

AS TALLINK GRUPP

CONSOLIDATED ANNUAL REPORT 2010/2011

Beginning of the financial year 1 September 2010

End of the financial year 31 December 2011

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Main activity maritime transportation
(passengers & cargo transport)



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MANAGEMENT REPORT

Due to the change of the financial year the Group's 2010/2011 financial year was 16 months (01.09.2010-31.12.2011). The comparative financial year 2009/2010 was 12 months (01.09.2009-31.08.2010). The financial years are therefore not entirely comparable.

In the 2010/2011 financial year (01.09.2010-31.12.2011) the Group successfully followed the set strategy. Customer satisfaction improved in several main categories. The Group increased its traffic volumes and market shares throughout the financial year. During the 2010/2011 financial year the volume of passengers transported by the Group vessels was 11.8 million (8.4 million in 2009/2010).

The solution for non-profitable Finland-Germany route was found. In August 2011 two Superfast ships from the route were chartered to a third party and the operations on the route were discontinued.

From continuing operations the Group's revenue was 1,153.0 million EUR (791.5 million EUR in 2009/2010) gross profit was 251.4 million EUR (180.2 million EUR in 2009/2010) and net profit was 51.7 million EUR (36.5 million EUR in 2009/2010).

Including the discontinued operations the total revenue for the 2010/2011 financial year was 1,178.3 million EUR (813.9 million EUR in 2009/2010). Total gross profit was 238.7 million EUR (168.1 million EUR in 2009/2010) and EBITDA was 199.1 million EUR (145.1 million EUR in 2009/2010). Due to longer 16-months financial year the results include twice the autumn low season whereas only one high season which is visible in the lower gross profit and EBITDA margins than in the previous financial year.

The Group's target for the 2010/2011 financial year was to outperform previous year results. The target was met both in 16-month as well as 12-month comparison. Net profit for the 2010/2011 financial year was 37.5 million EUR (21.9 million EUR in 2009/2010).

The Group's focus in the 2010/2011 financial year continued in the sales activities. Further developments in the revenue management and dynamic pricing have had positive impact to the total revenue. Targeting higher customer satisfaction and growth in sales a project for further improvements on the online booking environment was started. With the aim to improve the usability and ease of the booking the new version of the online booking will be launched in 2012.

The key highlights for the 2010/2011 financial year were the following:

- Continuous focus on the cost savings
- Improved revenue management with the continuous enhancement of dynamic & flexible pricing
- Ending the operations on the non performing Finland-Germany route
- Increased passenger number and market share
- Increased revenue per passenger
- Reduction of debt

KEY FIGURES OF THE FINANCIAL YEAR 2010/2011

	01.09.2010- 31.12.2011	01.09.2009- 31.08.2010
Continuing operations	EUR	EUR
Revenue from continuing operations (million)	1,153.0	791.5
Gross profit from continuing operations (million)	251.4	180.2
Net profit from continuing op. (million)	51.7	36.5
Group total including the discontinued operations		
Revenue (million)	1,178.3	813.9
Gross profit (million)	238.7	168.1
Net profit for the period (million)	37.5	21.9
EBITDA (million)	199.1	145.1
Depreciation and amortization (million)	95.3	73.2
Investments (million)	13.3	6.1
Weighted average number of ordinary shares outstanding	669,882,040	669,882,040
Earnings per share	0.06	0.03
Number of passengers	11,818,870	8,428,055
Number of cargo units	382,869	258,773
Average number of employees	6,720	6,612
	31.12.2011	31.08.2010
Total assets (million)	1,799.5	1,871.3
Total liabilities (million)	1,094.5	1,203.6
Interest-bearing liabilities (million)	959.6	1,067.9
Net debt (million)	884.2	1,010.4
Total equity (million)	705.1	667.7
Equity ratio (%)	39.2%	35.7%
Number of ordinary shares outstanding ¹	669,882,040	669,882,040
Shareholders' equity per share	1.05	1.00
Ratios ²		
Gross margin (%)	20.3%	20.7%
EBITDA margin (%)	16.9%	17.8%
Net profit margin (%)	3.2%	2.7%
Return on assets (ROA)	5.7%	3.8%
Return on equity (ROE)	5.5%	3.3%
Return on capital employed (ROCE)	6.5%	4.2%
Net debt to EBITDA	5.4	6.9

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

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

Equity ratio: total equity / total assets;

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

Gross margin: gross profit / net sales;

EBITDA margin: EBITDA / net sales;

Net profit margin: net profit / net sales;

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

ROE: Net profit/ Average shareholders' equity;

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

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

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

¹ Share numbers exclude own shares.

² Calculations are made using the Group's total numbers which include discontinued operations

SALES

The Group's consolidated revenue from continuing operations amounted to 1,153.0 million EUR in the 2010/2011 financial year (1 September 2010 – 31 December 2011). Restaurant and shop sales on-board and on mainland in the amount of 636 million EUR contribute more than half of the revenue. Ticket sales amounted to nearly 314 million EUR and sales of cargo transport were 142 million EUR. The distribution of sales between operational segments has remained about same when compared to the previous financial year.

Geographically nearly 41% or 475 million EUR of the revenue from continuing operations came from the Finland-Sweden route and 32% or 371 million EUR from the Estonia-Finland route. The faster growth in the latter has had impact to the geographical sales distribution when compared to the previous financial year. The revenue on the Sweden-Estonia route was 140 million EUR and on the Sweden-Latvia route 80 million EUR. In August 2011 the Group ceased operations on the Finland-Germany route which segment is classified as discontinued operations in the Group's financial statements. The revenue from the Finland-Germany route in the 2010/2011 financial year was 25 million EUR and in the 2009/2010 financial year 22 million EUR.

The following tables provide an overview of sales distribution of continuing operations geographically and operationally

Geographical segments	10/11	09/10
Finland - Sweden	40.8%	44.3%
Estonia - Finland	31.8%	30.0%
Estonia - Sweden	12.0%	11.3%
Latvia - Sweden	6.9%	6.6%
Other	8.5%	7.8%

Operational segments	10/11	09/10
Restaurant and shop sales on-board and on mainland	54.0%	54.2%
Ticket sales	26.6%	26.7%
Sales of cargo transportation	12.1%	12.1%
Accommodation sales	1.7%	1.4%
Income from leases of vessels	2.2%	2.1%
Other sales	3.4%	3.5%

EARNINGS

From continuing operations the Group's gross profit was 251.4 million EUR (180.2 million EUR in 2009/2010) and net profit was 51.7 million EUR (36.5 million EUR in 2009/2010). Including the discontinued operations the total gross profit for the 2010/2011 financial year was 238.7 million EUR (168.1 million EUR in 2009/2010) and EBITDA was 199.1 million EUR (145.1 million EUR in 2009/2010).

Net profit from continuing operations was 51.7 million EUR (36.5 million EUR in 2009/2010). The net profit for the period was 37.5 million EUR (21.9 million in 2009/2010). Basic and diluted earnings per share were 0.06 EUR (0.03 EUR in 2009/2010) and basic and diluted earnings per share from continuing operations were 0.08 EUR (0.05 EUR in 2009/2010).

Driven by the overall cost inflation in food and retail products in the region and the Group's higher shops and restaurant sales the cost of goods, the largest operating cost, amounted to 252.9 million EUR (170.0 million EUR in 2009/2010). However, the Group was able to maintain the profit margin on the goods.

Fuel cost in the 2010/2011 financial year was 182.7 million EUR (110.8 million EUR in 2009/2010). Higher consumption due to the longer financial year but also the increase in the fuel price have been main drivers for the fuel cost. When measured in euros the average market price of the reference fuel (Fuel oil 1%) in 2011 was approximately 33% higher than in 2010.

The Group's personnel expenses amounted to 227.6 million EUR (161.2 million EUR in 2009/2010). The average number of employees for the 2010/2011 financial year was 6,720 (6,612 in 2009/2010).

The administrative expenses in 2010/2011 financial year amounted to 55.0 million EUR and marketing expenses to 78.2 million EUR (respectively 40.2 and 51.7 million EUR in 2009/2010).

The depreciation and amortisation of the Group's assets was 95.3 million EUR (73.2 million EUR in 2009/2010). There were no changes in the depreciation policies in the 2010/2011 financial year. There was no impairment loss related to the Group's tangible assets.

In the 2010/2011 financial year the Group's net finance cost amounted to 65.0 million EUR (47.4 million EUR in 2009/2010). Interest expense is the largest component in the financial cost. In 2010/2011 financial year interest expense was 56.2 million EUR (39.6 million EUR in 2009/2010). In 2010/2011 expenses from derivatives amounted to 13.2 million EUR (13.1 million EUR in 2009/2010).

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

LIQUIDITY AND CASH FLOW

The net operating cash flow in 2010/2011 financial year was 203.4 million EUR (163.8 million EUR in 2009/2010).

Net cash flows used in investing activities was 20.2 million EUR (4.3 million EUR in 2009/2010) of which 13.3 million EUR (6.1 million EUR in 2009/2010) were purchases of property, plant, equipment and intangible assets. These were mainly investments related to the upgrading works on the ships.

During the 2010/2011 financial year, the Group did not receive any cash from new borrowings but repaid its existing loans and leases in total of 112.2 million EUR (106.9 million EUR in 2009/2010). Interest payments were 53.1 million EUR (45.1 million EUR in 2009/2010).

As of 31 December 2011, the Group's cash and cash equivalents totalled 75.4 million EUR. In addition the Group had unused overdraft credit lines available in the amount of 46.8 million EUR.

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

FINANCING SOURCES

The Group finances its operations and investments with operating cash flows, debt and equity financing, and proceeds from potential disposals of assets. At 31 December 2011, the Group's debt as a percentage of capitalization (total debt and shareholders' equity) was 57.6% compared to 61.5% at 31 August 2010. The reduction results from 108.3 million EUR decrease in debt and a 37.4 million EUR increase in equity.

LOANS AND BORROWINGS

At the end of the 2010/2011 financial year, interest-bearing liabilities totalled 959.6 million EUR, 10.1% lower than in the end of the previous financial year. In the reporting period, the Group did not take any new loans. The granted overdraft limits were not used in the end of the financial year and available for the Group to maintain the liquidity position if needed.

All interest bearing liabilities have been incurred in euros.

SHAREHOLDERS' EQUITY

Consolidated equity increased by 5.6% from 667.7 million EUR to 705.1 million EUR, mainly on account of net profit for the financial year. Shareholders' equity per share, excluding own shares, was 1.05 EUR. At the end of the 2010/2011 financial year the Group's share capital amounted to 404,290,000 EUR. For further information about shares, please see the "Shares and Shareholders" section of this report.

VESSELS AND OTHER INVESTMENTS

The Group's main revenue generating assets are vessels, which account for approximately 87% of total assets. At the end of the financial year, the Group owned 19 vessels. Their types and operations at the end of the financial year are described in the table below:

Vessel Name	Vessel type	Built/renovated	Route	remark
Baltic Princess	Cruise ferry	2008	Finland-Estonia	overnight cruise
Superstar	High-speed ro-pax	2008	Finland-Estonia	shuttle service
Star	High-speed ro-pax	2007	Finland-Estonia	shuttle service
Galaxy	Cruise ferry	2006	Finland-Sweden	overnight cruise
Silja Europa	Cruise ferry	1993	Finland-Sweden	overnight cruise
Silja Symphony	Cruise ferry	1991	Finland-Sweden	overnight cruise
Silja Serenade	Cruise ferry	1990	Finland-Sweden	overnight cruise
Sea Wind	Ro-ro cargo vessel	1972/1989	Finland-Sweden	cargo transportation
Baltic Queen	Cruise ferry	2009	Sweden-Estonia	overnight cruise
Victoria I	Cruise ferry	2004	Sweden-Estonia	overnight cruise
Regal Star	Ro-ro cargo vessel	1999	Sweden-Estonia	cargo transportation
Romantika	Cruise ferry	2002	Sweden-Latvia	overnight cruise
Silja Festival	Cruise ferry	1986	Sweden-Latvia	overnight cruise
Superfast VII	High-speed ro-pax	2001	Chartered out	renamed as "Stena Superfast VII"
Superfast VIII	High-speed ro-pax	2001	Chartered out	renamed as "Stena Superfast VIII"
Superfast IX	High-speed ro-pax	2002	Chartered out	renamed as "Atlantic Vision"

Regina Baltica	Cruise ferry	1980	Short term charter
Vana Tallinn	Cruise ferry	1974	Sale contracted by way of leasing
Kapella	Ro-ro cargo vessel	1974	available for charter

As of 31 December 2011 the value of the ships amounted to 1,570.1 million EUR. The Group's vessels are regularly valued by 2-3 independent international ship brokers who are also approved by the lenders & mortgagees.

The Group has no new vessels under construction.

All the Group vessels have protection and indemnity insurance (P&I), hull and machinery insurance (H&M) and they meet all applicable safety regulations. In addition to the economic benefits of the upgrade of the fleet through new vessel investments, the Group is now employing one of the most environment friendly fleets as the vessels are equipped with the latest available machinery and technology.

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

MARKET DEVELOPMENTS

The total number of passengers carried by the Group during the 2010/2011 financial year was 11.8 million. The total number of cargo units carried by the Group's vessels was 382.9 thousand. Discontinuing of the Finland - Germany route in August 2011 will mostly impact cargo volumes. The number of cargo units from the continuing operations in the 2010/2011 financial year was 366.2 thousand. In the previous financial year the respective amount of cargo units was 244.3 thousand.

