095	8,925	130,635	49,854	39,757	27,100	4,584	121,295
Adjusted EBITDA	32,397	24,096	13,041	4,846	74,380	33,299	23,331	8,398	1,493	66,521
Operating profit	26,403	15,970	7,438	2,263	52,075	28,765	15,144	3,482	-7,074	40,317
Adjusted EBITDA margin	64.9%	57.8%	43.3%	54.3%	56.9%	66.8%	58.7%	31.0%	32.6%	54.8%

	Change, 12 months				
In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	43	1,961	2,995	4,341	9,340
Adjusted EBITDA	-902	765	4,643	3,353	7,859
Operating profit	-2,362	826	3,956	9,337	11,758

	Q4 2018					Q4 2017				
In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	10,089	10,665	6,942	1,875	29,571	10,095	9,950	6,585	459	27,089
Adjusted EBITDA	5,245	5,848	3,032	558	14,683	5,144	5,037	2,947	-314	12,814
Operating profit	3,503	3,832	1,641	34	9,010	3,847	2,952	1,548	-6,770	1,577
Adjusted EBITDA margin	52.0%	54.8%	43.7%	29.8%	49.7%	51.0%	50.6%	44.8%	-68.4%	47.3%

	Change, Q4				
In thousands of euros	Passenger harbours	Cargo harbours	Ferry	Other	Total
Revenue	-6	715	357	1,416	2,482
Adjusted EBITDA	101	811	85	872	1,869
Operating profit	-344	880	93	6,804	7,433

In terms of segments, the largest revenue change in 2018 was in the segment 'other' (EUR +4.3 million, i.e. +95%), followed by the ferry segment (EUR +3.0 million, i.e. +11%), the cargo harbours segment (EUR +2.0 million, i.e. +5%) and the passenger harbours segment (EUR +0.04 million, i.e. +0.1%).

In the **passenger harbours segment**, revenue remained at the same level as the year before due to items with divergent impacts. Revenue was reduced by the following factors: in 2017 the average rate of vessel dues was higher (in connection with the fact that in February 2017 M/V Megastar replaced M/V Superstar, the total discounts granted to them in 2017 based on the number of harbour calls were smaller and the average rate of dues charged from them was higher than the corresponding figures for M/V Megastar alone in 2018) and in October 2017 M/V Sea Wind was transferred from the Old City Harbour to Muuga Harbour (as a result, in 2018 the vessel dues and cargo charge revenues of the cargo harbours segment increased and those of the passenger harbours segment decreased). Revenue was increased by an increase in cruise ship calls during the cruise season in the second and third quarters. Fourth-quarter revenue remained at the same level as in the same period in 2017.

In the **cargo harbours segment**, the main sources of revenue growth were a rise in vessel dues revenue, which is mainly attributable to growth in the volume of liquid bulk cargo, and additional revenue from the transfer of M/V Sea Wind (from October 2017 was transferred to the Muuga-Vuosaari route in the cargo harbours segment, previously was on the Old City Harbour-Vuosaari route in the passenger harbours segment). Cargo charge revenue decreased, mainly due to lower cargo charge revenue per tonne of liquid bulk cargo. The impact of a decline in rental income (primarily income from the rental of the premises of the former Muuga coal terminal) was alleviated by growth in the sale of electricity. In the fourth quarter, revenue grew by 7%, mostly through growth in vessel dues revenue and rental income.

In the **ferry segment**, revenue grew mostly because under an agreement with the state (the customer of the ferry service) an additional ferry was put in service for the summer season (June-August), which also increased contractual revenue. Revenue growth was also supported by the fee rates, which were higher than in the comparative period due to a rise in Estonia's consumer and fuel price indexes and wage inflation, and growth in the number of trips made. In the fourth quarter, revenue grew by 5%.

In the **segment 'other'**, revenue grew through the additional revenue generated by the icebreaker Botnica, which was chartered out for the summer season from the end of June until the beginning of November. In the comparative period, the Group did not have corresponding revenue. In the fourth quarter, revenue grew by 308%.

In terms of segments, in 2018 **adjusted EBITDA** grew strongly in the ferry segment and the segment 'other' and less in the cargo harbours segment. In the passenger harbours segment, adjusted EBITDA decreased. In the ferry segment and the segment 'other', growth was relatively significant (+55% and +225% respectively) whereas in the cargo and passenger harbours segments the changes remained small (+3.3% and -2.7% respectively). In the ferry segment, adjusted EBITDA was increased both by an increase in revenue and a decrease in expenses, which in the prior year were increased by expenses on substitute ferries that exceeded penalty income from shipyards. In the segment 'other' adjusted EBITDA grew through revenue growth, which did not cause a substantial increase in expenses. In the cargo harbours segment, adjusted EBITDA grew through revenue growth that outpaced growth in expenses. The adjusted EBITDA of the passenger harbours segment decreased through the combined effect of growth in expenses and revenue remaining stable. Expenses grew due to a rise in repair costs and larger than usual one-off expenses related to the implementation of the Smart Port project and reconstructed traffic areas.
Fourth-quarter adjusted EBITDA grew in all segments, year on year, but growth was the strongest in the segment 'other' and the cargo harbours segment. The adjusted EBITDA of the segment 'other' improved through revenue from chartering out Botnica during the summer season. Thanks to fourth-quarter growth, the adjusted EBITDA of the cargo harbours segment also showed full-year growth, which was underpinned by the combined effect of revenue growth and a decrease in expenses.
The **adjusted EBITDA margin** rose from 54.8% to 56.9%, primarily through an improvement in the margins of the segment 'other' and the ferry segment whose margins are lower. The margins of the cargo and passenger harbours segments dropped slightly. In the fourth quarter, margins improved in all segments except the ferry segment.

