

Annual Report 2021





AS Eesti Raudtee 2021 Annual Report consists of sustainability, corporate social Responsibility and good corporate governance (GCG) reports, management and accounting reports. We want to be open with stakeholders concerning various aspects of our activities.

We have prepared the report in accordance with Estonian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by the European Union (hereafter as "IFRS EU") – and also in accordance with the requirements of good corporate governance and the Global Reporting Initiative (GRI) sustainability reporting standard. The report has been prepared in collaboration with the company's management and field specialists and is aimed at a professional reader.

General information

- Company name: AS Eesti Raudtee
- Commercial register number: 11575838
- Beginning of financial year: 1 January
- End of financial year: 31 December
- Legal address: Telliskivi 60/2, 15073 Tallinn, Republic of Estonia
- Telephone: (+372) 615 8610
- E-mail: raudtee@evr.ee
- Corporate website: www.evr.ee
- Main activities: Management of the railway infrastructure
- Management Board: Kaido Zimmermann, Andrus Kimber, Arvo Smiltinš
- Supervisory Board: Sven Pertens (Chairman), Rene Varek, Carri Ginter, Kaur Kajak, Indrek Laineveer
- Auditor: AS PricewaterhouseCoopers



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ESTONIAN RAILWAYS IN BRIEF

We are a railway infrastructure management company (public limited company) that is 100% owned by the Republic of Estonia. Our main tasks are the allocation of railway capacity, providing the use of railway infrastructure and the collection of infrastructure charges in accordance with the procedure specified in the Railways Act.

The customers of Estonian Railways are rail freight and passenger transport operators. Through our activities it is possible to market Estonia as an efficient and reliable channel for transit trade.



**1219 km
of railways**
(incl 225 km
of electrified tracks)



61 stations



**133 passenger
platforms**

**151 years
of history**

We continue the work of the
Baltic Railway Society
on whose initiative train traffic
was opened in Estonia



683
employees
across Estonia



**Representative
office in Moscow**
(Russian Federation)



STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

The last year was undoubtedly a challenging year for business. Changes also took place in Eesti Raudtee, starting with the fact that the management of the company was taken over by a management consisting of experienced railway employees. 2021 can be described as the year of laying foundation, when new projects were started as well as large-scale investments were continued. Particular attention was paid to projects that will shape the future of the railways for decades to come.

Gradual Upgrading of Infrastructure

At the beginning of this decade, Eesti Raudtee launched an extensive investment plan that takes the quality, traffic management and safety of railway infrastructure to a new level. Major projects are electrification, upgrading of traffic management systems, the second stage of Haapsalu railway construction, raising the safety level of level crossings, renovating and straightening the railway in order to increase speeds, planning joint infrastructure with Rail Baltic, the Lääne-Harju major project, etc. Last year, we have already shown some results in these projects. For example, the extension of the Paldiski road viaduct was completed, a new railway bridge was built on the Emajõgi River and the route was straightened.

2022 is already a year when even more results are expected, many projects will reach the construction phase, and this year AS Eesti Raudtee will invest 63.6 million euros in the renewal of railway infrastructure. Some of the projects have a tight schedule for Eesti Raudtee, because the projects are closely related.

Safety is the Foundation

All our major projects support increasing the level of safety on the infrastructure of Eesti Raudtee. In 2021, we installed barriers at our level crossings and several pedestrian tunnels are planned. Our focus remains on prevention. For example, our staff went to schools to talk about railway safety, and in November 2021, together with partners, we organized a major exercise with local governments, first responders and other agencies to improve cooperation in the event of a railway accident.

The European Year of Rail

2021 was a special year for railways, as it highlighted rail traffic across Europe as a sustainable, smart and safe mode of transportation. The European Union has designated this year as the year of railway to get more people and businesses onto the tracks. The joint effort is to achieve climate-neutral rail transport by 2050. As a first initiative, from the beginning of 2021, Eesti Raudtee has used and mediated only electricity from renewable sources. The company's contribution to achieving climate goals will be even greater if we move forward with the electrification project.

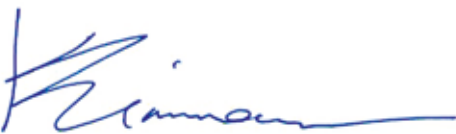
Customer Involvement

Our goal is to make customer communication more and more open and inclusive, and we continued to do so in 2021. We conducted a customer satisfaction survey. We have also consistently supported the reduction of infrastructure charges for freight transport with the aim of increasing transport volumes on our infrastructure and have cooperated with railway undertakings, freight forwarders and terminal operators to attract new freight flows to Estonia.