The following table provides an overview of transported passengers, cargo units and passenger vehicles in the 2010/2011 and 2009/2010 financial years.

	2010/2011	2009/2010
Passengers		
Finland-Sweden	4,080,828	3,136,360
Estonia-Finland	5,569,896	3,790,030
Estonia-Sweden	1,194,364	837,935
Latvia-Sweden	909,756	605,837
Finland-Germany (discontinued)	64,026	57,893
Total	11,818,870	8,428,055
Cargo units		
Finland-Sweden	128,643	91,412
Estonia-Finland	154,029	104,388
Estonia-Sweden	59,280	33,278
Latvia-Sweden	24,279	15,211
Finland-Germany (discontinued)	16,638	14,484
Total	382,869	258,773
Passenger vehicles		
Finland-Sweden	208,371	181,451
Estonia-Finland	933,157	617,689
Estonia-Sweden	93,908	66,197
Latvia-Sweden	118,315	82,584
Finland-Germany (discontinued)	19,763	16,955
Total	1,373,514	964,876

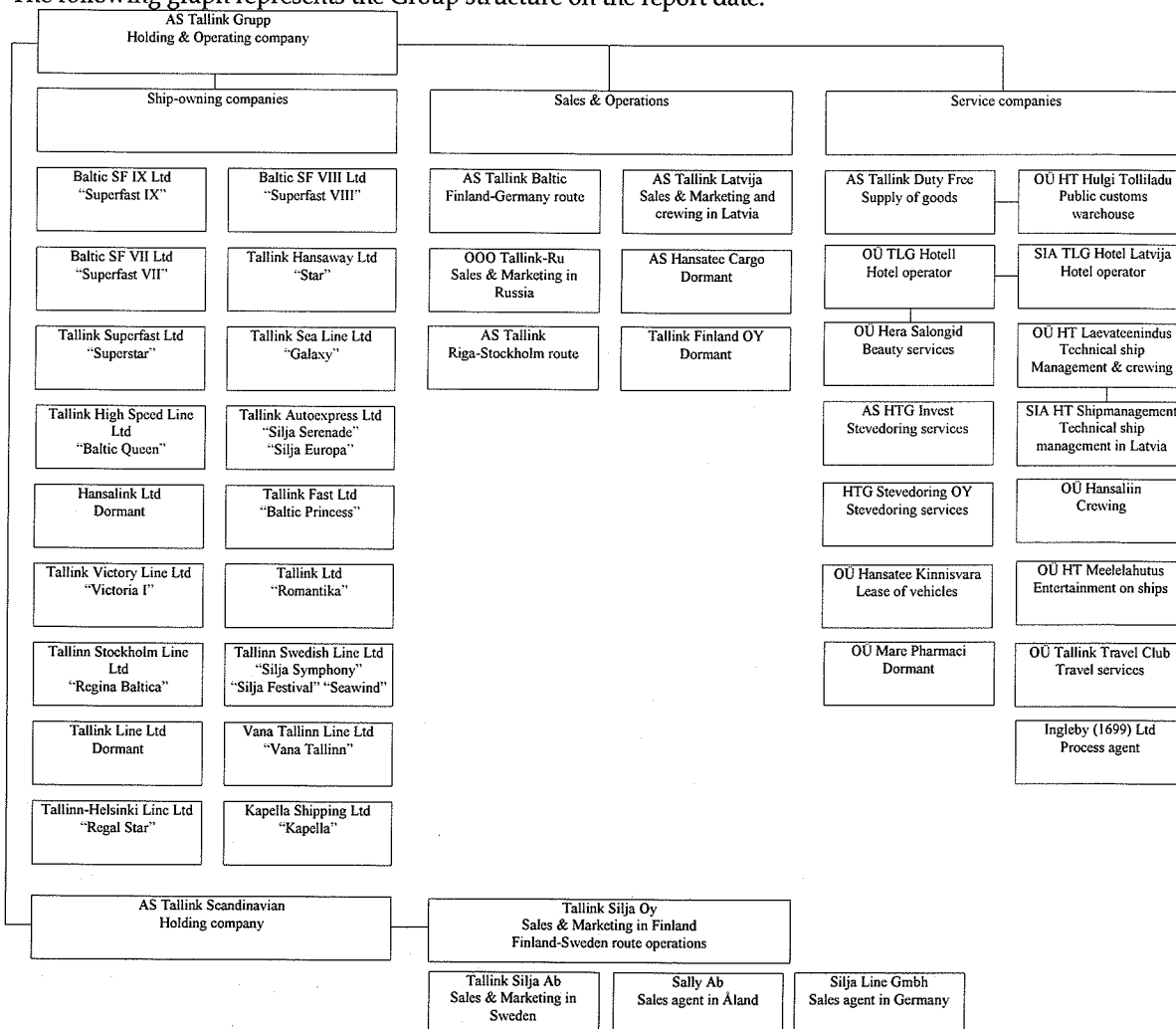
The Group's market shares on routes operated during the 2010/2011 financial year were as follows:

- The Group carried approximately 58% of the passengers and 49% of ro-ro cargo on the route between Tallinn and Helsinki;
- The Group is the only provider of daily passenger transportation between Estonia and Sweden.
- The Group is the only provider of daily passenger and ro-ro cargo transportation between Riga and Stockholm;
- The Group carried approximately 55% of passengers and 34% of ro-ro cargo on the routes between Finland and Sweden;
- The Group's approximate market share of passenger transportation on the route between Finland and Germany was 22% and the approximate market share of ro-ro cargo transportation was 5%.

GROUP STRUCTURE

On the report date the Group consisted of 46 companies. All of the subsidiaries are wholly-owned companies of AS Tallink Grupp.

The following graph represents the Group structure on the report date:



The Group further owns:

- 34% of AS Tallink Takso

PERSONNEL

On 31 December 2011 the Group employed 6,610 employees (6,715 on 31 August 2010).

	31.12.2011	31.08.2010	Change
Onshore total	1,467	1,529	-4.1%
<i>Estonia</i>	776	767	1.2%
<i>Finland</i>	445	496	-10.3%
<i>Sweden</i>	172	196	-12.2%
<i>Latvia</i>	60	55	9.1%
<i>Germany</i>	6	9	-33.3%
<i>Russia</i>	8	6	33.3%
At sea	4,565	4,648	-1.8%
Hotel*	578	538	7.4%
Total	6,610	6,715	-1.6%

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

In the 2010/2011 financial year the staff costs in the cost of sales were 168.4 million EUR (118.0 million EUR in 2009/2010). The administration staff costs were 19.7 million EUR and the sales & marketing staff 39.5 million EUR (respectively 14.3 and 28.9 million EUR in 2009/2010)

SHARES AND SHAREHOLDERS

As of 31 December 2011 AS Tallink Grupp had total of 673,817,040 shares issued and fully paid. In relation to the adoption of euro currency in Estonia the Annual General Meeting decided on 8 February 2011 to change par value of the share from 0.639 EUR to 0.60 EUR by reducing the share capital in amount of 26.4 million EUR. The retained earnings were increased accordingly as there were no payments to the shareholders resulting from the reduction.

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

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

On 8th February 2011 the Annual General Meeting of AS Tallink Grupp among other things set the main terms of the share option programme allowing to issue until 31.08.2013 options for up to 15 million shares. In accordance with the above the Group issued 7,317,500 share options of which 3,510,000 to the Management Board and Supervisory Board and 3,807,500 to other Group employees in June 2011. Each option gives right to purchase one share of AS Tallink Grupp. The options issued represent around 49% of the total authorized option programme limit and 1.1% of the total shares outstanding. The terms and conditions of exercise of the issued share options are following: non-transferable; exercisable not earlier than 36 months from issue or 31.05.2014 and not later than 30.11.2014; exercise price EUR 0.858 in case of new shares issued or average acquisition cost in case existing shares will be purchased from the market; options are to be settled by physical delivery of shares. The outstanding share options have no diluting effect due to their exercise price being higher than the average price in the stock market during the period

According to the decision of General Meeting on 26 January 2009 the Company is granted the right to acquire its own shares subject to the following conditions:

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

No share buyback has occurred since 26 January 2009.

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

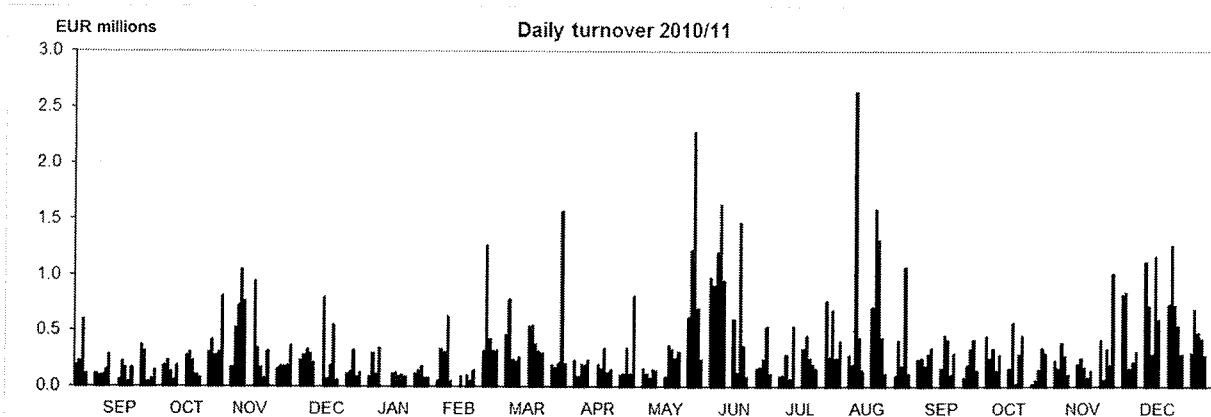
TRADING

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

During the 2010/2011 financial year, there were transactions with 94,446,135 shares of AS Tallink Grupp on Tallinn Stock Exchange. The highest daily average share price on Tallinn Stock Exchange was 0.88 EUR and the lowest daily average share price was 0.55 EUR. The weighted average share price in the 2010/2011 financial year was 0.71 EUR. The average daily turnover of the trade with AS Tallink Grupp shares on Tallinn Stock Exchange was 0.2 million EUR.

The following figures give an overview of the share price performance and trading on Tallinn Stock Exchange during the period from 1 September 2010 to 31 December 2011.





The table below presents the distribution of share capital by size of share ownership as at 31 December 2011:

Ownership size	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 - 99	610	4.88%	27,014	0.04%
100 - 999	3,476	27.81%	1,620,177	0.24%
1,000 - 9,999	7,355	58.85%	16,751,186	2.48%
10,000 - 99,999	919	7.35%	22,971,347	3.40%
100,000 - 999,999	95	0.76%	25,790,834	3.82%
1,000,000 - 9,999,999	36	0.29%	108,021,446	16.03%
10,000,000 +	7	0.06%	498,635,036	74.00%
TOTAL	12,498	100.00%	673,817,040	100.00%

As of 31 December 2011, 6.6% of the Group's shares were held by individuals.

The table below presents the 10 largest shareholders of the Group at 31 December 2011

Shareholder	No. of shares	%
INFORTAR AS	269,576,164	40.01%
ING LUXEMBOURG S.A.	68,242,442	10.13%
NORDEA BANK FINLAND PLC/ NON-RESIDENT LEGAL ENTITIES	66,039,936	9.8%
CITIGROUP VENTURE CAPITAL INTERNATIONAL JERSEY LIMITED	49,231,000	7.31%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	17,620,706	2.62%
JP MORGAN CHASE BANK/ITS LONDON CLIENT'S ACCOUNT VANGUARD MARKETING CORPORATION	15,380,000	2.28%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	12,544,788	1.86%
MELLON TREATY OMNIBUS	8,169,397	1.21%
FIREBIRD REPUBLICS FUND LTD	8,122,614	1.21%
BNYM / ING BANK SLASKI AC LM AKCJI FIO	6,883,742	1.02%

SHAREHOLDERS' AGREEMENT

Major shareholders of the Group have entered into the shareholders agreement on August 2006. The main terms of the agreement are published at the Group's website. The agreement sets forth among the other terms that the parties of the agreement and each shareholder of Tallink shall remain independent in their decisions and shall not be restricted by the agreement or otherwise, directly or indirectly, to exercise their voting rights or any other powers available to them, in the manner which, in its own opinion, best complies with its duties under Estonian laws, any Rules of Tallinn Stock Exchange or the Corporate Governance Recommendations.

TAKEOVER BIDS

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

DIVIDENDS

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

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

In 2010/2011 financial year no dividends were paid. Most of the free cash flow was used to repay the Group's bank loans and to increase the Group liquidity.

In relation to the repayments restructuring of the Group loans in the first half of the 2009/2010 financial year it was also agreed that the Group will keep its highest priority on the loan repayments and the dividend payments shall be agreed with the lenders until the Group repays the deferred amounts which were restructured.

The management board will propose to the shareholders' general meeting that no dividends will be paid for 2010/2011 financial year.

CORPORATE GOVERNANCE REPORT

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

ORGANISATION AND ADMINISTRATION

Pursuant to the Commercial Code and the Articles of Association of AS Tallink Grupp (the Company), the right of decision and the administration of the company are divided between the shareholders represented by the shareholders' general meeting, the supervisory council and the management board.

SHAREHOLDERS' GENERAL MEETING

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

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

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

The meeting agenda, board proposals and drafts of the decisions, comments and related materials will be all made available to the shareholders before the general meeting on the Company's website and through the information disclosure system of the stock exchange. The shareholders may ask questions before the general meeting by sending an email to info@tallink.ee.