SHARE AND SHAREHOLDERS

AS Tallinna Sadam was listed in the Baltic Main List of the Nasdaq Tallinn Stock Exchange on 13 June 2018. The ticker symbol of the share is TSM1T and the ISIN code is EE3100021635. The company has 263,000,000 ordinary shares of which 176,295,032, i.e. 67.03%, are held by the Republic of Estonia. The par value of a share is EUR 1.
Each share carries one vote at the general meeting of the company's shareholders.
The dynamics of the closing price of the AS Tallinna Sadam share and the volume of shares traded since listing on the Nasdaq Tallinn Stock Exchange, i.e. from 13 June 2018 to 31 December 2018, is presented in the graph below:

At 31 December 2018, the closing price of the share was EUR 2.04, having risen in the fourth quarter by 0.5%. Since listing, the share price has increased by 5.81%. Compared to the offering price in the initial public offering (EUR 1.7 per share), the year-end share price has increased by 20.0%. In the same period, i.e. from 13 June 2018 to 31 December 2018, the OMX Tallinn index decreased by 7.5% and the OMX Baltic index dropped by 10.42%. At 31 December 2018, the company's market capitalisation was EUR 536.5 million.
In the fourth quarter, there were 3,665 transactions with the Tallinna Sadam share (Q3: 2,807 transactions) in which 8.03 million shares (Q3: 6.93 million shares) changed hands. The total turnover of the transactions was EUR 16.7 million (Q3: EUR 13.8 million). Compared to the third quarter, fourth-quarter trading activity and volumes were higher but still below the figures of the quarter of listing.

At 31 December 2018, the company had 12,373 shareholders (30 September 2018: 12,678) but only the Republic of Estonia had an ownership interest exceeding 5% (through the Ministry of Economic Affairs and Communications). The five largest shareholders as at 31 December 2018 were as follows:

Name of shareholder	**Number of shares**	**Ownership, %**
Ministry of Economic Affairs and Communications	176,295,032	67%
JPMorgan Chase Bank	9,522,398	4%
European Bank for Reconstruction and Development	9,350,000	4%
SEB Progressiivne Pensionifond	6,484,365	2%
LHV Pensionifond L	5,174,314	2%

The shareholder structure has remained relatively stable since listing. Compared to the beginning of trading, the share of Estonian private investors has increased by 1 percentage point at the expense of foreign investors. In the fourth quarter, the share of foreign investors increased at the expense of Estonian private investors by 1 percentage point.

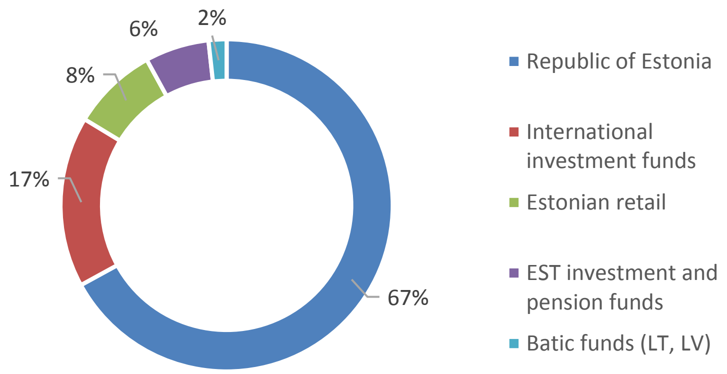

Chart: Shareholder structure as at 31 December 2018

DIVIDENDS

The dividend policy of AS Tallinna Sadam sets the target to pay the shareholders regular post-tax dividends, which in the period 2019-2020 should amount to at least EUR 30 million per year and from 2021 onward to at least 70% of the preceding year's net profit, subject to market conditions, the company's growth and development plans, as well as the need to maintain a reasonable level of liquidity and excluding the impact of non-recurring transactions.

The approved dividend for 2017, which is to be paid out in 2018, amounts to EUR 105 million, of which the first payment of EUR 85 million was made on 25 June 2018 and the second payment of EUR 20 million was made on 11 December 2018. According to the terms and conditions of the initial public offering of the shares, the dividend for 2017 was only to be paid to the former sole shareholder (the Republic of Estonia) and the shareholders who acquired shares during the initial public offering are entitled to dividends paid for 2018 and subsequent periods.

CORPORATE GOVERNANCE

At 31 December 2018, AS Tallinna Sadam had two wholly-owned subsidiaries, OÜ TS Shipping and OÜ TS Laevad, and a 51% interest in the associate AS Green Marine.

Supervisory board is responsible for the strategic planning of the company's activities and supervision of the management board. According to the Articles of Association of AS Tallinna Sadam, the supervisory board has six to eight members. At 31 December 2018, the supervisory board had six members: Aare Tark (chairman), Ahti Kuningas, Maarika Liivamägi, Raigo Uukkivi, Urmas Kaarlep and Üllar Jaaksoo. Under the supervisory board, there is a three-member audit committee, which consists of members of the supervisory board and acts as an advisory body in supervisory matters.
In the fourth quarter, the composition of the supervisory board and its bodies did not change.

Management board is responsible for everyday management of the company in accordance with the law and the Articles of Association. According to the Articles of Association, the management board may have two to five members. At 31 December 2018, the management board had three members: Valdo Kalm (chairman and CEO), Marko Raid (CFO) and Margus Vihman (CCO).
In the fourth quarter, the composition of the management board did not change.