Financial Performance

In 2021, we worked hard to ensure that freight volumes grew steadily and that we had effective cooperation with the railway companies of neighboring countries. Last year's results also showed a small increase in transport volumes on our infrastructure, for example, local oil shale transport, export transport and also transit transport began to recover. The year 2021 brought almost 12.8 million tonnes of goods to our infrastructure, which is almost 11% increase compared to 2020. In 2022, cooperation between countries will continue to be our main focus, as competition for freight volumes is intense. However, passenger transport growth remained modest last year and pre-COVID numbers were unfortunately not reached. In the coming years, we will also strive to make rail transport more and more popular among passengers through convenient, high-quality and safe infrastructure.

Kaido Zimmermann



The Chairman of the Management Board

KEY FINANCIAL INDICATORS IN 2021



Sales revenue
EUR 32.8
million

(2020: 31,1)



EBITDA
EUR 22.4
million

(2020: 32,7)



Net profit
EUR 0
million

(2020: 7,1)



Equity
EUR 176.1
million

(2020: 176.1)



Investments
EUR 34.9
million

(2020: 32)



Total assets
EUR 374.4
million

(2020: 356.9)



**Domestic freight
volume**
1.8
million tonnes

(2020: 1,3)



**International freight
volume**
10.9
million tonnes

(2020: 10,2)



**Number of
railway accidents/
casualties/ fatalities**
13 / 10 / 7

(2020: 9 / 7 / 4)



**Number of
local passengers**
5,2
million

(2020: 5,0)



**Number of
international passengers**
0
million

(2020: 0,02)



**Number of
accidents at work/
fatalities**
0 / 0

(2020: 3 / 0)

KEY EVENTS IN 2021



January

- The stamp dedicated to the 150th anniversary of the Estonian Railways was chosen as the most beautiful postage stamp in Estonia.
- From 1 January, all electricity consumed by railway comes from renewable sources.
- A fiber optic connection was installed between Tapa and Rakke.



February

- AS Eesti Raudtee was elected as one of the most attractive employers in CV-Online's logistics sector.



March

- Kaido Zimmermann started working as the Chairman of the Management Board of AS Eesti Raudtee.
- An agreement was signed with the Jõhvi rural municipality government for the transfer of the station building.

April

- The Defence Forces and AS Eesti Raudtee entered into a co-operation agreement for mutual assistance.



May

- The month with the largest transport volume in 2021 – almost 1.3 million tonnes.
- The railway safety campaign “Get off the bike and let the train pass” took place.
- The Estonian Railway Training Center was opened to conduct general training for train drivers.
- Arvo Smiltinš, Member of the Management Board and Technical Director, joined the company.



June

- The Veerenni level crossing received a pedestrian warning system to increase railway safety.
- The Government of the Republic approved the “Transport and Mobility Development Plan 2021–2035” that shapes the company's future.
- The student squadron worked on tidying up the territory of Tapa railway station.





July

- Eesti Raudtee, in co-operation with the Jõhvi Rural Municipality Government, initiated a tender for the construction of a new light traffic tunnel and access roads to the city of Jõhvi.
- In cooperation with the city of Tallinn, a crossing connecting Tervise Street and Järve Shopping Center was opened.
- We launched another fiber optic connection on the Tapa – Narva route.

August

- A new and unique Emajõgi railway bridge was opened to train traffic.
- Tapa Parish Government and Eesti Raudtee signed a cooperation agreement for the restoration of the Tapa railway station building.
- Contracts were signed for the construction of the Keila Tuula road tunnel and the Keila - Pääsküla II main road and railway facilities. The first new facility in this section, the Urda waiting platform, was commissioned.

September

- The European Railway Year train "Connecting Europe Express" from Lithuania visited Estonia.
- Pääsküla station road no. 4 was extended and electrified.
- A contract was signed for the construction of the Topi viaduct.

October

- Participated as a partner of Environmental Investment Center in a video competition "Mini Negavatt 2021" aimed at primary school children.

November

- Employees were awarded with company value awards in nine categories.
- Eesti Raudtee organized a railway exercise "Elva fright" to practice in the event of a major railway accident.
- Kohtla station road no. 6 was reconstructed.
- A contract was signed for the construction of Laagri waiting platform and a light traffic tunnel.

December

- The half-year-long renovation at Tallinn-Balti Station came to an end – old traffic control systems were replaced, new passenger waiting platforms and additional tracks were added, and the number of electrified rails were increased. In order to increase the permeability of the station, a new railway was introduced on a section of the main road Balti Station - Kitseküla together with the railway viaduct of Paldiski Road.
- The new connection of Kärkna - Tartu fiber optics was completed, which, in addition to enabling larger data volumes, ensures better reliability of the systems.
- A new and modern lighting system was finished at Tartu station.