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

In the reporting period AS Tallink Grupp held the annual general meeting on 8 February 2011. The meeting was attended by the management board members Enn Pant, Andres Hunt, Janek Stalmeister and Lembit Kitter. The Supervisory Council members present were Toivo Ninnas, Kustaa Äimä, Ain Hanschmidt, Eve Pant, Ashwin Roy and Kalev Järvelill. The meeting was attended also by the Company's auditor Andres Root. The chairman of the meeting was Aare Raig. The meeting was held in Estonian language. The shareholders represented at the annual general meeting 454,588,935 votes being 67.86% of the all votes.

There were no extraordinary general meetings during the 2010/2011 financial year.

THE SUPERVISORY COUNCIL

The supervisory council engages in oversight and longer-term management activities such as supervising the management board and approving business plans acting in the best interest of all shareholders. No

residency requirements apply to the members of the supervisory council. The supervisory council reports to the general meeting of shareholders.

The supervisory council consists of 5 to 7 members. Members of the supervisory council are elected for periods of three years at a time. The supervisory council elects one of its members as chairman. In order to elect a member to the supervisory council his or her written consent is needed. The general meeting of the shareholders may recall any supervisory council member without a reason. Such a decision requires 2/3 of the votes represented at the general meeting. The member of the supervisory council can resign without a reason, informing the general meeting of the shareholders about the resignation.

The supervisory council is responsible for the supervision of administration of the Company and the appropriate organization of its operations. The supervisory council determines the principles for the Company's strategy, organization, annual operating plans and budgets, financing and accounting. The supervisory council elects the members of the management board and determines their salaries and benefits.

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

The supervisory council meetings are being held according to the needs, but at least once in every three months. The supervisory council convened eight times during the 2010/2011 financial year. The Company's operations, development, strategies, targets and the budget were discussed. One resolution was adopted in the writing format without convening the meeting.

The supervisory council members avoid the conflicts of interest and observe the prohibition on competition. The supervisory council and management board work closely for the best for the Company's and its shareholders' interest acting in accordance with the articles of the association. The confidentiality rules are being followed when exchanging the information.

The supervisory council remuneration has been decided at the shareholders' general meeting on 8 February 2011. Accordingly, the chairman is remunerated with 2000 EUR per month and the other members with 1,600 EUR per month. There are no other benefits for the supervisory council members.

The direct shareholdings and granted share options of the members of the supervisory council at the end of the 2010/2011 financial year were following:

	Shares	Share options
Toivo Ninnas	19,200	390,000
Eve Pant	530,000	390,000
Ain Hanschmidt	1,800,000	390,000
Lauri Kustaa Äimä	237,000	390,000
Ashwin Roy	0	0
Kalev Järvelill	1,276,800	390,000

THE MANAGEMENT BOARD

The management board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example by entering into contracts on behalf of the Company. The management board is independent in their decisions and follows the best interest of the Company's shareholders. The management board must adhere to the decisions of general meeting of shareholders and lawful orders of the supervisory council. The management board ensures, at its best efforts, the Company's compliance with the laws and that the Company's internal audit and risk management procedures are functional.

The management board consists of 3 to 7 members. Members of the management board and the chairman of the management board are elected by the supervisory council for periods of three years at a time. In order to elect a member to the management board his or her written consent is needed. The chairman of the management board can propose to the supervisory council to appoint also a vice chairman of the management board, who in absence of the chairman fulfils the chairman's duties. Every member of the management board is entitled to represent the Company alone in any legal and business matter. According to the law the supervisory council can recall any management board member without a reason. The member of the management board can resign without a reason, informing the supervisory council about the resignation.

The management board has at present four members: Mr. Enn Pant – Chairman who's main field of responsibilities among the leading of the board is general and strategic management of the Group, Mr. Andres Hunt – Vice Chairman fulfils the chairman's duties in his absence and is also responsible for the legal matters, offices in different countries and technical management, Mr. Janek Stalmeister is responsible for the IT, hotel operations, supply of goods and duty free operations, financial and investor relations areas, and Mr. Lembit Kitter is managing the Group's daily operations and development and is also responsible for the Group's sales & marketing, human resources. The supervisory council has concluded service agreements with the members of the management board.

In the 2010/2011 financial year the remuneration of the members of the Group's management board was 1.4 million EUR.

The remuneration for the management board is set by the supervisory council according to the CGR. The supervisory council has adopted the Principles of remuneration of the management of AS Tallink Grupp. Among the work benefits, termination benefits and share option programme the document also outlines that on the profitable result the management is entitled to annual bonus up to three-months of their monthly remuneration. The pays and benefits of individual board members are not disclosed as the Group believes that for the investors such detailed information is insignificant and also outweighed by the possible harm and discomfort to the members of the management board from the disclosure of such sensitive private information. The Company does not want to disclose such information to its competitors (CGR 2.2.7).

Members of the management board avoid conflicts of interest and observe the prohibition on competition.

The direct shareholdings and granted share options of the members of the management board at the end of the 2010/2011 financial year were following:

	Shares	Share options
Enn Pant	3,632,413	390,000
Andres Hunt	822,000	390,000
Lembit Kitter	0	390,000
Janek Stalmeister	20 400	390,000

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

According to the decision of General Meeting on 26 January 2009 the Company is granted the right to acquire its own shares subject to the following conditions:

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

Management Board has no right to issue the Company shares.

DISCLOSURE OF INFORMATION

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

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

FINANCIAL REPORTING AND AUDITING

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

The Company's annual report will be audited and then agreed by the supervisory council. The annual report with the written report from the supervisory council will be sent to shareholders' general meeting for the final approval.

In the notice of shareholders' general meeting the candidate of auditor is provided. The Company has observed the auditors' rotation requirement. The auditing fees are set in the agreement concluded between the Company and the auditor where also the responsibilities of the auditors are included.

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

For better risk management and control process the Company established the Audit Committee and Internal Audit Department.

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

The consolidated financial statements of the 2010/2011 financial year are audited by KPMG Baltics.

AUDIT COMMITTEE

In July 2010 the supervisory council elected Mr. Ain Hanschmidt and Ms. Mare Puusaag to the Audit Committee. The Audit Committee is responsible for monitoring and analysing of processing of financial information, efficiency of risk management and internal control, the process of auditing of annual accounts and consolidated accounts, independence of the audit firm and auditor representing the auditor company on the basis of law. The Audit Committee is responsible for making recommendations and proposals to the Supervisory Council.

SUBSTANTIAL SHAREHOLDERS

Infortar AS	269,576,164 shares	40.01%
ING Luxembourg S.A	68,242,442 shares	10.13%

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

KEY MANAGEMENT PERSONNEL

SUPERVISORY COUNCIL

Mr. Toivo Ninnas (born 1940) - Chairman of the supervisory council since 1997

- Served at ESCO (Estonian Shipping Company) 1973 to 1997 on various positions, Director General since 1987.
- Graduated from the Far Eastern High Engineering Maritime College (FEHEMC), maritime navigation, in 1966.
- Direct shareholding of 19 200 shares and 390,000 share options

Ms. Eve Pant (born 1968) - Member of the supervisory council since 1997

- Graduated from the Tallinn School of Economics, Estonia, in 1992
- Direct shareholding of 530 000 shares and 390,000 share options

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

- Chief Executive Officer of AS Infortar
- For years he served as Chairman of the management board of AS SEB Eesti Ühispank
- Graduated from the Tallinn Polytechnic Institute (Tallinn University of Technology), Estonia in 1984
- Direct shareholding of 1 800 000 shares and 390,000 share options

Mr. Lauri Kustaa Äimä (born 1971) - Member of the supervisory council since 2002

- Managing Director KJK Capital Oy
- Chairman of the Management Board, KJK Fund SICAV-SIF and Amber Trust II SCA
- Vice-chairman of the Management Board, Amber Trust SCA
- Holds a Masters degree in Economics from the University of Helsinki, Finland in 1997
- Direct shareholding of 237 000 shares and 390,000 share options

Mr. Ashwin Roy (born 1975) - Member of the supervisory council since 2009

- Director of Citi Venture Capital International ("CVCI") (Citi's private equity unit focusing on growth markets)

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

Mr. Kalev Järvelill (born 1965) - Member of the supervisory council since 2007

- Member of the supervisory council of AS Infortar
- He was a member of the management board of AS Tallink Grupp from 1998 to 2006
- General Director of the Estonian Tax Board from 1995 to 1998
- Vice Chancellor of the Ministry of Finance of Estonia from 1994 to 1995
- Graduated the Faculty of Economics, University of Tartu, Estonia, in 1993
- Direct shareholding of 1 276 800 shares and 390,000 share options

MANAGEMENT BOARD

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

- Member of the supervisory council of AS Infortar
- Chancellor of the Ministry of Finance of Estonia from 1992 to 1996
- Graduated the Faculty of Economics, University of Tartu, Estonia, in 1990
- Direct shareholding of 3 632 413 shares and 390,000 share options

Mr. Andres Hunt (born 1966) - Member of the management board since 2002

- Has been with the Group since 1998 in the positions of Financial Director and Chief Financial Officer
- Director of Tax Policy Department at the Ministry of Finance of Estonia from 1995 to 1998
- Graduated the Faculty of Economics, Academy of Agriculture, Estonia, in 1992
- Direct shareholding of 822 000 shares and 390,000 share options

Mr. Lembit Kitter (born 1953) - Member of the management board, since 2006

- Worked in the banking sector in Estonia since 1992 at leading positions, including in Eesti Maapank, Tartu Maapank, Põhja-Eesti Pank and in SEB Eesti Ühispank
- Graduated the Faculty of Economics in University of Tartu, Estonia, in 1976
- Direct shareholding of 0 shares and 390,000 share options

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

- Has been with the Group since 1999 in the positions of financial advisor, treasurer and financial director
- Has worked as a stock broker, Deputy CEO and CEO at AS HT Finants
- Head of the External Debt Division at the Estonian Ministry of Finance from 1994 to 1997
- Graduated the Faculty of Economics from the International University "LEX", Estonia, in 1999
- Direct shareholding of 20 400 shares and 390,000 share options

SAFETY & SECURITY

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

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

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

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

All the Group's vessels carry lifesaving equipment which meets the highest safety standards and are always ready for immediate use. Nevertheless the Group's highest-level nautical and good-seamanship practices together with top-level safety and security organisations are designed to prevent situations where all this safety equipment should be put in use.

ENVIRONMENTAL & CORPORATE SOCIAL RESPONSIBILITY

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

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

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

Selection of international certificates for the Group companies:

- ISO 14001:2004 environmental certificate by Lloyds Register

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

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

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

There are many areas in which the Group is supporting and sponsoring; the environment, children and young people and sports are the major areas which are considered to be most important in all the countries in which Tallink has its operations.

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

OUTLOOK

The Group's recent significant investment program has been completed with the delivery of last cruise ferry MS Baltic Queen in 2009. Maintaining one of the most modern and youngest fleet in the region the Group's investment requirement is very small going ahead. The Group's focus is now prioritized on the core operations to improve operating results and repay the loans.

The Management continues to focus on cost efficiency and on the Group's profitability. The Management estimates that no major changes are foreseen in the Group operations in the 2012 financial year whereas the uncertainties in the overall economic environment and high fuel prices are remaining. The Group's results are estimated to improve in the 2012 financial year. The developments such as enhancements in the online booking environment, CRM system and dynamic pricing are supporting to reach the targets. A positive impact is expected from the closure of the Finland-Germany route which previous negative result will change to positive result from chartering of ships.

RISKS

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

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

MANAGEMENT BOARD'S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board confirms that to the best of their knowledge the management report of AS Tallink Grupp for the 2010/2011 financial year presents true and fair view of significant events and their impact to the results and the financial position of the Group and includes the overview of the main risks and uncertainties.