Further information about the company's governance and members of the management and supervisory boards is presented in the prospectus of the initial public offering of the shares and on the investor page of the company's website: https://investor.ts.ee/en/.

The Group follows the principles of the Estonian Corporate Governance Code.

SIGNIFICANT EVENTS IN THE FOURTH QUARTER OF 2018

1. **Memorandum of Understanding for building an LNG terminal in Paldiski.** On 1 November 2018, Tallinna Sadam and AS Alexela Invest signed a Memorandum of Understanding for finding the best solution for the development and implementation of LNG terminal and servicing LNG tankers and bunker vessels and establishing port facilities for loading and unloading LNG on the Pakri peninsula by the Lahepere bay in Paldiski. Tallinna Sadam and Alexela will continue to negotiate the terms and conditions of their joint activities with the aim of reaching the contract by the end of 2020. According to the Memorandum of Understanding, in the Paldiski LNG terminal project Tallinna Sadam would be responsible for developing and maintaining the necessary port facilities and Alexela would be responsible for building and operating the terminal.

2. **Change on the management board of OÜ TS Laevad**. In connection with the expiry of the term of office of Mart Loik, a member of the management board of OÜ TS Laevad, a subsidiary of Tallinna Sadam, on 8 December 2018, the supervisory board of OÜ TS Laevad appointed Guldar Kivro as a new member of the management board as from 9 December 2018.

3. **Chartering out of M/V Botnica for the summer of 2019.** Baffinland Iron Mines has announced that it will exercise the contractual option to charter the multifunctional icebreaker Botnica during the period from the end of June to the end of October 2019. The precise number of days for which the icebreaker will be chartered out and the number of trips it will make to Northern Canada will depend on the weather and other relevant conditions.

MANAGEMENT'S CONFIRMATION AND SIGNATURES

By authorising the unaudited interim condensed consolidated report as at and for the period ended 31 December 2018 for issue, the management board confirms that the information about AS Tallinna Sadam and the companies related to it, as set out on pages 12 to 26, is correct and complete and that:

1. the unaudited interim condensed consolidated financial statements have been prepared in accordance with the Estonian Accounting Act and International Financial Reporting Standards as adopted by the European Union (IFRS EU);

2. the unaudited interim condensed consolidated financial statements give a true and fair view of the financial position, cash flows and financial performance of the Group;

3. all significant events that occurred until the date on which the interim condensed consolidated financial statements were authorised for issue (26 February 2019) have been properly recognised and disclosed; and

4. AS Tallinna Sadam and its subsidiaries are going concerns.

26 February 2019

Valdo Kalm	Marko Raid	Margus Vihman
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros	Note	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	**4**	42,563	6,954
Trade and other receivables	**5**	8,017	9,271
Inventories		305	301
Total current assets		**50,885**	**16,526**
Non-current assets			
Investments in associates	**6**	1,569	1,256
Other long-term receivables	**5**	196	272
Property, plant and equipment	**7**	568,965	577,125
Intangible assets		2,024	1,958
Total non-current assets		**572,754**	**580,611**
Total assets		**623,639**	**597,137**
LIABILITIES			
Current liabilities			
Loans and borrowings	**9**	15,766	21,989
Derivative financial instruments		425	609
Provisions		1,957	1,503
Government grants		174	303
Taxes payable		5,844	698
Trade and other payables	**8**	9,517	7,810
Total current liabilities		**33,683**	**32,912**
Non-current liabilities			
Loans and borrowings	**9**	197,846	213,611
Government grants		23,418	23,826
Other payables	**8**	1,018	996
Total non-current liabilities		**222,282**	**238,433**
Total liabilities		**255,965**	**271,345**
EQUITY			
Share capital	**10**	263,000	185,203
Share premium	**10**	44,478	0
Statutory capital reserve		18,520	18,520
Hedge reserve		-425	-609
Retained earnings (prior periods)		17,678	96,253
Profit for the period		24,423	26,425
Total equity		**367,674**	**325,792**
Total liabilities and equity		**623,639**	**597,137**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the 12 months ended 31 December

Consolidated statement of profit or loss

In thousands of euros	Note	Q4 2018	Q4 2017	12 months 2018	12 months 2017
Revenue	**11**	29,572	27,089	130,635	121,295
Other income	**12**	158	231	816	4,808
Operating expenses	**13**	-9,347	-9,348	-37,360	-41,041
Personnel expenses		-5,508	-4,962	-19,420	-17,957
Depreciation, amortisation and impairment		-5,829	-11,397	-22,345	-26,430
Other expenses		-34	-35	-251	-358
Operating profit		**9,012**	**1,578**	**52,075**	**40,317**
Finance income and costs					
Finance income		20	10	33	33
Finance costs		-464	-619	-2,003	-2,318
Finance costs - net		**-444**	**-609**	**-1,970**	**-2,285**
Share of profit/loss of an associate accounted for under the equity method		-18	-24	517	348
Profit before income tax		**8,550**	**945**	**50,622**	**38,380**
Income tax expense (-)/decrease in income tax expense (+)		51	45	-26,199	-11,955
Profit for the period		**8,601**	**990**	**24,423**	**26,425**
Attributable to owners of the Parent		8,601	990	24,423	26,425
Basic and diluted earnings per share (in euros)	**10**	0.03	0.01	0.11	0.14
Basic and diluted earnings per share - continuing operations (in euros)		0.03	0.01	0.11	0.14