AWARDS AND RECOGNITIONS IN 2021



VASTUTUSTUNDLIKU
ETTEVÕTLUSE INDEKS
KULDASE 2021

- **8th place in the CV-Online Employer Attractiveness Survey** among transport and logistics companies.
- **In 2021 the Company once again received the Corporate Responsibility goldlevel award from the Responsible Entrepreneurship Forum** which is the highest reward granted to Estonian companies who care about the environment and wish to contribute more to the society than required by legislation or norms.
- The quality management system of Eesti Raudtee has been recognized as complying with the requirements of the international standard **ISO 9001:2015**. The external audit of 2021 confirmed that we continue to meet its requirements and the certificate was issued for the next three years.
- **The team of Estonian Railways participated in the series of competitions “The Most Athletic Public Institution 2021”** and achieved a 4th place in the overall ranking.
- The organisers of **“Battle For Tapa”** expressed their gratitude to Estonian Railways for organising the obstacle race in August. 350 people participated in the event.
- Rein Ljäkin, an employee of AS Eesti Raudtee, received the highest recognition in the field of railway safety in Estonia – the **OLE Statute of the Honorary Medal**.



STRATEGY OF ESTONIAN RAILWAYS FOR 2022–2028



VISION

to be the region's most advanced railway infrastructure.



MISSION

to be a railway competence center and ensure a safe and efficient service on the railway.



VALUES

cooperation, honesty, innovation and professionalism.

The sole shareholder of Estonian Railways is the Republic of Estonia. The status of a state-owned company and the expectations of the owner are part of the development of our business philosophy and strategy.

The company's strategy is based on the action plan for the development of public railway infrastructure for 2021–2028 approved by the Government of the Republic, the national plan "Estonia 2030+", the transport and mobility development plan 2021–2035, the company's vision, mission and values and is in line with international agreements, European Union and Estonian development documents and legislation and sectoral standards.

Eesti Raudtee's strategy is based on four cornerstones, which set out the following cross-organizational strategic goals.

INFRASTRUCTURE		<ul style="list-style-type: none"> ▪ Electrified and modern fully automated traffic management ▪ Optimized infrastructure ▪ An efficient company
EMPLOYEES		<ul style="list-style-type: none"> ▪ Professional and motivated employees ▪ Value-based management ▪ Environmentally-friendly and socially responsible corporate culture
TARGET GROUPS		<ul style="list-style-type: none"> ▪ High-quality service ▪ Satisfaction of the target group of customers ▪ Increasing of the volume of railway transportation
PROCESSES		<ul style="list-style-type: none"> ▪ Digitized and automatized processes ▪ Vision zero in railway safety

The strategy includes the business plan of Estonian Railway. According to the business plan, the key investments are aimed at electrification, increasing speeds, modernisation of railway safety systems, digitalization and automation of traffic arrangement processes and increasing of the rail capacity where it is short in supply.

According to the Government's guidelines, Eesti Raudtee is restoring the Haapsalu / Rohuküla railway. In 2021, the design of the Turba-Ellamaa and Risti-Ellamaa sections was completed, in 2022 work on the design of the Saunja – Risti section will continue, and additional procurements for the design of Saunja – Haapsalu and Haapsalu – Rohuküla will be added. At the end of the year, it is planned to start construction of the railway line on the Turba – Risti section.

On 27 June 2019, the Government decided that in order to reduce greenhouse gas emissions in the transport sector, a 25 kV catenary network must be built on the Tallinn-Tapa-Narva, Tapa-Tartu-Valga, Tartu-Koidula-Piusa and Ülemiste-Muuga and Kopli stations. During 2021, the technical solution and preliminary design of electrification were completed. In the next stage, the Aegviidu-Tapa-Tartu contact network must be built, which would allow passengers to travel from Tallinn to Tartu by electric train in 2024.

SOCIAL IMPACT OF OUR ACTIVITIES



As the major public railway infrastructure operator, we play a significant role in the development of the Estonian society. Almost 80% of the Estonian population lives in the impact area of the railway and this percentage will increase even more with the addition of new railway lines. The railway creates opportunities for the mobility of people and goods, employment and environmentally-friendly transport.

- **Our role in stimulating economic growth:** good transport connections and services contribute to economic growth and business development, especially through boosting freight exports and tourism.

In 2021, Eesti Raudtee invested 34.9 million euros to improve the safety and quality of infrastructure by revitalizing the economy, creating jobs and awarding large-scale contracts to contractors. In 2022, the volume of investments will double – almost 64 million euros.