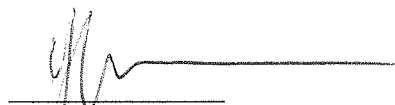
Chairman of the Management Board
Enn Pant



Vice Chairman of the Management Board
Andres Hunt



Member of the Management Board
Lembit Kitter



Member of the Management Board
Janek Stalmeister

Tallinn, 26.04.2012

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December and 31 August

	in thousands of EUR		Notes
	01.09.2010- 31.12.2011	01.09.2009- 31.08.2010	
Continuing operations			
Revenue	1,152,994	791,530	4
Cost of sales	-901,597	-611,286	5
Gross profit	251,397	180,244	
Marketing expenses	-78,172	-51,738	5
Administrative expenses	-54,988	-40,259	5
Other income	1,291	906	
Other expenses	-1,326	-2,236	
Results from operating activities	118,202	86,917	
Finance income	4,277	5,238	5
Finance costs	-69,324	-52,661	5
Share of loss of equity accounted investees	-157	-373	12
Profit before income tax	52,998	39,121	
Income tax	-1,302	-2,634	6
Net profit from continuing operations	51,696	36,487	
Profit from discontinued operations	-14,220	-14,637	4
Net profit for the period	37,476	21,850	
Other comprehensive income			
Exchange differences on translating foreign operations	76	709	21
Changes in fair value of cash flow hedges	-705	732	21, 26
Revaluation of property, plant and equipment	0	1,730	21, 15
Other comprehensive income/-expense for the period	-629	3,171	
Total comprehensive income for the period	36,847	25,021	
Profit attributable to:			
Equity holders of the Parent	37,476	21,850	
Total comprehensive income attributable to:			
Equity holders of the parent	36,847	25,021	
Basic and diluted earnings per share (in EUR per share)	0.056	0.033	7
Basic and diluted earnings per share - continuing operations (in EUR per share)	0.077	0.054	7

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The notes on pages 28 to 81 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December and 31 August

	in thousands of EUR		Notes
	31.12.2011	31.08.2010	
ASSETS			
Current assets			
Cash and cash equivalents	75,421	57,488	8
Trade and other receivables	35,152	42,040	9
Prepayments	7,087	9,752	10
Derivatives	0	705	26
Inventories	25,198	20,035	11
	142,858	130,020	
Non-current assets			
Investments in equity accounted investees	226	214	12
Other financial assets	2,551	317	13
Deferred income tax assets	9,452	10,664	6
Investment property	300	300	14
Property, plant and equipment	1,583,002	1,663,100	15
Intangible assets	61,153	66,700	16
	1,656,684	1,741,295	
TOTAL ASSETS	1,799,542	1,871,315	
LIABILITIES AND EQUITY			
Current liabilities			
Interest-bearing loans and borrowings	145,261	63,627	17
Trade and other payables	86,793	94,054	18
Deferred income	25,226	23,965	19
Derivatives	22,668	17,634	26
	279,948	199,280	
Non-current liabilities			
Interest-bearing loans and borrowings	814,305	1,004,244	17
Other liabilities	198	74	20
	814,503	1,004,318	
Total liabilities	1,094,451	1,203,598	
Equity			
Equity attributable to equity holders of the Parent			
Share capital	404,290	430,648	21
Share premium	639	639	21
Reserves	70,497	72,607	21
Retained earnings	229,665	163,823	
Total equity attributable to equity holders of the Parent	705,091	667,717	
Total equity	705,091	667,717	
TOTAL LIABILITIES AND EQUITY	1,799,542	1,871,315	

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CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December and 31 August	in thousands of EUR		Notes
	2011	2010	
Cash flows from operating activities			
Net profit/-loss for the financial year	37,476	21,850	
Adjustments:	164,038	127,208	
Depreciation and amortisation	95,283	71,920	15, 16
Impairment loss	0	1,257	15
Net gain on disposals of property, plant and equipment	-56	-344	
Net interest expense	55,773	39,433	5
Net expense from derivatives	11,071	11,411	5
Loss from equity accounted investees	157	373	12
Net foreign exchange gain / loss related to investing and financing activities	-19	524	
Share option programme reserve	527	0	
Income tax	1,302	2,634	6
Changes in receivables and prepayments related to operating activities	10,898	10,816	
Changes in inventories	-5,163	-1,020	
Changes in liabilities related to operating activities	-3,711	5,009	
Income tax paid	-107	-71	
	203,431	163,792	
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	-13,258	-6,112	15, 16
Proceeds from disposals of property, plant, equipment	84	6,704	
Proceeds/ payments from settlement of derivatives	-7,236	-4,460	
Acquisition of equity accounted investees	-169	-587	12
Investment	-5	0	
Interest received	380	173	
	-20,204	-4,282	
Cash flows from/used in financing activities			
Redemption of loans	-112,093	-60,348	
Change in overdraft	0	-46,115	
Payment of finance lease liabilities	-114	-403	
Interest paid	-53,087	-45,138	
	-165,294	-152,004	
TOTAL NET CASH FLOW	17,933	7,506	
Cash and cash equivalents:			
- at the beginning of period	57,488	49,982	
- increase / decrease	17,933	7,506	
- at the end of period	75,421	57,488	8

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December and 31 August, in thousands of EUR

	Share capital ¹	Share premium ¹	Trans-lation reserve ¹	Ships' revaluation reserve ²	Cash flow hedge reserve ¹	Mandatory legal reserve ¹	Reserve for treasury shares ¹	Share option programme reserve ³	Retained earnings	Equity attributable to equity holders of the Parent	Total
As of 31 August 2009	430,648	639	-324	65,507	-27	10,869	-4,163	0	139,547	642,696	642,696
Net profit for the year 2009/2010	0	0	0	0	0	0	0	0	21,850	21,850	21,850
Total other comprehensive income for the year 2009/2010 (Note 21)	0	0	709	1,730	732	0	0	0	0	3,171	3,171
Total comprehensive income for the year 2009/2010	0	0	709	1,730	732	0	0	0	21,850	25,021	25,021
Transfer from revaluation reserve	0	0	0	-2,426	0	0	0	0	2,426	0	0
As of 31 August 2010	430,648	639	385	64,811	705	10,869	-4,163	0	163,823	667,717	667,717
Net profit for the year 2010/2011	0	0	0	0	0	0	0	0	37,476	37,476	37,476
Total other comprehensive income for the year 2010/2011 (Note 21)	0	0	76	0	-705	0	0	0	0	-629	-629
Total comprehensive income for the year 2010/2011	0	0	76	0	-705	0	0	0	0	36,847	36,847
Transfer from profit for 2009/2010	0	0	0	0	0	1,093	0	0	-1,093	0	0
Transfer from revaluation reserve	0	0	0	-3,101	0	0	0	0	3,101	0	0
Decrease of share capital	-26,358	0	0	0	0	0	0	0	26,358	0	0
Transactions with owners, recognised directly in equity											
Share-based payments transactions (Note 22)	0	0	0	0	0	0	0	527	0	527	527
As of 31 December 2011	404,290	639	461	61,710	0	11,962	-4,163	527	229,665	705,091	705,091

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

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

³ For further information see also Note 22 Share Option Programme

The notes on pages 28 to 81 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 CORPORATE INFORMATION

The consolidated financial statements of AS Tallink Grupp (the "Parent") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011 were authorised for issue by the management board on 26 April 2012.

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

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

The principal activities of the Group are related to marine transportation (passenger and cargo transportation). Further information on the principal activities of the Group is presented in Note 4 "Segment Information". As of 31 December 2011 the Group employed 6,610 people (6,715 as of 31 August 2010).

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Note 2 BASIS OF PREPARATION

Due to the change of the financial year in these financial statements the reportable financial year consists of 16 months from 1 September 2010 until 31 December 2011. As the comparative financial year consists of 12 months from 1 September 2009 until 31 August 2010, the financial year figures are not fully comparable. The change of the financial year was decided by the Shareholders' General Meeting on 8 February 2011.

2.1. Statement of compliance

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

2.2. Basis of measurement

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

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

2.3. Functional and presentation currency

In connection with a change of the official currency of the Republic of Estonia, as from 1 January 2011 the parent company's functional and presentation currency is the euro, which replaced the Estonian kroon. Prior period financial information that was presented in Estonian kroons has been translated to euros in accordance with the relevant Council Regulation (EU) in which the conversion rate was set at 15.6466 kroons per 1 euro. Because of the fact that the Estonian kroon was previously pegged to the euro at the same exchange rate, the change in the functional and presentation currency had no effect on the company's financial position, financial performance or cash flows.

The figures reported in the financial statements are presented in thousands of euros (unless stated otherwise), rounded to the nearest thousand.

2.4. Use of estimates and judgements (E and J)

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

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

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Fair value of ships (E)

For the purpose of revaluation, the Group determined the fair value of its ships as of 31 December 2011. The fair value of ships depends on many factors, including the year of building, several technical parameters as well as how the ships have been maintained (i.e. how much the owner has invested in maintenance). In order to assess the fair value of ships, the Group's management used independent appraisers. Revaluation depends upon changes in the fair values of the ships. When the fair value of a ship differs materially from its carrying amount, a revaluation is required. Further details are given in Note 3.4 and Note 15.

Financial instruments – whether derivatives qualify for hedge accounting (I)

As of 31 December 2011, the Group had entered into three derivative agreements (31 August 2010: five agreements). The Group has determined the interest rate derivatives do not qualify for cash flow hedge accounting. See Notes 26 and 3.3. for more detailed information on the interest swap agreements and related accounting policies.

Operating lease – Group as lessee (I)

As of 31 December 2011, the Group has entered into a lease agreement for five hotel buildings and two office buildings (31 August 2010: five hotel buildings and one office building). The management has determined that all significant risks and rewards of ownership of the property have been retained by the lessors and so the Group, acting as a lessee, accounts for these agreements as operating leases. See Note 23 for more detailed information on the minimum lease payments of the lease agreements.

Impairment of goodwill (E)

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which goodwill is allocated. Estimating value-in-use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of 31 December 2011 amounted to 11,066,000 EUR, 31 August 2010: 11,066,000 EUR. Further details are given in Note 16.

Deferred tax (E)

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

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

Customer loyalty programmes (E)

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

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Determination of useful life of property, plant and equipment and intangible assets (E)

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

Note 3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation***Business combinations***

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

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

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

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

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

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

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

Subsidiaries

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

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the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Investments in equity accounted investees

Equity accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity. Equity accounted investees are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

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

3.2. Foreign currency

Foreign currency transactions

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

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

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

Foreign operations

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

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

3.3. Financial instruments

Non-derivative financial assets

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

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

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

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Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

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

Derivative financial instruments, including hedge accounting

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

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

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

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

- fair value hedges
- cash flow hedges

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

Embedded derivatives

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

Cash flow hedges

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

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

then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

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

Share capital

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

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

3.4. Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

Subsequent costs

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

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replaced items are derecognised. All other expenditures are recognised as an expense in the period in which they are incurred.

Depreciation

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

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

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

Land is not depreciated.

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

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

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

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

From 1 September 2006 the residual value is calculated as a percentage of the gross carrying amount of the ship. Residual value for ships is 15%, except for MS Kapella whose residual value is 40%.

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

3.5. Intangible assets

Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

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Research and development

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

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

Other intangible assets

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

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

Subsequent expenditure

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

Amortisation

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

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

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

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

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3.6. Investment property

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

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

3.7. Inventories

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

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

3.8. Financial liabilities

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

3.9. Borrowing costs

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

3.10. Impairment**Financial assets**

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

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

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

Non-financial assets

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

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

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

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

3.11. Employee benefits

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

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

3.12. Share-based payments

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

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

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3.13. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where discounting is used, the increase in the provision due to the passage of time is recognised in "finance costs".

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

3.14. Leases

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

The Group as a lessee

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

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

The Group as a lessor

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

3.15. Revenue

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

Sale of goods – sales in restaurants and shops

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

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Ticket sale and sale of cargo transport

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

Sales of hotel rooms (accommodation)

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

Revenue from travel packages

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

Charter income

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

Loyalty Customer Programme

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

3.16. Government grants

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

3.17. Lease payments

Payments made under operating leases are recognised in profit or loss on straight-line-basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance lease are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when lease adjustment is confirmed.

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3.18. Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of financial asset or liability.

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

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

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

3.19. Income tax

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

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

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

Group companies in Estonia

According to Estonian Income Tax Act, for Group companies in Estonia, including the Parent, net profit is not subject to income tax, but dividends paid are subject to income tax (21/79 of net dividend). The Parent's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the statement of

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financial position. The amount of potential tax liability related to the distribution of dividends depends on when, how much and from which sources the dividends are paid out.

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

Group companies in Cyprus

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

Group company in the Bahamas

According to the income tax law of the Bahamas, the net profit of shipping companies registered in the Bahamas and the dividends paid by these companies are not subject to income tax. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause deferred income tax.

Other foreign Group companies

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

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

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

3.20. Discontinued operations

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

3.21. Earnings per share

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

3.22. Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Group's management board that is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management board to make

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decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

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

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

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

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

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

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

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

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

3.23. New standards and interpretations not yet adopted

The following new Standards and Interpretations are not yet effective for the financial year ended 31 December 2011 and have therefore not been applied in preparing these financial statements:

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011; to be applied prospectively; earlier application is permitted). The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and to evaluate the nature of and risks associated with the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements. Because of the nature of the company's operations and the types of financial assets that

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it holds, the company does not expect the amendments to IFRS 7 to have a material impact on its financial statements.

IASB and IFRIC have published a number of other accounting pronouncements that are effective for periods beginning after 1 September 2010; however at the date these financial statements are authorised for issue those pronouncements had not yet been endorsed by the European Union. Therefore they are not discussed here.

3.24. Determination of fair values

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

Property, plant and equipment

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

Intangible assets

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

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

Investment property

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The Group uses independent appraiser, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

Inventories

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

Investments in equity and debt securities

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

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Derivatives

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

Non-derivative financial liabilities

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

Deferred income

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

3.25. Separate financial statement of parent company

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

Note 4 SEGMENT INFORMATION

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

The Group's market share on the Estonia-Finland route in the 2010/2011 financial year was approximately 58% of passenger transportation and about 49% of cargo transportation, on the Estonia-Sweden route it is about 100% of passenger transportation and about 64% of cargo transportation. The market share on the Riga-Stockholm route is about 100% for both passenger and cargo transportation. The estimated passenger transportation market share on the Group's Finland-Sweden routes is about 55% and the cargo transportation market share is about 34%.

The following tables present the Group's revenue and profit as well as certain asset and liability information regarding reportable segments for the years ended 31 December 2011 and 31 August 2010.

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Geographical segments – by the location of assets

for the year ended 31 December and 31 August or as of 31 December and 31 August, respectively
in thousands of EUR

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

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

The notes on pages 28 to 81 are an integral part of these consolidated financial statements.