Consolidated statement of other comprehensive income

In thousands of euros	Q4 2018	Q4 2017	12 months 2018	12 months 2017
Profit for the period	**8,601**	**990**	**24,423**	**26,425**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Net fair value gain/loss on hedging instruments in cash flow hedges	-8	104	184	399
Total other comprehensive income/expense	**-8**	**104**	**184**	**399**
Total comprehensive income for the period	**8,593**	**1,094**	**24,607**	**26,824**
Attributable to owners of the Parent	8,593	1,094	24,607	26,824

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the 12 months ended 31 December

In thousands of euros	Note	12 months 2018	12 months 2017
Cash receipts from sale of goods and services		138,746	127,814
Cash receipts related to other income		104	450
Payments to suppliers		-43,660	-48,658
Payments to and on behalf of employees		-16,461	-14,824
Payments for other expenses		-366	-744
Income tax paid on dividends		-21,250	-20,612
Cash from operating activities		**57,113**	**43,426**
Purchases of property, plant and equipment		-11,941	-25,171
Purchases of intangible assets		-618	-1,346
Proceeds from sale of property, plant and equipment		12	524
Government grants received		0	349
Dividends received		204	178
Interest received		18	19
Cash used in investing activities		**-12,325**	**-25,447**
Contributions to share capital		119,883	0
Issue of debt securities		0	105,000
Redemption of debt securities	**9**	-12,650	-111,250
Repayments of loans received	**9**	-6,766	-6,766
Change in overdraft (liability)	**9**	-2,565	2,565
Repayments of finance lease principal	**9**	-7	-3
Dividends paid	**10**	-105,000	-48,000
Interest paid		-2,023	-2,459
Other payments related to financing activities		-51	-30
Cash used in financing activities		**-9,179**	**-60,943**
NET CASH FLOW		**35,609**	**-42,964**
Cash and cash equivalents at beginning of the period		6,954	49,918
Change in cash and cash equivalents		35,609	-42,964
Cash and cash equivalents at end of the period		42,563	6,954

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 12 months ended 31 December

In thousands of euros	Note	Share capital	Share premium	Statutory capital reserve	Hedge reserve	Retained earnings	Total equity attributable to owners of the Parent
Equity at 31 December 2016		**185,203**	**0**	**18,520**	**-1,008**	**144,253**	**346,968**
Profit for the period		0	0	0	0	26,425	**26,425**
Other comprehensive income for the period		0	0	0	399	0	**399**
Total comprehensive income for the period		*0*	*0*	*0*	*399*	*26,425*	***26,824***
Dividends declared		0	0	0	0	-48,000	**-48,000**
Total transactions with owners		*0*	*0*	*0*	*0*	*-48,000*	***-48,000***
Equity at 31 December 2017		**185,203**	**0**	**18,520**	**-609**	**122,678**	**325,792**
Profit for the period		0	0	0	0	24,423	**24,423**
Other comprehensive income for the period		0	0	0	184	0	**184**
Total comprehensive income for the period		*0*	*0*	*0*	*184*	*24,423*	***24,607***
Contributions to share capital	**10**	77,797	44,478	0	0	0	**122,275**
Dividends declared		0	0	0	0	-105,000	**-105,000**
Total transactions with owners		*77,797*	*44,478*	*0*	*0*	*-105,000*	***17,275***
Equity at 31 December 2018		**263,000**	**44,478**	**18,520**	**-425**	**42,101**	**367,674**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

AS Tallinna Sadam (also referred to as the "Parent" or the "Company") is a company incorporated and registered in the Republic of Estonia on 5 November 1996. The interim condensed consolidated financial statement of AS Tallinna Sadam as at and for the 12 months ended 31 December 2018 comprise the Parent and its subsidiaries (together referred to as the "Group"). The Group's core business lines are rendering of port services in the capacity of a landlord port, providing passenger ferry service between Estonia's mainland and biggest islands and operating the multifunctional icebreaker Botnica.

The Group owns five harbours: Old City, Saaremaa, Muuga, Paljassaare, and Paldiski South. The Old City Harbour in the centre of Tallinn, the Old City Marina for small vessels (opened in 2010) and the Saaremaa Harbour that is used mostly for receiving cruise ships provide mainly passenger harbour services. The Muuga Harbour, which is Estonia's largest cargo harbour, the Paldiski South Harbour and the Paljassaare Harbour that serves mostly ship repair companies provide mainly cargo harbour services. The Group has ceased active operations in Paljassaare Harbour and is preparing the exit.

In October 2017, the sole shareholder of the Parent decided to merge the Group's wholly-held subsidiary TS Energia OÜ with the Parent, AS Tallinna Sadam. The closing accounts of TS Energia OÜ were prepared as at 30 July 2017. All transactions conducted by TS Energia OÜ from 31 July 2017 to the date the merger was registered in the Commercial Registry (31 December 2017) were recognised in the financial statements of AS Tallinna Sadam. The merger had no impact on the Group's consolidated figures.

The Group's subsidiaries as at 31 December 2018 and 31 December 2017:

Subsidiary	Domicile	Ownership interest (%)	Core business line
OÜ TS Shipping	Republic of Estonia	100	Rendering ice-breaking and other maritime support services with multi-functional ice-breaker Botnica
OÜ TS Laevad	Republic of Estonia	100	Rendering domestic ferry service with passenger ferries

In addition, the Group has a 51% interest in the associate AS Green Marine but it does not have control over the entity's decision-making. In the Group's financial statements, the interest in the associate is accounted for using the equity method.

The address of the Parent's registered office is Sadama 25, Tallinn 15051, the Republic of Estonia.
The ultimate controlling party of AS Tallinna Sadam is the Republic of Estonia (ownership interest of 67.03% through the Ministry of Economic Affairs and Communications).