- **Our role in facilitating people's mobility:** well-organised rail transport is convenient, fast and safe way to move and travel on a daily basis. Railway is an important link in the integration of different modes of transport (intra-urban public transport and multimodal public transport terminals, sharing platforms, park and travel systems).
- **Our role in promoting employment:** the railway helps to cover long distances faster and provides better opportunities for people living away from the centres to go to work. In this way, we help to preserve life away from big cities.
- **Our role in preserving the natural environment:** rail transportation is the most environmentally-friendly alternative to air and road transport. The scale effect and electrification of the Estonian railway infrastructure play a role in this.
- **Our direct contribution to employment:** with almost 700 employees, we are one of the fifty largest employers in Estonia, and half of our jobs are located outside Tallinn. As suppliers and subcontractors, many Estonian companies benefit from our large-scale investments.

Focus Topics of Responsible Action

Our goal is to be an example to Estonian companies in terms of good management practices, social responsibility and a strong business culture. We believe that in the long run, our responsible activities, strong reputation, high ethical standards, sustainable behaviour and a low risk level help increase the Company's profitability. By the end of 2021, the company's Responsible Business Action Plan 2019-2021 was fulfilled. In 2022, we will renew the action plan for the next two years.

Priority topics of Estonian Railways' social responsibility:

- ensuring railway safety and raising public awareness;
- implementation of environmental protection principles in all the operations of Estonian Railways;
- fair recruitment, development, motivation and treatment of employees;
- creating a safe working environment and promoting a positive safety culture in the Company and on the railway infrastructure;
- continuous development of the principles of corporate responsibility at the Company;
- creating a value-based organizational culture and fight against corruption;
- open communication in order to maintain the role of a reliable partner among all stakeholders.

Relation to UN Sustainable Development Goals

The role and impact of our core business in society and the implementation of key points and activities of responsible management address broader societal challenges.



- We have a direct and significant impact on goals 3, 7, 8, 9, 11 and 13.
- We influence goals 4, 12, 15, 16 and 17 indirectly or moderately in our activities.
- Our impact on the remaining goals is smaller.





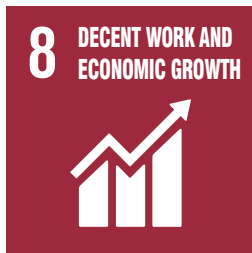
Keywords relevant to us:

- safe modes of transport for the environment and health;
- occupational health and safety.



Keywords relevant to us:

- energy efficiency;
- electrification, deployment of renewable energy;
- reducing greenhouse gas emissions in the transportation sector;
- weather resistant infrastructure.



Keywords relevant to us:

- labour mobility; employment in regions;
- foreign trade facilitator (export and import of goods, sustainable tourism);
- being a major and regional employer, diverse workforce;
- safe, secure and fair working conditions.



Keywords relevant to us:

- technological innovation and environmental protection in upgrading infrastructure, including electrification;
- high-quality, reliable, accessible, sustainable, resilient and secure infrastructure to support the economy and human well-being.



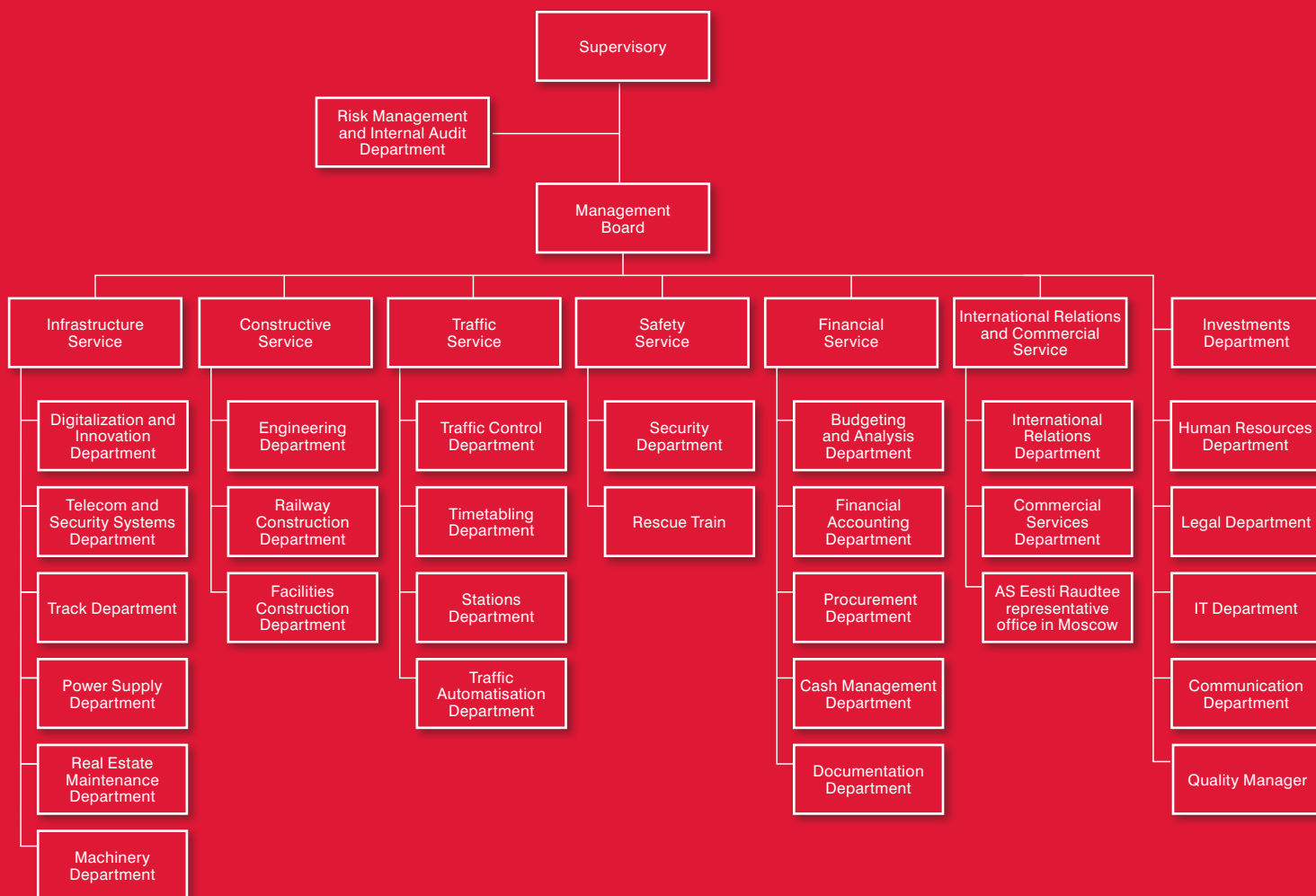
Keywords relevant to us:

- connector of urban, suburban and rural areas;
- viability of rural areas;
- sustainable urbanisation;
- multi and intermodality;
- accessible, convenient, economical and safe public transport.

We refer to the sustainable development goals that are related to our respective activities in the chapters of the annual report.

MANAGEMENT

Organisational Chart from 1 January 2022



Corporate Governance Report

General meeting

The Regular General Meeting presided by the Minister of Economic Affairs and Infrastructure approved the annual report for 2020 on 30 April 2021.

Supervisory Board

Until 8 February 2021, the Supervisory Board had six members – Sven Pertens (Chairman), Carri Ginter, Kaie Karniol, Indrek Laineveer, Kaido Zimmermann and Rene Varek. On 8 February 2021 Kaido Zimmermann was removed from the Supervisory Board with the decision of the sole shareholder and the Supervisory Board continued on with five members.

Since 7 March 2021, Kaie Karniol was removed from the Supervisory Board and was replaced with Kaur Kajak.

The Supervisory Board of the public limited company oversees the activities of the Company's Management Board, participates in planning the Company's operations and organising its management, and approves transactions that are outside the scope of its daily business. The Supervisory Board acts independently and in the interests of the Company and its shareholder.

The principal work format of the Supervisory Board is a meeting. During 2021, the Supervisory Board held eight meetings and adopted nine resolutions without calling a meeting. One member of the Supervisory Board did not participate in one Supervisory Board meeting. There were no occasions of members of the Supervisory Board participating in voting by letter. One member of the Supervisory Board did not participate in voting by letter on one occasions as the member had withdrawn themselves from the discussion to avoid a conflict of interests and did not participate in the voting process and no related materials nor meetings protocol was sent to the said member.



Sven Pertens

Audit Committee and Safety Committee

The task of the Audit Committee is to participate as an advisory body to the Supervisory Board in issues related to performing supervision, including monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, the process of preparing and auditing the financial statements, the independence of the auditor and the compliance of the activities with regulatory requirements. In 2021, the members of the Audit Committee were Kaie Karniol (Chairman), Jaak Annus and Roman Laidinen.

The task of the Safety Committee is to participate as an advisory body to the Supervisory Board in issues related to performing supervision over safety-related matters arising from the specific nature of the rail business. Until 1 March 2021, the members of the Safety Committee were Tarmo Vahemets (Chairman), Dago Antov, Sirle Loigo, Tauno Suurkivi and Kaido Zimmermann. Since 1 March 2021, Kaido Zimmermann no longer participated in the work of the Safety Committee due to being elected as Chairman of the Management Board. On 26 March 2021 Indrek Laineveer was elected as an additional member of the Safety Committee and since 26 March 2021, the members of the Safety Committee are Tarmo Vahemets (Chairman), Dago Antov, Indrek Laineveer, Sirle Loigo and Tauno Suurkivi.