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2010	Estonia- Finland route	Estonia- Sweden route	Latvia- Sweden route	Germany- Finland route (Discontinued)	Finland- Sweden route	Other	Elimination of inter-segment sales	Elimination of discontinued operations	Total
Revenue									
Sales to external customers	240,128	90,577	52,558	22,342	354,035	54,232	0	-22,342	791,530
Inter-segment sales	0	0	0	0	0	7,645	-7,645	0	0
	240,128	90,577	52,558	22,342	354,035	61,877	-7,645	-22,342	791,530
Result									
Segment result	73,227	9,279	-2,558	-14,637	42,261	6,297	0	14,637	128,506
Unallocated expenses									-41,589
Net financial items									-47,423
Share of loss of equity accounted investees									-373
Profit before income tax									39,121
Income tax									-2,634
Net profit from continuing operations									36,487
Assets and liabilities									
Segment assets	417,847	334,378	160,861	182,960	583,442	126,223	-840	0	1,804,871
Unallocated assets									66,444
									1,871,315
Segment liabilities	20,527	8,511	5,574	2,307	61,748	9,483	-840	0	107,310
Unallocated liabilities									1,096,288
									1,203,598

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2010 (continued)	Estonia- Finland route	Estonia- Sweden route	Latvia- Sweden route	Germany- Finland route (Discontinued)	Finland- Sweden route	Other	Elimination of inter-segment sales	Elimination of discontinued operations	Total
Other segment information									
Capital expenditures:									
- segment's property, plant and equipment ("PP&E")	685	352	29	10	2,613	1,218	0	0	4,907
- unallocated PP&E									1,035
- segment's intangible assets ("IA")	0	0	5	0	0	139	0	0	144
- unallocated IA									43
Depreciation	10,012	8,844	5,619	6,270	24,447	5,760	0	-6,270	54,682
Unallocated depreciation									5,819
Impairment loss	0	0	0	2	0	1,255	0	-2	1,255
Amortisation	5	0	3	0	0	42	0	0	50
Unallocated amortisation									5,099

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Revenue by services

for the year ended 31 December and 31 August

in thousands of EUR

	2011	2010
Ticket sales	313,817	217,234
Sales of cargo transport	142,146	98,495
Accommodation sales	19,593	10,998
Restaurant and shop sales on-board and on mainland	636,182	441,640
Income from leases of vessels	25,558	17,062
Other	41,020	28,443
Revenue from discontinued operations	-25,322	-22,342
Total revenue of the Group from continuing operations	1,152,994	791,530

Discontinued operations

In August 2011 the Group ended traffic between Germany and Finland. The segment was not a discontinued operation at 31 August 2010. The comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

for the year ended 31 December and 31 August

in thousands of EUR

Results of discontinued operation	2011	2010
Revenue	25,322	22,342
Expenses	-39,542	-36,979
Results from operating activities	-14,220	-14,637
Results from operating activities, net of tax	-14,220	-14,637
Profit/-loss for the period	-14,220	-14,637
Basic earnings per share (EUR)	-0.021	-0.022
Diluted earnings per share (EUR)	-0.021	-0.022

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

Note 5 OPERATING EXPENSES AND FINANCIAL ITEMS

for the year ended 31 December and 31 August

Cost of sales	in thousands of EUR		Note
	2011	2010	
Cost of goods	-252,905	-169,981	
Port & stevedoring costs	-122,859	-91,546	
Fuel cost	-182,753	-110,793	
Staff costs	-168,418	-118,048	
Ships operating expenses	-87,480	-61,527	
Depreciation and amortisation	-85,216	-64,657	15, 16

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Cost of package sales	-14,946	-14,156
Other costs	-25,073	-15,022
Cost of sales from discontinued operations	38,053	34,444
Total cost of sales from continuing operations	-901,597	-611,286

for the year ended 31 December and 31 August

Marketing expenses

	in thousands of EUR		Note
	2011	2010	
Advertising expenses	-36,143	-22,091	
Staff costs	-39,479	-28,889	
Depreciation and amortisation	-1,852	-1,408	15, 16
Other costs	-2,187	-1,885	
Marketing expenses from discontinued operations	1,489	2,535	
Total marketing expenses from continuing operations	-78,172	-51,738	

for the year ended 31 December and 31 August

Administrative expenses

	in thousands of EUR		Note
	2011	2010	
Staff costs	-19,699	-14,262	
Depreciation and amortisation	-8,215	-7,112	15, 16
Other costs	-27,074	-18,885	
Total administrative expenses	-54,988	-40,259	

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

for the year ended 31 December and 31 August

	in thousands of EUR	
	2011	2010
Wages and salaries	-194,224	-136,643
Social security costs	-30,775	-21,682
Staff training costs	-1,292	-1,203
Other staff costs	-1,305	-1,671
Total staff costs	-227,596	-161,199

Finance income and finance costs recognised in profit or loss

for the year ended 31 December and 31 August

	in thousands of EUR	
	2011	2010
Finance income		
Net foreign exchange gains	1,797	3,421
Income from interest rate swaps	2,095	1,644
Interest income	385	173
	4,277	5,238

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Finance costs		
Interest expenses	-56,158	-39,606
Expenses from derivatives	-13,166	-13,055
	-69,324	-52,661
Net finance cost	-65,047	-47,423

Note 6 INCOME TAX

Income tax contains current income tax and deferred income tax.

Swedish, Finnish, Latvian and Russian subsidiaries

In accordance with the Swedish, Finnish, Latvian and Russian tax laws, the company's net profit adjusted for temporary and permanent differences determined in the income tax acts is subject to income tax in Finland, Sweden, Latvia and Russia (in Finland the tax rate is 26%, in Sweden 26,3%, in Latvia 15% and in Russia 20%).

Income tax expense

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

	in thousands of EUR	
	2011	2010
Current period tax expense		
Finnish subsidiaries	-55	0
Latvian subsidiary	-35	-39
Total current tax expense	-90	-39
Deferred tax income/ expense		
Swedish subsidiaries	630	-5
Finnish subsidiaries	-1,842	-2,610
Latvian subsidiary	0	20
Total deferred tax expense	-1,212	-2,595
Total income tax expense excluding tax of discontinued operations	-1,302	-2,634
Tax expense from continuing operations	-1,302	-2,634
Tax from discontinued operations	0	0
Total tax expense	-1,302	-2,634

Reconciliation of effective tax rate

for the year ended 31 December and 31 August

	in thousands of EUR	
	2011	2010
Profit/-loss for the period	37,476	21,850
Total income tax	-1,302	-2,634
Profit/-loss excluding income tax	38,778	24,484
The parent domestic rate 0%		0
Effect of tax rates in foreign jurisdiction	-90	-39
Current year tax losses carried forward	3,991	840
Unrecognition of previously recognised tax losses	-6,214	-4,213

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Change in deferred tax liabilities	1,011	758
Change in temporary differences	0	20
	-1,302	-2,634

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following

as of 31 December and 31 August
in thousands of EUR

	Assets		Liabilities	
	2011	2010	2011	2010
Tax loss carry-forward ¹	-20,397	-22,620	0	0
Property, plant and equipment	-40	-40	0	0
Intangible assets	0	0	10,985	11,996
Tax assets / liabilities	-20,437	-22,660	10,985	11,996
Offset of assets and liabilities	10,985	11,996	-10,985	-11,996
Tax assets-/ liabilities	-9,452	-10,664	0	0

¹ Tax loss carry forward expires in 2013-2020

Movements in temporary differences during the year

	Balance 31 August 2010	Recognised in profit or loss	Balance 31 December 2011
Tax loss carry-forward	-22,620	2,223	-20,397
Property, plant and equipment	-40	0	-40
Intangible assets	11,996	-1,011	10,985
	-10,664	1,212	-9,452

Note 7 EARNINGS PER SHARE (EPS)

Basic EPS are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. As the Group does not have any potential ordinary shares, diluted EPS are equal to basic EPS.

At 31 December 2011 the Group held 3,935,000 of the AS Tallink Grupp shares as treasury shares. Total cost of share buyback transactions of 3,935,000 shares is 4,163 thousand EUR including fees of 4,000 EUR.

	Shares issued	Treasury shares	Shares outstanding
As of 31 August 2010	673,817	3,935	669,882
As of 31 December 2011	673,817	3,935	669,882

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for the year ended 31 December and 31 August

	in thousands of EUR	
	2011	2010
Weighted average number of ordinary shares outstanding (in thousands)	669,882	669,882
Net profit/-loss attributable to equity holders of the Parent	37,476	21,850
Basic and diluted EPS (EUR per share)	0.056	0.033
Basic and diluted EPS – continuing operations (EUR per share)	0.077	0.054

Note 8 CASH AND CASH EQUIVALENTS

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Cash at bank and in hand	68,832	50,819
Short-term deposits	6,589	6,669
Total cash and cash equivalents	75,421	57,488

Cash at bank earns interest at floating rates based on daily bank deposit rates (in 2010/2011 the rates were in the range of 0.10-1.40% and in 2009/2010 in the range of 0.25-0.81%).

Short-term deposits are made for varying periods. The maturity dates of short-term deposits recognised in the statement of financial position as of 31 December 2011 range from 1 January 2012 (over-night deposits) to 12 January 2012. As of 31 December 2011 and 31 August 2010 short-term deposits of 6,405,000 EUR and 5,642,000 EUR respectively could only be used for repayment of bank loans.

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

Note 9 TRADE AND OTHER RECEIVABLES

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Trade receivables	24,258	26,772
Allowance for doubtful trade receivables (Note 26)	-1,437	-1,298
Government grant receivables	8,076	10,081
Other receivables	4,248	6,350
Accrued interest income	7	135
Total trade and other receivables	35,152	42,040

During the reporting period 46,321,000 EUR was deducted from the cost of sales in connection with government subsidies related to the seamen salaries in Finland and Sweden (2010: 32,074,000 EUR).

During the reporting period 229,000 EUR of the trade receivables was expensed as doubtful and uncollectible (2010: 713,000 EUR).

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

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Note 10 PREPAYMENTS

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Prepaid expenses	6,179	9,437
Tax prepayments	908	315
Total prepayments	7,087	9,752

The balance of prepaid expenses includes mostly prepayments for insurance.

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Tax prepayments		
VAT	872	314
Salary related taxes	20	0
Income tax	16	1
Total tax prepayments	908	315

Note 11 INVENTORIES

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Raw materials (mostly fuel)	4,652	3,736
Goods for sale	20,546	16,299
Total inventories	25,198	20,035

In 2010/2011 the write-down of inventories amounted to 117,000 EUR and in 2009/2010 61,000 EUR respectively.

The write-downs are included in cost of sales.

Fuel price risk

The Group is exposed to fuel price risk as the fuel used for ship operations is purchased at market prices. The Group has implemented a fuel surcharge system according to which the Group charges its customers a fuel surcharge to partly offset the impact of a fuel price increases. At 31 December 2011 there were no derivative contracts for fuel outstanding. For more information see Note 26.

Note 12 INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

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

The Group has investments in the following equity accounted investees:
as of 31 December 2011

Name of equity accounted investee	Country of incorporation	Interest	Acquisition cost in thousands EUR	Equity in thousands EUR
AS Tallink Takso	Estonia	34%	1,343	665
Total			1,343	665

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	in thousands of EUR	
	2011	2010
Investments at the beginning of financial year	214	0
Acquisition of shares	169	587
Share of loss in equity accounted investee	-157	-373
Investments at the end of year	226	214

Key figures of equity accounted investees
as of 31 December 2011, in thousands of EUR

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

AS Tallink Takso figures as of 31 December 2011 are unaudited
as of 31 August 2010, in thousands of EUR

Name of equity accounted investee	Owner-ship (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/-loss
AS Tallink Takso	34%	705	286	991	200	162	362	1,360	-2,036	-676

Note 13 OTHER FINANCIAL ASSETS

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Available-for-sale financial assets	177	172
Lease receivables	2,229	0
Other receivables	145	145
Total other financial assets	2,551	317

Note 14 INVESTMENT PROPERTY

	in thousands of EUR
Fair value at 31 August 2010	300
Fair value at 31 December 2011	300

The property belongs to Tallink Silja Oy. The Group acquired the property in the course of the purchase of Silja Oy. The Group used the valuation of an independent valuer with relevant professional qualification and with recent experience in the location and category of the investment property being valued. There is no rental income and direct expenses on the investment property.

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Note 15 PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR	Land and buildings	Ships	Plant and equipment	Assets under construction	Total	Note
Book value as of 31 August 2009	6,933	1,715,515	4,910	1,413	1,728,771	
Additions	230	3,912	3,188	-1,388	5,942	
Exchange rate differences	197	0	-13	0	184	
Disposals	0	-6,075	-285	0	-6,360	
Reclassification	0	0	861	0	861	
Revaluation	0	1,730	0	0	1,730	
Impairment loss	0	-1,257	0	0	-1,257	
Depreciation for the year	-1,426	-62,339	-3,006	0	-66,771	
Book value as of 31 August 2010	5,934	1,651,486	5,655	25	1,663,100	
Additions	195	6,066	6,349	22	12,632	
Exchange rate differences	88	0	7	0	95	
Disposals	0	-3,687	-28	0	-3,715	
Depreciation for the year	-2,043	-83,808	-3,259	0	-89,110	
Book value as of 31 December 2011	4,174	1,570,057	8,724	47	1,583,002	
As of 31 August 2010						
-gross carrying amount	9,429	1,651,486	19,708	25	1,680,648	
- accumulated depreciation	-3,495	0	-14,053	0	-17,548	
As of 31 December 2011						
-gross carrying amount	9,625	1,651,873	25,069	47	1,686,614	
- accumulated depreciation	-5,451	-81,816	-16,345	0	-103,612	

Assets held under finance lease

	in thousands of EUR	
	2011	2010
Book value at the beginning of the year	195	574
Additions	0	17
Depreciation for the year	-113	-396
Book value at the end of the year, incl.	82	195
- cost	372	474
- accumulated depreciation	-290	-279

Revaluation of ships

Last revaluation of ships was performed as at 31 August 2010. The Group used the valuations of two independent appraisers to determine the fair value of the ships. Fair value was determined by reference to market-based evidence. As a result of the revaluations, the carrying amount of the Group's ships increased by the 21,967,000 EUR, which was taken directly to the equity of the Group and the carrying amount of the Group's

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ships decreased by the 21,494,000 EUR from which 20,237,000 EUR was taken directly from the equity of the Group and remaining 1,257,000 EUR was expensed as impairment loss.