2. ACCOUNTING POLICIES

These interim condensed consolidated financial statements for the 12 months ended 31 December 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes and explanations included in the Company's consolidated annual report for the year ended 31 December 2017. See note 2 to the consolidated financial statements in the annual report for 2017 for additional information about significant accounting policies.

As disclosed in note 2 to the Group's consolidated financial statements for the year ended 31 December 2017, in the period which started on 1 January 2017 the Group adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The Group also changed certain accounting policies in order to provide more relevant and reliable information.

Note 2 continued

Since the changes in accounting policies were applied retrospectively, in the financial statements for the 12 months ended 31 December 2018 the comparative figures for 2017 have not been additionally adjusted as the amounts are fully comparable.

The accounting policies applied in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group´s annual consolidated financial statements for the year ended 31 December 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.
The interim condensed consolidated financial statements are presented in thousands of euros.

3. OPERATING SEGMENTS

	12 months 2018				
In thousands of euros	**Passenger harbours**	**Cargo harbours**	**Ferry**	**Other**	**Total**
Vessel dues	27,615	20,884	0	0	**48,499**
Cargo charges	1,551	5,687	0	0	**7,238**
Passenger fees	17,005	99	0	0	**17,104**
Sale of electricity	799	5,010	0	0	**5,809**
Sale of ferry services - revenue from ticket sales	0	0	11,150	0	**11,150**
Sale of other services	1,197	975	31	45	**2,248**
Rental income	1,730	9,063	583	0	**11,376**
Charter fees	0	0	0	8,880	**8,880**
Sale of ferry services - government support	0	0	18,331	0	**18,331**
Total segment revenue* (note 11)	**49,897**	**41,718**	**30,095**	**8,925**	**130,635**
Adjusted segment EBITDA	**32,397**	**24,096**	**13,041**	**4,846**	**74,380**
Depreciation and amortisation	-5,809	-8,585	-5,603	-2,066	**-22,063**
Impairment loss	-282	0	0	0	**-282**
Amortisation of government grants received	98	459	0	0	**557**
Share of profit of an associate accounted for under the equity method	0	0	0	-517	**-517**
Segment operating profit	**26,403**	**15,970**	**7,438**	**2,263**	**52,075**
Finance income and costs, net					-1,970
Share of profit of an associate accounted for under the equity method					517
Income tax expense					-26,199
Profit for the period					**24,423**

* Total segment revenue represents revenue from external customers and excludes the inter-segment revenues of the passenger harbours and cargo harbours segments, of EUR 51 thousand and EUR 120 thousand respectively, which were eliminated in consolidation.

Note 3 continued

	12 months 2017				
In thousands of euros	**Passenger harbours**	**Cargo harbours**	**Ferry**	**Other**	**Total**
Vessel dues	27,475	18,371	0	0	**45,846**
Cargo charges	1,593	6,398	0	0	**7,991**
Passenger fees	16,956	48	0	0	**17,004**
Sale of electricity	703	4,610	0	0	**5,313**
Sale of ferry services - revenue from ticket sales	0	0	10,789	0	**10,789**
Sale of other services	1,136	909	18	0	**2,063**
Rental income	1,991	9,421	483	0	**11,895**
Charter fees	0	0	0	4,584	**4,584**
Sale of ferry services - government support	0	0	15,810	0	**15,810**
Total segment revenue* (note 11)	**49,854**	**39,757**	**27,100**	**4,584**	**121,295**
Adjusted segment EBITDA	**33,299**	**23,331**	**8,398**	**1,493**	**66,521**
Depreciation and amortisation	-4,622	-8,623	-4,916	-2,319	**-20,480**
Impairment loss	-20	-30	0	-5,900	**-5,950**
Amortisation of government grants received	108	466	0	0	**574**
Share of profit of an associate accounted for under the equity method	0	0	0	-348	**-348**
Segment operating profit/loss	**28,765**	**15,144**	**3,482**	**-7,074**	**40,317**
Finance income and costs, net					-2,285
Share of profit of an associate accounted for under the equity method					348
Income tax expense					-11,955
Profit for the period					**26,425**

* Total segment revenue represents revenue from external customers and excludes the inter-segment revenues of the passenger harbours and cargo harbours segments, of EUR 43 thousand and EUR 213 thousand respectively, which were eliminated in consolidation.

4. CASH AND CASH EQUIVALENTS

In thousands of euros At 31 December	**2018**	**2017**
Cash on hand	21	28
Cash at banks	22,531	6,898
Short-term deposits	20,000	0
Cash in transit	11	28
Total cash and cash equivalents	**42,563**	**6,954**

5. TRADE AND OTHER RECEIVABLES

In thousands of euros At 31 December	2018	2017
Financial assets		
Receivables from customers	8,636	9,293
Allowance for credit loss	-2,020	-2,384
Government grants receivable	283	189
Receivables from an associate (note 17)	25	27
Other receivables	223	1,109
Total financial assets	**7,147**	**8,234**
Non-financial assets		
Prepaid taxes	633	673
Other prepayments	409	620
Other receivables	24	16
Total non-financial assets	**1,066**	**1,309**
Total trade and other receivables	**8,213**	**9,543**
Of which short-term receivables	8,017	9,271
long-term receivables	196	272

Trade receivables provision matrix

In thousands of euros		Days past due				
At 31 December 2018	Not past due	0-30	31-60	61-90	>90	Total
Expected credit loss rate	0.8%	1.5%	3.0%	80.0%	100.0%	
Total trade and other receivables	6,442	191	30	42	1,931	8,636
Lifetime expected credit loss (ECL)	-52	-3	0	-34	-1931	-2,020
						6,616
At 31 December 2017						
Expected credit loss rate	5.1%	1.5%	3.0%	40.0%	100.0%	
Total trade and other receivables	7,015	180	47	49	2,002	9,293
Lifetime expected credit loss (ECL)	-358*	-3	-1	-20	-2,002	-2,384
						6,909

* Includes an individually impaired receivable of EUR 301 thousand (gross carrying amount at 31 December 2017) which was collected after 31 December 2017.