The sole shareholder has established the rates and procedure for remuneration of the members of the Supervisory Board. The remuneration of the Chairman of the Supervisory Board is higher than that of the other members. The members of the Supervisory Board who did not participate in the meetings of the Supervisory Board do not receive remuneration for the month in which the meeting took place. According to the remuneration procedure, the members of the Supervisory Board who are also members of the Audit Committee and the Safety Committee are not paid additional remuneration for their participation in the meetings of these committees. The members of the Supervisory Board are not entitled to receive any termination benefits.



Kaido Zimmermann



Andrus Kimber



Arvo Smiltinš

Management Board

The Management Board runs the Company and represents it in its daily operations independently, in accordance with the provisions of the law and the Company's articles of association. The Management Board acts in the most economical manner to ensure the sustainable development of Estonian Railways consistent with the established targets, and organises relevant control and reporting.

The Management Board of Estonian Railways has approved the Management Board's rules of procedure stipulating its internal organisation of work, the procedure for adoption of decisions and monitoring of their enforcement and other issues regulating the activities of the Management Board. In 2021, the Management Board held 60 meetings.

The Chairman of the Management Board alone or two of the Management Board members jointly may represent the public limited company in all legal proceedings. The Chairman of the Management Board alone and two of the Management Board members jointly have the right to sub-authorize. As of 1 March 2021, Kaido Zimmermann was elected as the Chairman of the Management Board of AS Eesti Raudtee. He is also a member of the Supervisory Board of OÜ Rail Baltic Estonia.

Andrus Kimber, who was elected a member of the Management Board on 1 October 2017, will continue as the Deputy Chairman and Chief Financial Officer. On 1 May 2021 Technical Director Arvo Smiltinš joined as the third member of the Management Board. He has previously worked as a member of the Management Board of LEONHARD WEISS OÜ, developing the field of support services and business development. He is also a member of the profession committee of the Raudteekutsed Foundation, which awards the professions of railway engineers, and the chairman of the evaluation committee.

The remuneration of the members of the Management Board and termination benefits are laid down in their contracts concluded between the members of the Management and Supervisory Boards. In assigning additional remuneration to the members of the Management Board, the Supervisory Board takes into account the Company's financial indicators as well as the particular board member's performance and his or her personal contribution to achieving the financial and operating targets. Pursuant to the resolution of the Supervisory Board, in 2021, the Vice Chairman/CFO Andrus Kimber received bonuses totalling two months average remuneration.

Disclosure of Information

On its website, AS Eesti Raudtee discloses information about essential facts and events relating to it as laid down in law.

Value-Based Organisational Culture

As a state-owned company we need to be always fully transparent in our activities. We have consciously paid a lot of attention to fostering governance culture and business ethics, and as an organization have made huge progress in this respect and in the anti-corruption battle, setting a good example for other state-owned companies and the public sector as a whole.

In recent years, we have strengthened our management based on annual objectives, developed management reporting and improved the internal control system. We encourage employees (by recognizing and motivating them) to behave according to common values. Each year, we hand out value awards for promoting their area or excelling in this field. We can see that value-based management is becoming entrenched and more employees are relying on it.

One of the pillars of value-based management is honesty, which is an important principle in preventing corruption and fraud. Nevertheless, the company is constantly working to strengthen the internal control system, hoping that it will have a long-term impact on employees and employees in a way that the parties would prevent possible situations of corruption and fraud in transactions. Our value-based expectations no longer apply only to employees but to all parties who have or will have an operating relationship with our company.

In 2021, there were no company-related cases of corruption or other significant non-compliance with the law.

Risk Management

Over time, risk management has become a very important tool, as it provides assurance that the Company's strategic and operational objectives are being met in a controlled manner and that potential risks are properly covered by effective and efficient mitigation measures.

At Estonian Railways, the Management Board is responsible for risk management. The Supervisory Board, Audit Committee and the Risk Management and Internal Audit Departments are responsible for supervising risk management activities and processes. During the internal control system and risk management, people, who are responsible for the effective management of risks, are appointed.

The Company's risk management is progressive and focused on risk prevention – for this purpose, the appointed risk manager is required to implement the best measures to mitigate the risk factors. The principles of risk management are formulated as a document that describes the general risk management policy, the risk management process as well as the roles and responsibilities of the parties.

Risk management takes place on an ongoing basis, as well as regularly across the company at least once a year. Part of the risk assessment process is workshops where we review the characteristics that affect and trigger the risk and analyze the suitability and effectiveness of the mitigation measures that have been implemented.

The assessment of risks and controls ends with an information meeting where open discussions take place between the company's management board and all risk managers on which risks affect the company's operations the most and how to best manage the impact of their realization and probability.