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

31 December 2011	In thousands of EUR
Cost	1,829,447
Accumulated depreciation	-321,100
Net carrying amount	1,508,347

31 August 2010	In thousands of EUR
Cost	1,843,121
Accumulated depreciation	-256,446
Net carrying amount	1,586,675

Due to the annual transfer from the revaluation reserve to retained earnings (the difference between depreciation based on the revaluated carrying amount of the assets and the depreciation based on the assets' original cost) the revaluation reserve was decreased as of 31 December 2011 by 3,101,000 EUR (2010: 2,426,000 EUR) and retained earnings increased by the same amount.

As of 31 December 2011 the Group's ships with a book value of 1,570,057,000 EUR (2010: 1,651,486,000 EUR) were encumbered with first or second ranking mortgages to secure the Group's bank loans (see also Note 17).

Note 16 INTANGIBLE ASSETS

in thousands of EUR	Goodwill ¹	Trademark ²	Other ³	Total	Note
Book value as of 31 August 2009	11,066	49,054	12,403	72,523	
Additions	0	0	187	187	
Reclassification	0	0	-861	-861	
Amortisation for the year	0	-2,916	-2,233	-5,149	
Book value as of 31 August 2010	11,066	46,138	9,496	66,700	
Additions	0	0	626	626	
Amortisation for the year	0	-3,888	-2,285	-6,173	
Book value as of 31 December 2011	11,066	42,250	7,837	61,153	

As of 31 August 2010

- cost	11,066	58,288	20,172	89,526
- accumulated amortisation	0	-12,150	-10,676	-22,826

As of 31 December 2011

- cost	11,066	58,288	20,171	89,525
- accumulated amortisation	0	-16,038	-12,334	-28,372

¹ Goodwill in the amount of 11,066,000 EUR is related to the segment of Estonia-Finland route. In the impairment test of goodwill related to Estonia-Finland routes, the recoverable amount was identified based on

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value in use. Management calculated value in use using the results and margins achieved in the 2010/2011 financial year and a revenue growth rate of 0% p.a. and a discount rate of 6%. Five year cashflow to perpetuity value was used.

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

³ Other intangible assets include the licences and development costs of IT programs of 20,171,000 EUR. The licenses have finite lives and are amortised over 10 years. Amortisation of intangible assets is recorded in the profit or loss under cost of sales, marketing expenses and administrative expenses.

Note 17 INTEREST-BEARING LOANS AND BORROWINGS

as of 31 December
in thousands of EUR

2011	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2012-2013	56	4	60
Long-term bank loans	2012-2021	145,205	814,301	959,506
Total borrowings		145,261	814,305	959,566

as of 31 August
in thousands of EUR

2010	Maturity	Current portion	Non-current portion	Total borrowings
Liabilities under finance lease	2010-2013	85	89	174
Long-term bank loans	2010-2021	63,542	1,004,155	1,067,697
Total borrowings		63,627	1,004,244	1,067,871

As of 31 December 2011 the Group has a right to use bank overdrafts up to 46,842,000 EUR (2010: 46,842,000 EUR). Bank overdrafts are secured with a commercial pledge of 20,204,000 EUR, 2010: 20,204,000 EUR and mortgages on ships (see Note 15). In the year ended 31 December 2011 the average effective interest rate of bank overdrafts was EURIBOR + 2,3% (2010: EURIBOR + 2,3%). As of 31 December 2011 and as of 31 August 2010 the balance of overdraft in use amounted to 0 EUR.

In the year ended 31 December 2011 the weighted average interest rate of the Group's bank loans was EURIBOR + 2,36% (2010: EURIBOR + 2,36%).

As of 31 December 2011 AS Tallink Grupp has given guarantees to HSH Nordbank AG, Nordea Bank Plc, Skandinaviska Enskilda Banken AB, KfW IPEX Bank, Danske Bank A/S and HSBC Bank Plc. for the loans granted to overseas subsidiaries amounting to 776,989,000 EUR, 2010: 846,502,000 EUR. The primary securities for these loans are the pledge of shares of the overseas subsidiaries and mortgages on the ships belonging to the above-mentioned subsidiaries. AS Tallink Grupp has given guarantee to HSH Nordbank AG for the loan granted to Tallink Silja Oy amounting to 182,517,000 EUR, 2010: 221,195,000 EUR. The primary securities for these loans are the pledge of shares of Tallink Silja Oy and mortgages on several Group's ships.

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The Group has issued counter guarantees to the commercial banks who have issued guarantees to several governmental authorities in favour of the Group entities required in order to perform the Group's daily operations. The total amount of the guarantees as of 31 December 2011 amounts to 3,506,000EUR, 2010: 6,956,000 EUR. The guarantees issued are not recognised in the statement of financial position as, according to historical experience, none of them has turned into an actual liability.

In connection with loan agreements with banks, the Group has agreed to comply with financial covenants related to ensuring required equity, liquidity and other ratios. As of 31 December 2011 the Group has met the financial covenants.

The Group's lease liabilities as of 31 December 2011 are related to equipment in Estonia, Sweden and Finland. The future minimum lease payments under finance leases and the present value (PV) of the net minimum lease payments are presented below

For further information about the currency structure of borrowings and interest rate exposures, see Note 26.

Obligation under finance lease

	in thousands of EUR	
	2011	2010
Minimum lease payments		
Within one year	56	85
After 1 year, but not more than 5 years	4	89
Total minimum lease payments	60	174

Note 18 TRADE AND OTHER PAYABLES

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Trade payables	42,402	48,840
Other payables	726	728
Payables to employees	19,642	17,929
Interest payable	5,788	7,951
Tax liabilities	11,728	11,803
Other accruals	6,507	6,803
Total trade and other payables	86,793	94,054

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

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Tax liabilities		
Salary related taxes	8,145	8,632
Excise duties	1,138	952
VAT	2,429	2,179
Income tax	0	2
Other taxes	16	38
Total tax liabilities	11,728	11,803

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Note 19 DEFERRED INCOME

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Club One points	13,817	14,349
Prepaid revenue	11,409	9,616
Total deferred income	25,226	23,965

The Group measures the liability of the outstanding Club One points in combination of the value of its' services and averages of the Club One points used to redeem these services, taken into account also the customers' Club One points usage patterns and points expiry rates. The calculations are performed for each segment.

Note 20 OTHER LIABILITIES

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Broker fee liability	129	0
Other	69	74
Total other liabilities	198	74

Note 21 SHARE CAPITAL AND RESERVES

as of 31 December and 31 August

	2011	2010
The number of shares issued and fully paid (in thousands)	673,817	673,817
Total number of shares of 0.60 EUR each (in thousands)	673,817	673,817

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Share capital (authorised and registered)	404,290	430,648
Total share capital	404,290	430,648
Share premium (registered)	639	639
Total share premium	639	639

According to the Articles of Association of the Parent effective as of 8 February 2011, the maximum number of common shares is 2,133,333,333. Each share is granted one vote at the Shareholders General meeting. Shares acquired by the transfer of ownership are eligible for participating and voting at a Shareholders Meeting only if the ownership change is reflected in the Estonian Central Registry of Securities at the moment which is used to determine the shareholders list for given Shareholders General Meeting.

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

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In relation to the adoption of the euro in Estonia the Shareholders Annual General Meeting decided on 08 February 2011 to decrease the share capital. As a result retained earnings were increased; no distributions were made to shareholders. On 07 March 2011 the change in share capital was registered in the Commercial Register. The registered share capital of AS Tallink Grupp is 404,290,000 EUR, the number of shares is 673,817,000 and the nominal value of a share is 0.60 EUR.

Reserves

as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Translation reserve	461	385
Ships' revaluation reserve	61,710	64,811
Cash flow hedge reserve	0	705
Mandatory legal reserve	11,962	10,869
Reserve for treasury shares	-4,163	-4,163
Share option programme reserve (Note 22)	527	0
Total reserves	70,497	72,607

Translation reserve

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

Ships' revaluation reserve

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

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Mandatory legal reserve

The mandatory legal reserve has been formed in accordance with the Estonian Commercial Code. The mandatory legal reserve is formed by means of yearly appropriations from the net profit. At least 1/20 of net profit must be transferred to the mandatory legal reserve, until the mandatory legal reserve amounts to 1/10 of share capital. The mandatory legal reserve can be used to cover losses and to increase share capital. No payments can be made to the owners from the mandatory legal reserve.

Reserve for treasury shares

Reserve for treasury shares comprises the cost of the AS Tallink Grupp's shares held by the Group. At 31 December 2011 the Group held 3,935,000 of the AS Tallink Grupp's shares (2010: 3,935,000 shares).

Share option programme reserve

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

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Other comprehensive income

for the year ended 31 December
in thousands of EUR

2011

	Translation reserve	Cash flow hedge reserve	Total other comprehensive income
Exchange differences on translating foreign operations	76	0	76
Changes in fair value of cash flow hedges	0	-705	-705
Total other comprehensive income	76	-705	-629

for the year ended 31 August
in thousands of EUR

2010

	Translation reserve	Ships' revaluation reserve	Cash flow hedge reserve	Total other comprehensive income
Exchange differences on translating foreign operations	709	0	0	709
Changes in fair value of cash flow hedges	0	0	732	732
Revaluation of property, plant and equipment	0	1,730	0	1,730
Total other comprehensive income	709	1,730	732	3,171

Note 22 SHARE OPTION PROGRAMME

In June 2011 the Group issued 7,317,500 share options of which 3,510,000 to the management board and supervisory board and 3,807,500 to other Group employees. Each option gives right to purchase one share of AS Tallink Grupp. The share options were issued in accordance of the Share Option Programme which resolution was adopted at the Shareholders General Meeting on 8 February 2011. The options issued represent around 49% of the total authorized limit and 1.1% of the total shares outstanding. The terms and conditions of the issued share options are following: exercisable not earlier than 36 months from issue or 31 May 2014 and not later than 30 November 2014; exercise price EUR 0.858 in case of new shares issued or average acquisition cost in case existing shares will be purchased from the market; options are to be settled by physical delivery of shares.

At 31 December 2011 7,317,500 share options were valid and outstanding. Average remaining time to maturity of the outstanding share options is 29-35 months.

The fair value of the services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model as of the grant date. The Group used independent external advisor for the valuation of share options. In addition to the share options terms and conditions the following inputs were used for measurement: spot price of 0.72 at 31 May 2011; expected volatility 30% based on historic analysis; option average time to maturity 42 months; the 3.4% and 8.1% annual dividend yields in 2012 and 2013 result in an effective dividend yield of 11.3% (based on the equity analysts' consensus) and risk-free interest rate 1.411%

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Share option programme

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

	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	2011	2011	2010	2010
Outstanding at 01 September 2010	0	0	0	0
Granted during the year	7,317,500	0.858	0	0
Forfeited during the year	0	0	0	0
Exercised during the period	0	0	0	0
Expired during the period	0	0	0	0
Outstanding at 31 December 2011	7,317,500	0.858	0	0
Exerciseable at 31 December 2011	7,317,500	0.858	0	0

The fair value of the received services in the amount of 527,000 EUR was recorded as an expense in the profit or loss and the fair value of share options in the same amount was recorded as a share option reserve in the equity.

The outstanding share options are non-diluting due to their exercise price being higher than the average price in the stock market during the period.

Note 23 CONTINGENCIES AND COMMITMENTS

Legal claims

AS Tallink Grupp and AS Hansatee Cargo filed complaints with Tallinn Administrative Court on 30 June 2005 against Estonian Maritime Administration and the Ministry of Transport and Communications claiming the unlawfully collected and paid lighthouse and ice breaking dues. The total amount of AS Tallink Grupp claim is 1,256,000 EUR and of AS Hansatee Cargo claim 754,000 EUR. Tallinn Administrative Court did not satisfy the claim by its decision of 20 October 2008. AS Tallink Grupp and AS Hansatee Cargo filed an appeal but Tallinn Circuit Court did not satisfy it by its decision of 30 June 2009. We filed cassation to the Supreme Court but it did not accept the cassation by its regulation of 25 November 2009. AS Tallink Grupp and AS Hansatee Cargo filed an appeal to the European Court of the Human Rights on 18 May 2010. The settlement has not been made so far.

AS Tallink Grupp and AS Hansatee Cargo together with Tallink Silja OY filed a complaint in Helsinki District Court about the return of the harbour fees for the years 2001 until 2004. The redeemable amount is all together 34,170,000 EUR (of which AS Tallink Grupp claim is 13,163,000 EUR, AS Hansatee Cargo claim is 419,000 EUR and Tallink Silja Oy claim is 20,588,000 EUR) The bases for the claim derive from the incorrect harbor fees that

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were applied and demanded by the Finnish state from the ships of European Union member states. The case has not been heard in court.