6. INVESTMENT IN AN ASSOCIATE

In the reporting period, the Group analysed the shareholder structure of AS Green Marine and came to the conclusion that AS Green Marine has transformed from a joint venture into an associate. Accordingly, the investment was reclassified. The reclassification of the investment had no impact on the Group's financial statements.

In thousands of euros	12 months 2018	12 months 2017
Operating income	4,906	4,171
Operating expenses	3,773	3,383
Net profit	1,018	683

In thousands of euros At 31 December	2018	2017
Net assets of the associate	3,076	2,462
The Group's ownership interest in the associate, %	51%	51%
Carrying amount of the Group's interest in the associate	1,569	1,256

On 9 October 2018, the associate paid the Group a dividend of EUR 204 thousand (2017: EUR 178 thousand).

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Prepayments	Total
At 31 December 2017						
Cost	591,570	234,605	6,887	9,053	15	**842,130**
Accumulated depreciation and impairment losses	-199,964	-59,904	-5,137	0	0	**-265,005**
Carrying amount at 31 December 2017	**391,606**	**174,701**	**1,750**	**9,053**	**15**	**577,125**
Movements within 12 months ended 31 December 2018						
Acquisition and reconstruction	3,029	914	503	9,170	16	**13,632**
Depreciation charge	-11,028	-10,032	-450	0	0	**-21,510**
Impairment losses	-143	-38	0	-101	0	**-282**
Reclassified at carrying amount	10,002	2,378	94	-12,474	0	**0**
At 31 December 2018						
Cost	604,312	236,509	6,983	5,648	31	**853,483**
Accumulated depreciation and impairment losses	-210,846	-68,586	-5,086	0	0	**-284,518**
Carrying amount at 31 December 2018	**393,466**	**167,923**	**1,897**	**5,648**	**31**	**568,965**

8. TRADE AND OTHER PAYABLES

In thousands of euros At 31 December	**2018**	**2017**
Financial liabilities		
Trade payables	3,775	4,994
Interest payable	446	534
Payables to an associate (note 17)	134	115
Other payables	3,208	294
Total financial liabilities	**7,563**	**5,937**
Non-financial liabilities		
Payables to employees	1,054	966
Accrued taxes payable on remuneration	572	557
Payables related to contracts with customers	971	965
Advances for goods and services	375	381
Total non-financial liabilities	**2,972**	**2,869**
Total trade and other payables	**10,535**	**8,806**
Of which current liabilities	9,517	7,810
non-current liabilities	1,018	996

9. LOANS AND BORROWINGS

In thousands of euros At 31 December	**2018**	**2017**
Current portion		
Loans and borrowings	6,766	9,332
Debt securities	9,000	12,650
Finance lease liability	0	7
Total current portion	**15,766**	**21,989**
Non-current portion		
Loans and borrowings	39,596	46,361
Debt securities	158,250	167,250
Total non-current portion	**197,846**	**213,611**
Total loans and borrowings	**213,612**	**235,600**

Debt securities

All debt securities have been issued in euros and have floating interest rates (the base interest rate of 3-month or 6-month EURIBOR plus a fixed risk margin). The redemption date of one debt securities issue arrived in 2018 and the debt securities were redeemed in line with the payment schedule. A new debt securities issue was not arranged. The final maturities of the two remaining debt securities issues fall in 2026 and 2027. Principal payments made in the 12 months ended 31 December 2018 as per payment schedules totalled EUR 12,650 thousand (12 months ended 31 December 2017: EUR 111,250 thousand, including a refinanced debt security of EUR 105,000 thousand). Considering the effect of derivative transactions used to hedge interest rate risk, at 31 December 2018 the weighted average interest rate of the debt securities was 0.684% (31 December 2017: 0.676%).

Loans

All loan agreements are denominated in euros and have floating interest rates (the base rate is 6-month EURIBOR). The final maturities of outstanding loans fall in the years 2024-2028. Repayments of loan principal in the 12 months ended 31 December 2018 totalled EUR 6,766 thousand (12 months ended on 31 December 2017: EUR 6,766 thousand).

Note 9 continued

At 31 December 2018, the weighted average interest rate of drawn loans was 0.703% (31 December 2017: 0.805%). Considering the effect of derivative transactions used to hedge the interest rate risk, at 31 December 2018 the average interest rate of loans was 1.440% (31 December 2017: 1.775%).
During the period, the Group settled on time overdraft liabilities of EUR 2,566 thousand.

Contractual maturities of loans and borrowings

In thousands of euros At 31 December	**2018**
< 6 months	3,383
6 - 12 months	12,383
1 - 5 years	63,064
> 5 years	134,782
Total loans and borrowings	**213,612**

Fair value

In the reporting period the evaluation of the Group's risk level did not change and there were no significant movements in the interest rates of the international financial market. Therefore, the Group estimates that similarly to the period ended 31 December 2017 the fair values of loans and debt securities measured at amortised cost do not differ significantly from their carrying amounts stated in the Group's consolidated statement of financial position as at 31 December 2018.
All derivatives are measured at fair value in the statement of financial position. The fair value of derivatives is measured on a monthly basis using pricing provided by banks, which is based on the forward-looking yield curves of interest rate swap transactions from market information providers. In the fair value hierarchy, this qualifies as a level 2 measurement.