With the help of risk management, the Company monitors if and how effectively the measures adopted to hedge risks work. The measures deemed as inefficient are integrated with the detailed goals for the period.

It is important to note that when managing large projects, employees are required to follow the risk management principles of AS Eesti Raudtee, and for this purpose investment projects important to the company are regularly discussed between project teams so that the parties understand the risks to project objectives.

Risks and risk categories:**Strategic risks**

Political environment
 Decline in freight transport volumes
 Insufficient financing of infrastructure
 Investing capacity

Operational risks

Safety
 Business continuity
 Processes
 Staff
 Technology and IT
 Safety and environment
 Arrangement of assets and inventories
 Procurements and contracts
 Fraud, theft and vandalism

Compliance risks

Regulations
 Claims for damages
 Capacity allocation

Financial risks

Liquidity risk
 Credit risk
 Interest rate risk
 Currency risk
 Market price risk

In 2021, Estonian Railways identified and managed 104 risks.



Safety Management

Safety management at Estonian Railways ensures that safety targets are constantly being set and necessary activities and control measures have been applied to attain them, and improvement and/or preventive measures have been developed or implemented.

As part of the system for ensuring safety on the railway infrastructure, we:

- do our best based on zero-vision principle to ensure that people on our infrastructure are not killed or seriously injured;
- identify the risks, circumstances of accidents, evaluate risks regularly and apply additional preventive measures;
- follow international and national legislative acts and company-wide safety requirements;
- establish and monitor compliance with the requirements for the maintenance and operation of railway infrastructure;
- guarantee our customers the maximum capacity of the railway infrastructure through high-quality traffic management and minimization of infrastructure failures;
- continuously develop the knowledge and skills of both ourselves and the employees of our contract partners;
- involve employees, employees' representatives and partners in the identification, analysis and further control of threats to occupational health and the working environment;
- require that our contract partners who work on the railway take safety training courses, comply with requirements and have the respective certificates. These requirements have been laid down in mutual agreements.

Quality Management

The main goal of quality and process management is optimisation of the Company's operations in order to provide the best services to the customers. The quality management system of Eesti Raudtee has been recognized by AS Metrocert as complying with the requirements of the international standard ISO 9001:2015. In September 2021, recertification audits of the environmental and quality management system were conducted, during which the activities of our company were reviewed based on the requirements of two standards (ISO 14001 and ISO 9001).

COMMUNICATION WITH STAKEHOLDERS



Open Communication

In its communication, Estonian Railways focuses on:

- reliability and competence;
- objectivity and neutrality;
- novelty and consistency;
- cooperation and involvement.

In 2021, we put a lot of emphasis on internal communication to keep our employees informed regarding relevant information about COVID-19. We implemented as much remote work as possible and most of the meetings took place on digital platforms to stop the virus from spreading.

Public interest in the activities of Estonian Railways is growing, which is why we are increasingly focused on raising awareness and proactively sharing information. In 2021, our media coverage items totalled 1,156 (2020: 1,414), of which 157 (155) were positive, 38 (64) were negative and 603 (653) were neutral. The share of positive news in 2021 increased and the share of negative news in 2021 decreased compared to 2020. The share of negative news was 5% (2020: 7%), while the share of positive news was 20% (18%).

In 2021, we increased our audience on Facebook to 2,040 people and actively shared railway and safety topics with the public.

When performing repair and construction work, we inform the public through the open media space about the changes concerning traffic (when there are changes or stoppages in the train schedules, or when traffic has partially been replaced by buses, traffic has been redirected or closed). We also share information via the homepage of a local government and the company providing services to passengers. Eesti Raudtee aims to be a reliable partner for all stakeholders.

Cooperation and Membership

As a legal entity, Estonian Railways is a member of the following Estonian and international professional associations:

- The Community of European Railway and Infrastructure Companies (*CER- Community of European Railway and Infrastructure Companies*) based in Brussels;
- Platform of Rail Infrastructure Managers in Europe (PRIME);
- Rail Freight Corridor: North Sea – Baltic;
- Association of European railway infrastructure companies RNE (*RailNetEurope*) headquartered in Vienna;
- Estonian Chamber of Commerce and Industry;
- NGO Logistics and Transit Association (LTA);
- NGO Rail Baltic Business Network;
- NGO Operation Lifesaver Estonia;
- Estonian Environmental Management Association (EEMA);
- NGO Responsible Business Forum;
- Railway Professions Foundation (SA Raudteekutsed);
- NGO Transparency International Estonia (MTÜ Korruptsioonivaba Eesti).

Based on the authorisation of the owner (Republic of Estonia), Estonian Railways participates in the following organisations:

- Organisation for Co-operation between Railways (OSJD), based in Warsaw;
- Council of the CIS and Baltic Railways (Совет по железнодорожному транспорту) based in Moscow.