The receivable has not been recognized in the financial statements.

Income tax on dividend

The Group's retained earnings as of 31 December 2011 were 229,665,000 EUR, 2010: 163,823,000 EUR. At 31 December 2011, the maximum income tax liability, which would arise if retained earnings were fully distributed was 48,230,000 EUR, 2010: 34,403,000 EUR. The maximum income tax liability has been calculated using the income tax rate effective for dividends under the assumption that the dividend and the related income tax expense cannot exceed the amount of retained earnings as of 31 December 2011 (2010: 31 August 2010).

Non-cancellable operating leases:

The Group as the lessee

On 1 October 2003 the Group concluded a non-cancellable lease agreement on a hotel building. The lease period of 10 years started in May 2004. The Group may renew the agreement for a further 5 years. The annual non-cancellable minimum lease payment from 1 September 2010 to 31 December 2011 was 3,503,000 EUR, 2010: 2,301,000 EUR.

On 2 May 2006 the Group concluded a non-cancellable lease agreement on the building of Tallink Spa Hotel. The lease period of 10 years started in March 2007. The Group may renew the agreement for a further 10 years. The annual non-cancellable lease payment from 1 September 2010 to 31 December 2011 was 4,403,000 EUR, 2010: 3,097,000 EUR. From 1 September 2012 minimum lease payment will increase 2.5% every financial year.

In the May 2008 OÜ TLG Hotell purchased 100% OÜ Delegatsioon. OÜ Delegatsioon has concluded a non-cancellable lease agreement on the building of TOP Spa Hotel. The lease period of 15 years started in March 2008. The Group may renew the agreement for a further 15 years. The non-cancellable lease payment from 1 September 2010 to 31 December 2011 was 3,241,000 EUR, 2010: 2,367,000 EUR. From January 2012 the lessor has the right to increase lease payments 2.5% every year.

On 29 September 2008 the Group concluded a non-cancellable lease agreement on the hotel building of Hansa Hotell. The lease period of 10 years started in January 2009. The Group has an option to renew the agreement for further 10 years. The non-cancellable lease payment from 01 September 2010 to 31 December 2011 was 1,031,000 EUR, 2010: 750,000 EUR. From 1 September 2012 minimum lease payment will increase 2.5% every financial year.

On 26 March 2010 the Group concluded a non-cancellable Commercial Lease Contract with SIA Happy Trails on a hotel building in Riga. The lease period of 10 years started April 2010. The annual non-cancellable lease payment is 3,300,000 EUR. The annual non-cancellable minimum lease payment from 1 September 2010 to 31 December 2011 was 3,827,000 EUR, 2010: 1,364,000 EUR.

In January 2008 the Group concluded a non-cancellable lease agreement with OÜ Fastinvest on a office building in Tallinn. The lease period of 10 years started March 2009. The annual non-cancellable lease payment from 1 September 2010 to 31 December 2011 was 1,174,000 EUR, 2010: 861,000 EUR. From January 2012 the lessor has the right to increase lease payments up to 6% every year.

In April 2011 the Group concluded a non-cancellable lease agreement with OY Hartela on a office building in Helsinki. The lease period of 10 years started September 2011. The annual non-cancellable lease payment from 1 September 2010 to 31 December 2011 was 241,000 EUR.

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Non-cancellable operating minimum lease payments are as follows:

As of 31 December and 31 August
in thousands of EUR

	2011	2010
< 1 year	13,456	12,506
1-5 years	60,448	61,014
>5 years	30,992	38,301
Total	104,896	111,821

The Group as the lessor

The Group charter income from 1 September 2010 31 December 2011 was 25,558,000 EUR, 2010: 17,062,000 EUR.

Non-cancellable minimum charter payments are as follows:

As of 31 December and 31 August
in thousands of EUR

	2011	2010
< 1 year	25,651	13,009
1-5 years	27,362	22,599
Total	53,013	35,608

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

As of 31 December and 31 August
in thousands of EUR

	2011	2010
< 1 year	1,034	0
1-5 years	2,229	0
Total	3,263	0

During financial year 2010/2011 the Group earned 148,000 EUR interest income

Note 24 RELATED PARTY DISCLOSURES

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

a) The companies controlled by the Key Management Personnel

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

b) Associated companies

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

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

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The notes on pages 28 to 81 are an integral part of these consolidated financial statements.

for the year ended 31 December and 31 August and as of 31 December and 31 August, respectively

In thousands of EUR

	Relation- ship	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
2011					
AS Infortar - services	a	47	87	6	0
AS HT Valuuta - services	a	178	0	1	0
AS Vara HTG - leases	a	0	4,071	0	946
OÜ Sunbeam - leases	a	0	4,403	0	170
OÜ Topspa Kinnisvara - leases	a	0	3,241	0	0
OÜ Mersok - leases	a	0	12	0	0
OÜ Hansa Hotell - leases	a	0	1,031	0	0
OÜ Fastinvest - leases	a	0	1,412	0	0
SIA Happy Trails - leases	a	9	4,220	1	35
AS Vaba Maa - services	a	12	1,491	1	137
AS Gastrolink - goods	a	1	1,269	0	26
Eesti Laevaomanike Liit- membership fee	a	0	13	0	0
AS Tallink Takso - services	b	0	119	0	13
SEB Tallink Tennis Team - services	a	0	10	0	0
2010					
AS Infortar - services	a	3	73	1	0
AS HT Valuuta - services	a	184	0	0	0
AS Vara HTG - leases	a	0	2,301	0	0
OÜ Sunbeam - leases	a	0	3,097	0	0
OÜ Topspa Kinnisvara - leases	a	0	2,367	0	0
OÜ Mersok - leases	a	0	9	0	0
OÜ Hansa Hotell - leases	a	0	752	0	0
OÜ Fastinvest - leases	a	0	1,016	0	0
SIA Happy Trails - leases	a	0	1,774	0	539
AS Vaba Maa - services	a	9	836	1	147
AS Gastrolink - goods	a	1	851	0	34
Eesti Laevaomanike Liit- membership	a	0	13	0	0
AS Tallink Takso - services	b	0	73	0	9

Key Management Personnel Compensation

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

The key Management Personnel compensations are as follows:

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for the year ended 31 December and 31 August
in thousands of EUR

	2011	2010
Short-term benefits	1,444	680
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	253	0
Total	1,697	680

Some members of the Key Management Personnel have a right to termination benefits. At 31 December 2011 the maximum amount of such benefits was 760,000 EUR (972,000 EUR in 2010).

Note 25 GROUP ENTITIES

Group entities	Interest As of 31 December 2011	Interest As of 31 August 2010	Country of incorporation	Parent company
OÜ Hansaliin	100%	100%	Estonia	AS Tallink Grupp
OÜ Hansatee Kinnisvara	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Duty Free	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Laevateenindus	100%	100%	Estonia	AS Tallink Grupp
OÜ HT Meelelahutus	100%	100%	Estonia	AS Tallink Grupp
AS Tallink	100%	100%	Estonia	AS Tallink Grupp
AS Hansatee Cargo	100%	100%	Estonia	AS Tallink Grupp
OÜ TLG Hotell	100%	100%	Estonia	AS Tallink Grupp
OÜ Tallink Travel Club	100%	100%	Estonia	AS Tallink Grupp
AS Tallink Baltic	100%	100%	Estonia	AS Tallink Grupp
OÜ Mare Pharmaci	100%	100%	Estonia	AS Tallink Grupp
AS HTG Invest	100%	100%	Estonia	AS Tallink Grupp
Tallink Finland OY	100%	100%	Finland	AS Tallink Grupp
Tallink Latvija AS	100%	100%	Latvia	AS Tallink Grupp
Kapella Shipping Ltd	100%	100%	Bahamas	AS Tallink Grupp
Tallink Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn-Helsinki Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Vana Tallinn Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Fast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Swedish Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallinn Stockholm Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Victory Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Hansalink Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Autoexpress Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink High Speed Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Sea Line Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Superfast Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF VII Ltd	100%	100%	Cyprus	AS Tallink Grupp

Baltic SF VIII Ltd	100%	100%	Cyprus	AS Tallink Grupp
Baltic SF IX Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink Hansaway Ltd	100%	100%	Cyprus	AS Tallink Grupp
Tallink-Ru OOO	100%	100%	Russia	AS Tallink Grupp
HTG Stevedoring Oy	100%	100%	Finland	AS Tallink Grupp
Ingleby (1699) Ltd.	100%	100%	UK	AS Tallink Grupp
OÜ HT Hulgi Tolliladu	100%	100%	Estonia	AS Tallink Duty Free
AS Tallink Scandinavian	100%	100%	Estonia	AS Tallink Grupp
Tallink Silja Oy	100%	100%	Finland	AS Tallink Scandinavian
Sally AB	100%	100%	Finland	Tallink Silja Oy
Silja Europa Oy ¹	0%	100%	Finland	Tallink Silja Oy
Tallink Silja AB	100%	100%	Sweden	Tallink Silja Oy
Silja Line GmbH	100%	100%	Germany	Tallink Silja Oy Ab
Exlaw Oy ²	0%	100%	Finland	Tallink Silja Oy
OÜ Hera Salongid	100%	100%	Estonia	OÜ TLG Hotell
SIA HT Shipmanagement	100%	100%	Latvia	OÜ HT Laevateenindus
SIA TLG Hotel Latvija	100%	100%	Latvia	OÜ TLG Hotell

¹ In March 2011 Silja Europa Oy merged into Tallink Silja Oy

² In March 2011 Exlaw Oy has been liquidated

Note 26 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

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

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

Credit risk

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

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As of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Available-for-sale financial assets	177	172
Cash and cash equivalents	75,421	57,488
Receivables	37,526	42,185
Interest rate swaps used for hedging:		
Assets	0	705
Total	113,124	100,550

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

The Group's management has established a credit policy under which each new customer with credit request is analysed individually for creditworthiness before the Group's payment terms and conditions are offered. Some customers are obliged to present a bank guarantee to meet criteria for credit payments. Purchase limits are established for customers, which represents the maximum open amount without requiring approval from the Group's management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on prepayment basis.

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

The aging of trade receivables at the reporting date was:

As of 31 December and 31 August

Impairment losses

	in thousands of EUR	
	2011	2011
	Gross	Impairment
Not past due	30,062	0
Past due 0-30 days	2,064	0
Past due 31-90 days	3,547	0
Past due 91 days- one year	1,125	-720
Past due over one year	728	-717
Total	37,526	-1,437

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As of 31 December and 31 August

Impairment losses

	in thousands of EUR	
	2010	2010
	Gross	Impairment
Not past due	37,350	0
Past due 0-30 days	2,449	0
Past due 31-90 days	963	-4
Past due 91 days- one year	678	-626
Past due over one year	745	-668
Total	42,185	-1,298

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	in thousands of EUR	
	2011	2010
Balance at 31 August	1,298	1,320
Amounts written off	-90	0
Impairment loss recognised	229	-22
Balance at 31 December and 31 August	1,437	1,298

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

Derivatives with a positive fair value for the Group were equivalent to 0 EUR as of 31 December 2011 and 705,000 EUR as of 31 August 2010.

Liquidity risk

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

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

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

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In thousands of EUR

2011	< 1 year	1-2 years	2-5 years	>5 years	Total
Non derivative financial liabilities					
Finance lease liabilities	-56	-4	0	0	-60
Trade and other payables	-49,635	0	0	0	-49,635
Secured bank loans repayments	-148,147	-231,560	-419,346	-174,208	-973,261
Interest payments ⁽¹⁾	-30,993	-29,224	-53,897	-15,594	-129,708
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-3,969	-2,889	-3,789	-1,110	-11,757
Total	-232,800	-263,677	-477,032	-190,912	-1,164,421
2010	< 1 year	1-2 years	2-5 years	>5 years	Total
Non derivative financial liabilities					
Finance lease liabilities	-85	-89	0	0	-174
Trade and other payables	-56,371	0	0	0	-56,371
Secured bank loans repayments	-65,488	-122,777	-466,395	-430,694	-1,085,354
Interest payments ⁽¹⁾	-38,488	-34,834	-76,325	-27,114	-176,761
Derivative financial liabilities					
Interest rate swaps ⁽²⁾	-5,173	-4,611	-7,227	-450	-17,461
Total	-165,605	-162,311	-549,947	-458,258	-1,336,121

⁽¹⁾ - expected based on the interest rates and interest rates forward curves⁽²⁾ - net cashflow, expected, based on the interest rates and interest rates forward curves

The guarantees issued are not recognised in the statement of financial position as, according to estimation, none of them has turned into an actual liability.

Market risk

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

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

Currency risk

The Group is exposed to exchange rate risk rising from revenues and operating expenses in foreign currencies, mainly in the US dollar (USD), Swedish krona (SEK) and the Latvian lats (LVL). Exposure to USD results from the purchase of ship fuel and insurance and exposure to SEK and LVL arises from the fact as these are the operational currencies on some routes. Latvian lat is the national currency of an EU member state whose exchange rate is fixed by the central bank of Latvia and is pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by the law. The impact of fluctuation of Swedish krona is considered not material to the financial statements.

The Group seeks to minimize currency risk by using derivative instruments (currency forward contracts and currency swaps), and matching foreign currency inflows with outflows.