All outstanding loan and debt securities agreements are unsecured liabilities, i.e. no assets have been pledged to cover the obligations. None of the debt securities is listed.

10. EQUITY

Share capital and share premium

On 20 April 2018 AS Tallinna Sadam issued 2,392,000 new ordinary shares with a par value of EUR 1 each. The shares were paid for with non-monetary contributions – registered immovable properties belonging to the Republic of Estonia in Tallinn, Jõelähtme parish and Saaremaa parish.
The shares in AS Tallinna Sadam were listed in the Baltic Main List of the Nasdaq Tallinn Stock Exchange on 13 June 2018 after a successful initial public offering (IPO) of the shares. During the IPO, AS Tallinna Sadam issued 75,404,968 new shares with a par value of EUR 1 each and the Republic of Estonia (the sole shareholder until that time) sold 11,300,000 existing shares with a par value of EUR 1 each.
As at 31 December 2018, the company had 263,000,000 ordinary shares of which 176,295,032, i.e. 67.03%, belonged to the Republic of Estonia (through the Ministry of Economic Affairs and Communications). The par value of a share is EUR 1.

Number of new shares issued	75,404,968
Share price at the end of subscription period, in euros	1,7
Proceeds from shares issued, in thousands of euros	**128 189**
Par value of new shares, in thousands of euros	-75,405
Costs related to IPO, in thousands of euros	-8,306
Share premium, in thousands of euros	**44,478**

Note 10 continued

Earnings per share

	12 months 2018	12 months 2017
Weighted average number of shares	228,611,677	185,203,032
Consolidated net profit for the period (in thousands of euros)	24,423	26,425
Basic and diluted earnings per share (in euros)	0.11	0.14

Based on a decision made by the former sole shareholder (the Republic of Estonia) on 25 April 2018, AS Tallinna Sadam distributed a dividend of EUR 105 million for 2017. As agreed with the Republic of Estonia, the dividend was distributed in two parts: the first payment of EUR 85 million was made on 25 June 2018 and the second payment of EUR 20 million was made on 11 December 2018. Under the terms and conditions of the IPO, dividend payments for 2017 were made to the former sole shareholder (the Republic of Estonia) only and shareholders who acquired shares during the IPO are entitled to receive dividend payments for 2018 and subsequent periods.

11. REVENUE

In thousands of euros	12 months 2018	12 months 2017
Revenue from contracts with customers		
Vessel dues	48,499	45,846
Cargo charges	7,238	7,991
Passenger fees	17,104	17,004
Sale of electricity	5,809	5,313
Sale of ferry services - ticket sales	11,150	10,789
Sale of other services	2,248	2,063
Total revenue from contracts with customers	**92,048**	**89,006**
Revenue from other sources		
Rental income from operating leases	11,376	11,895
Charter fees	8,880	4,584
Sale of ferry services - government support	18,331	15,810
Total revenue from other sources	**38,587**	**32,289**
Total revenue	**130,635**	**121,295**

In 2018, revenue from services provided in Estonia amounted to EUR 126,387 thousand and revenue from services provided in Canada amounted to EUR 4,248 thousand (including charter fees of EUR 4,248 thousand). In 2017, all services were provided in Estonia.

Vessel dues include tonnage charge calculated on the basis of the gross tonnage of a vessel for each port call. For vessels visiting the port based on a pre-agreed schedule that have a prospective volume discount during the year, the transaction price is allocated between the tonnage services and the option for discounted tonnage services based on the estimated total number of port calls by that vessel during the calendar year. Revenue from tonnage dues is recognised based on the yearly average tariffs and estimated volume as described above.

Some contracts set out a minimum annual cargo volume. If the cargo operator handles less than the minimum, the Group has the right to charge the customer at the end of the calendar year based on the minimum volume of cargo handled.

Note 11 continued

When connecting to the electricity network, customers pay a connection fee based on the expenses incurred by the Group on connecting them to the network. The connection service does not represent a separate performance obligation as the customer does not benefit from this service separately (i.e. without consuming electricity). Therefore, connection fees form part of the consideration for electricity and are recognised as revenue over the estimated period during which customers are expected to consume electricity. Amounts of connection fees received which have not yet been included in revenue are recognised in the statement of financial position as contract liabilities. At 31 December 2018 such liabilities amounted to EUR 939 thousand (31 December 2017: EUR 932 thousand).

Revenue from ticket sales is recognised either over the time required by the ferry to transport the passengers and/or vehicles, which happens in a single day, or at the point in time when the ticket expires. Consideration received from tickets sold for trips not yet performed is deferred and recognised in the statement of financial position as a contract liability. At 31 December 2018 such liabilities amounted to EUR 32 thousand (31 December 2017: EUR 33 thousand).

12. OTHER INCOME

In thousands of euros	**12 months 2018**	**12 months 2017**
Gain on sale of non-current assets	11	2
Penalties, interest on arrears*	117	3,903
Income from government grants	645	890
Other income	43	13
Total other income	**816**	**4,808**

* Penalties recognised during 12 months ended 31 December 2017 included penalties of EUR 3,750 thousand from shipyards for delays in the delivery of new passenger ferries.