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

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as of 31 December

In thousands of EUR

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

as of 31 August

In thousands of EUR

2010	EUR	USD	SEK	LVL	Other	Total
Cash and cash equivalents	47,436	28	8,770	871	383	57,488
Trade receivables, net of allowance	22,601	0	2,406	120	347	25,474
Other financial assets	16,705	0	2	4	0	16,711
Derivatives	705	0	0	0	0	705
	87,447	28	11,178	995	730	100,378
Current portion of borrowings	-63,623	0	0	-4	0	-63,627
Trade payables	-42,367	-3,452	-2,234	-615	-172	-48,840
Other current payables	-32,190	0	-493	-719	-9	-33,411
Derivatives	-17,634	0	0	0	0	-17,634
Non-current portion of borrowings	-1,004,235	0	-74	-9	0	-1,004,318
	-1,160,049	-3,452	-2,801	-1,347	-181	-1,167,830
Currency net position, EUR	-1,072,602	-3,424	8,377	-352	549	-1,067,452

Interest rate risk

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

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

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as of 31 December and 31 August

	in thousands of EUR	
	2011	2010
Fixed rate financial liabilities	71,036	81,312
Variable rate financial liabilities	888,530	986,559
Total	959,566	1,067,871

A change of 100 basis points in interest rates at the reporting date would have increased (- decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2010.

As of 31 December and 31 August

	in thousands of EUR	
	2011	2010
100 basis point increase	-8,885	-9,866
100 basis point decrease	8,885	9,866

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

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

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

as of 31 December

In thousands of EUR

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

as of 31 August

In thousands of EUR

	2010	< 1 year	1-2 years	2-5 years	>5 years	Total
Expected		-5,173	-4,611	-7,227	-450	-17,461
100 basis point increase		2,700	2,700	6,400	4,000	15,800
100 basis point decrease		-2,700	-2,700	-6,400	-4,000	-15,800

A 10 percent strengthening of the euro against the following currencies at the end of the financial year would have increased (decreased) profit or loss and equity by the amounts shown below. This sensitivity analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2010.

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As of 31 December and 31 August

In thousand EUR

	2011 Profit or loss	2010 Profit or loss
USD	-19	342
SEK	-542	-811
LVL	-41	46
Other	71	-54

Fair values of financial instruments

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

Hedge activities

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

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

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

as of 31 December and 31 August

In thousand of EUR

	Hierarchy ⁽¹⁾	Maturity	2011		2010	
			Notional amount	Fair value	Notional amount	Fair value
Interest rate swap	Level 2	2014	100,000	-4,347	100,000	-901
Interest rate swap	Level 2	2012	100,000	-15,291	100,000	-16,290
Interest rate swap	Level 2	2018	70,000	-3,030	70,000	-407
Fuel swap	Level 1	2010	0	0	2,276	705
Foreign exchange rate swap	Level 2	2010	0	0	1,619	-36
Total derivatives with positive value				0		705
Total derivatives with negative value				-22,668		-17,634

⁽¹⁾Fair value hierarchy and methodology

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

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

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Capital Management

The Group considers total shareholders' equity as capital. As of 31 December 2011 the shareholders' equity was 705,091 thousand EUR. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

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

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

Note 27 SUBSEQUENT EVENTS

In February 2012 the Group chartered Regina Baltica out for six months. The charterer has option to extend charter agreement for four years.

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

for the year ended 31 December and 31 August

	in thousands of EUR	
	01.09.2010- 31.12.2011	01.09.2009- 31.08.2010
Continuing operations		
Revenue	496,348	325,458
Cost of sales	-402,981	-269,950
Gross profit	93,367	55,508
Marketing expenses	-28,982	-17,726
Administrative expenses	-17,287	-11,062
Other operating income	198	276
Other operating expenses	-1,311	-325
Results from operating activities	45,985	26,671
Finance income	3,155	2,487
Finance costs	-56,176	-48,767
Dividends received from subsidiaries	0	10,100
Share of loss of equity accounted investees	-157	-373
Net profit/-loss from continuing operations	-7,193	-9,882
Profit/-loss from discontinued operations	-20,970	-48,197
Net profit/-loss for the period	-28,163	-58,079
Other comprehensive income/-expense		
Cash flow hedges	-705	732
Other comprehensive income/-expense for the period	-705	732
Total comprehensive income/-expense for the period	-28,868	-57,347

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KPMG, Tallinn

STATEMENT OF FINANCIAL POSITION

as of 31 December and 31 August

	in thousands of EUR	
	31.12.2011	31.08.2010
ASSETS		
Current assets		
Cash and cash equivalents	46,541	17,164
Receivables and prepayments	103,786	104,995
Derivatives	0	705
Tax assets	30	20
Inventories	9,242	8,174
	159,599	131,058
Non-current assets		
Investments in subsidiaries	148,780	148,613
Receivables from subsidiaries	135,645	173,770
Investments in equity accounted investees	226	214
Other financial assets and prepayments	24	19
Property, plant and equipment	407,082	595,847
Intangible assets	7,547	8,807
	699,304	927,270
TOTAL ASSETS	858,903	1,058,328
LIABILITIES AND EQUITY		
Current liabilities		
Interest-bearing loans and borrowings	41,435	59,143
Payables and deferred income	137,367	114,765
Derivatives	22,668	17,634
Tax liabilities	2,699	2,299
	204,169	193,841
Non-current liabilities		
Interest-bearing loans and borrowings	407,446	588,858
	407,446	588,858
Total liabilities	611,615	782,699
Equity		
Share capital	404,290	430,648
Share premium	639	639
Reserves	8,326	7,411
Retained earnings	-165,967	-163,069
	247,288	275,629
TOTAL LIABILITIES AND EQUITY	858,903	1,058,328

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KPMG Tallinn

STATEMENT OF CASH FLOWS

for the year ended 31 December and 31 August

	in thousands of EUR	
	2011	2010
Cash flows from/ used in operating activities		
Net profit/-loss for the financial year	-28,163	-58,079
Adjustments	119,808	108,730
Depreciation	88,812	72,157
Net interest expense	66,160	61,142
Income from subsidiaries	0	-10,100
Net gain/loss on disposals of tangible and intangible assets	-25,041	0
Other adjustments	-10,123	-14,469
Changes in receivables related to operating activities	-75,039	-8,125
Change in inventories	-1,068	-150
Changes in liabilities related to operating activities	24,334	25,832
	39,872	68,208
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	-1,323	-100
Acquisition of subsidiaries	0	-25,730
Acquisition of equity accounted investees	-169	-587
Acquisition of other companies	-5	0
Proceeds from subsidiaries	0	10,100
Proceeds / payments from settlement of derivatives	-7,236	-4,460
Interest received	265	5
	-8,468	-20,772
Cash flows from/ used in financing activities		
Redemption of loans	0	-860
Change in overdraft	0	-47,995
Interest paid	-2,027	-2,248
	-2,027	-51,103
TOTAL NET CASH FLOW	29,377	-3,667
Cash and cash equivalents:		
- at the beginning of period	17,164	20,831
- increase / decrease	29,377	-3,667
- at the end of period	46,541	17,164

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Date/kuupäev. 26.04.2012

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KRMG, Tallinn

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December and 31 August
in thousands of EUR

	Share capital	Share premium	Cash flow hedge reserve	Mandatory legal reserve	Reserve for treasury shares	Share option programme reserve	Retained earnings	Total equity
As of 31 August 2009	430,648	639	-27	10,869	-4,163	0	-104,990	332,976
Net loss from cash flow hedges	0	0	732	0	0	0	0	732
Net loss for financial year 2009/2010	0	0	0	0	0	0	-58,079	-58,079
As of 31 August 2010	430,648	639	705	10,869	-4,163	0	-163,069	275,629
Net loss from cash flow hedges	0	0	-705	0	0	0	0	-705
Net loss for financial year 2010/2011	0	0	0	0	0	0	-28,163	-28,163
Distribution of profit 2009/2010	0	0	0	1,093	0	0	-1,093	0
Decrease of share capital	-26,358	0	0	0	0	0	26,358	0
Contributions by and distributions to owners of the company	0	0	0	0	0	527	0	527
As of 31 December 2011	404,290	639	0	11,962	-4,163	527	-165,967	247,288
Unconsolidated equity at 31 December and 31 August	247,288						275,629	
Interest under control and significant influence:								
-carrying amount	-149,006						-148,827	
-carrying amount under equity method	606,809						540,915	
Restated unconsolidated equity at 31 December and 31 August	705,091						667,717	

The notes on pages 28 to 81 are an integral part of these consolidated financial statements.

Info
Date/A
Signature
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26.07.2012
AS Tallink Grupp

MANAGEMENT BOARD'S DECLARATION TO THE FINANCIAL STATEMENTS

Hereby AS Tallink Grupp Management Board declare and confirm in the declaration of the management that according to their best knowledge, the annual accounts, prepared according to the accounting standards in force, present a correct and fair view of the assets, liabilities, financial situation and profit of the issuer and the undertakings involved in the consolidation as a whole.



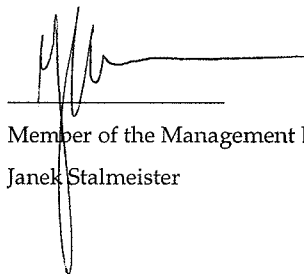
Chairman of the Management Board
Ern Pant



Vice Chairman of the Management Board
Andres Hunt



Member of the Management Board
Lembit Kitter



Member of the Management Board
Janek Stalmeister

Tallinn, 26.04.2012



KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

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Internet www.kpmg.ee

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Tallink Grupp

We have audited the accompanying consolidated financial statements of AS Tallink Grupp, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, cash flows and changes in equity for the period from 1 September 2010 to 31 December 2011, and a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 81.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallink Grupp as of 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the for the period from 1 September 2010 to 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 26 April 2012

KPMG Baltics OÜ
Licence No 17
Narva mnt 5, Tallinn

Andres Root
Authorized Public Accountant, No 9

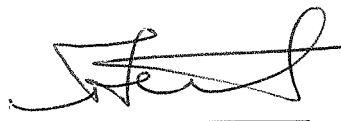
PROFIT ALLOCATION PROPOSAL

The management board of AS Tallink Grupp proposes:

1. That the shareholders' general meeting be presented the following profit allocation proposal of AS Tallink Grupp:
 - i) The management board proposes that the net profit for the financial year 1 September 2010 – 31 December 2011 of 37,476,000 EUR be allocated as follows:
 - A transfer of 1,873,800 EUR to the mandatory legal reserve
 - A transfer of 35,602,200 EUR to retained earnings
 - ii) No dividend distributions to shareholders.



Chairman of the Management Board
Enn Pant



Vice Chairman of the Management Board
Andres Hunt



Member of the Management Board
Lembit Kitter

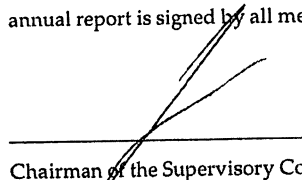


Member of the Management Board
Janek Stalmeister

Tallinn, 26.04.2012.

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

The management board of AS Tallink Grupp has prepared the consolidated financial statements for the year 2010/2011. The supervisory council of AS Tallink Grupp has reviewed the annual report of AS Tallink Grupp for the financial year 2010/2011 and has approved it for presentation to the shareholders' general meeting. This annual report is signed by all members of the management board and supervisory council.



Chairman of the Supervisory Council

Toivo Ninnas

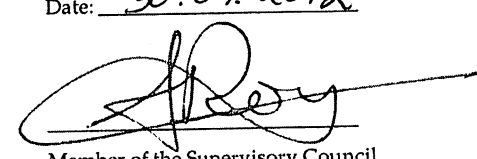
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Member of the Supervisory Council

Eve Pant

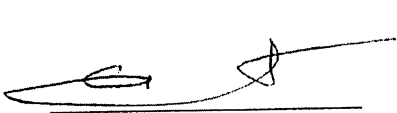
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Member of the Supervisory Council

Ashwin Roy

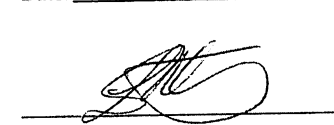
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Chairman of the Management Board

Enn Pant

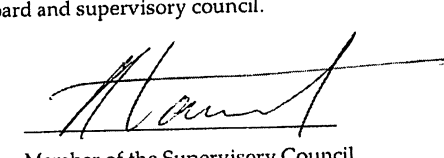
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Member of the Management Board

Lembit Kitter

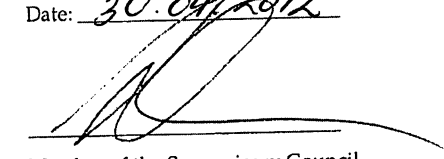
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Member of the Supervisory Council

Ain Hanschmidt

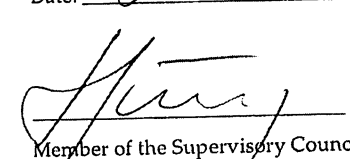
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Member of the Supervisory Council

Lauri Kustaa Äimä

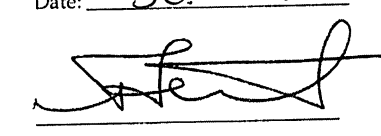
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Member of the Supervisory Council

Kálev Järvelill

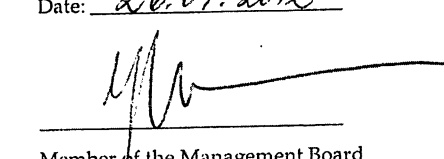
Date: 30.04.2012



Vice Chairman of the Management Board

Andres Hunt

Date: 26.04.2012



Member of the Management Board

Janek Stalmeister

Date: 26.04.2012