13. OPERATING EXPENSES

In thousands of euros	**12 months 2018**	**12 months 2017**
Fuel, oil and energy costs	11,725	10,551
Technical maintenance and repair of non-current assets	7,332	5,963
Services purchased for infrastructure	2,879	2,722
Tax expenses	3,224	3,136
Consultation and development expenses	1,299	1346
Services purchased	5,364	5,184
Acquisition and maintenance of insignificant assets	1,321	1,270
Advertising expenses	398	338
Rental expenses*	1,051	7,065
Insurance expenses	787	715
Other operating expenses	1,980	2,751
Total operating expenses	**37,360**	**41,041**

* Line item *Rental expenses* includes the charter costs of substitute ferries of EUR 6,606 thousand for 12 months ended 31 December 2017, incurred due to delays in the delivery of new passenger ferries.

14. COMMITMENTS

At 31 December 2018, the Group's contractual commitments related to acquisition of property, plant and equipment, repairs, and research and development expenditures totalled EUR 21,003 thousand (31 December 2017: EUR 2,962 thousand).
The commitments include the obligation to co-finance the construction of a road, Reidi tee, in the amount of up to EUR 2,555 thousand. The purpose of the co-financing is to help create the best possible connections between Reidi tee and the Group's Old City Harbour and thus make passenger and vehicle flows smoother.

15. CONTINGENT LIABILITIES

In the first half of 2017 AS Coal Terminal (bankrupt), a long-term customer of AS Tallinna Sadam and holder of several right of superficies contracts, declared bankruptcy. Because bankruptcy trustees refused to execute commitments under the right of superficies contracts, the contracts together with the assets erected on the plots covered by the right of superficies contracts were transferred back into the possession of the Group. Under the contracts, the Group has to compensate the value of buildings and equipment that form an essential part of the rights of superficies, the amount of which cannot be estimated reliably because the assets are special-purpose assets for which a regular market does not exist and there are contradictory views both among the experts and the parties of the dispute on the valuation methods that should be used. On 6 July 2018, bankruptcy trustees submitted a claim, demanding that AS Tallinna Sadam pay compensation of EUR 22.4 million for the value of the assets. AS Tallinna Sadam does not admit such a claim. In connection with the termination of contracts, AS Tallinna Sadam has submitted a counter-claim of EUR 11.7 million. Since AS Tallinna Sadam's monetary outcome from the bankruptcy proceedings of AS Coal Terminal (bankrupt) depends on the combined effect of the outcomes of several parallel disputes, the monetary impact of the bankruptcy of AS Coal Terminal (bankrupt) cannot be estimated reliably and there is also no certainty about the timing of the realization of the claim and liabilities. Thus, the management board has not recognised a provision for a possible claim.

A claim for damages of EUR 23.8 million was lodged against Group companies TS Laevad OÜ and TS Shipping OÜ in October 2017 in relation to alleged unjustified use of confidential information. The Group has disputed the claim and is defending itself in the action. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

Due to a significant decrease in cargo volumes handled, one of the Group's long-term customers has lodged a claim to void select conditions in a long-term cooperation contract concluded between the Group and the customer retrospectively as from 1 January 2015. The conditions set out the minimum cargo volume that the customer is required to handle each calendar year as well as the customer's minimum annual cargo charge obligation, which are related to the contractual penalty charged for failure to meet the minimum cargo charge obligation. The customer's contractual penalties for failure to meet the minimum cargo charge obligation in the years 2015-2017 amount to EUR 0.45 million. The customer's minimum annual cargo charge obligation is EUR 0.31 million. The management board believes that the claim is not substantiated and legal advice indicates that it is not probable that a liability will arise. Thus, the management board has not considered it necessary to recognise a provision for the claim.

16. INVESTIGATIONS CONCERNING THE GROUP

On 26 August 2015, the Estonian Internal Security Service detained Ain Kaljurand and Allan Kiil, long-term members of the management board of the Group's Parent, AS Tallinna Sadam, on suspicions of large-scale bribery during several prior years. After long-term investigation, on 31 July 2017 the Group filed a civil action lawsuit against Ain Kaljurand, Allan Kiil and other private and legal persons involved in the episodes under investigation. At the date of release of this report, the trial has not yet started; it is expected to start in spring 2019. Based on information available at the reporting date, the management board believes that the above event will not have any material adverse impact on the Group's financial performance or financial position. However, it may continue to cause damage to the Group's reputation.

17. RELATED PARTY TRANSACTIONS

For the purposes of these interim consolidated financial statements, related parties include members of the supervisory and management boards of group companies and their close family members, companies under the control or significant influence of the above persons, associates, government agencies and companies under the control or significant influence of the Republic of Estonia.

In thousands of euros	12 months 2018	12 months 2017
Transactions with an associate		
Revenue	207	195
Operating expenses	2,293	2,108
Transactions with companies in which members of supervisory and management boards of group companies have significant influence		
Revenue	1	9
Operating expenses	9	9
Other expenses	13	12
Transactions with government agencies and companies in which the state has control		
Revenue	23,760	21,149
Other income	13	38
Operating expenses	7,182	6,628
Other expenses	3	137
Acquisition of property, plant and equipment	748	72

In thousands of euros At 31 December	2018	2017
Trade receivables from and payables to an associate		
Receivables (note 5)	25	27
Payables (note 8)	134	115
Trade receivables from and payables to companies in which members of supervisory and management boards of group companies have significant influence		
Payables	1	1
Trade receivables from and payables to government agencies and companies in which the state has control		
Receivables	412	445
Payables	1,342	1,206

All purchase sand sales of services were transactions conducted in the ordinary course of business on an arm’s length basis.

Revenue and operating expenses from transactions with related parties comprise only revenue and expenses from sales and purchases of business-related services.

Information presented on companies in which members of the supervisory and management boards of group companies have significant influence is based on the information provided by related parties.