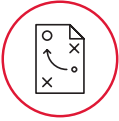

ACTIVITIES AND RESULTS IN 2021

Goal-Based Management

In 2021, Estonian Railways focused on streamlining its key internal processes, developing infrastructure, raising the safety level as well as developing collaboration with customers and target groups. The state has continued to allocate government and large investment grants to the Company to meet its performance targets and this has benefitted Estonian Railways.

Based on the Company's strategy for 2024, 13 operating activities in four categories were set for the year 2021. The following table provides an overview of the fulfilment of the most important ones of them.



CATEGORY	GOAL	RESULT
 <p>INFRASTRUCTURE</p>	<ul style="list-style-type: none"> • Earnings before amortization (EBITDA) EUR 21.6 million • 85% of the investment plan fulfilled • The technical solution and the preliminary design of the Aegviidu – Tapa – Tartu line will be completed in the electrification project • Continuation of the implementation of investment projects, incl. carrying out support procurements for the modernization of security systems and completing the design for traffic management automation • Reduction of non-essential assets, including 20 buildings, railway switches and crossings • Modernization of automation at level crossings and improvement of business continuity 	<ul style="list-style-type: none"> • EBITDA EUR 22.4 million • 67% of the investment plan fulfilled • Goal achieved • We continued to implement investment projects, including the transition to fully automatic traffic control, taking into account the owner's expectation to increase train speeds to 160 km / h • We reduced non-essential assets for train traffic, including 16 buildings, 6.6 km of railway station roads, 13 railway switches • We continued to modernize the crossing automation to new speeds, improved the safety and performance of level crossings
 <p>CUSTOMERS</p>	<ul style="list-style-type: none"> • Supporting sales growth, including renewing customer contracts, making transport documents electronic and conducting customer feedback surveys 	<ul style="list-style-type: none"> • Freight traffic increased by 10.6% • We renewed customer agreements, drew up an action plan to improve the accessibility of infrastructure, and conducted a customer feedback survey
 <p>INTERNAL PROCESSES</p>	<ul style="list-style-type: none"> • Fulfilling the traffic schedule (99.1%), maintaining the speeds of passenger trains and reducing the number of failures obstructing train traffic to 245 	<ul style="list-style-type: none"> • The traffic schedule under the influence of Estonian Railways was fulfilled by 99.6% for freight trains and 99.1% for passenger trains, speeds were maintained and they did not affect the passenger train schedule, the number of trains delayed due to infrastructure failures decreased to 188 • We established a process for certifying employees and updated the procedure for issuing work permits • We developed fault rectification indicators (SLA) • We completed the functional and technical design of the cross-infrastructure maintenance solution in asset management
 <p>LEARNING AND DEVELOPMENT</p>	<ul style="list-style-type: none"> • Launch of a training center, creation of a project manager development program, development of management competence and team training 3 • Development of the employer's brand concept • Conducting an employer attractiveness survey, introducing new recruitment solutions, creating internship opportunities 	<ul style="list-style-type: none"> • We established a special vehicle driver training center, trained 40 locomotive drivers and created a training website. We launched a project manager development program and conducted training days to develop management competencies. • We developed the employer's brand • We conducted an employer attractiveness survey, introduced new recruitment solutions and expanded internship opportunities

Based on the Company's strategy, Estonian Railways has set 11 goals for the year 2022, including:

- EBITDA of EUR 22.8 million.
- Fulfilment of the investment plan to the extent of at least 85% of the cash budget.
- Continuation of the implementation of capital expenditure projects, incl. carrying out of support procurements relating to modernisation of safety systems and completion of the design solution of traffic organisation automation.
- The design and construction procurement of the Aegviidu-Tapa-Tartu section of the electrification project has been completed.
- The assets that are not essential for train traffic, incl. 10 buildings, railway switches and station roads will be reduced.
- Supporting the growth in sales volume, developing international transportation documents; due to infrastructure failures, a maximum of 240 trains will be delayed and the fulfilment of the traffic schedule will be at least 99.1%.
- IT services are certified according to the ISO 27001:2017 standard, IT service operation processes based on IT infrastructure best practices have been implemented, critical IT services have been duplicated to ensure continuity, a 4-year roadmap for wagon tracking system (VJS) has been developed, a change management system and the work environment and safety guidance process has been established and implemented.
- The assets of the Lääne-Harju and Reola-Koidula areas have been mapped and maintenance schedules are prepared in the asset management module.
- Development program for project managers in the field of railway automation and telematics has been created, cyber hygiene trainings have been conducted.



Financial Indicators and Ratios

(million EUR)	2021	2020	2019	2018	2017
Total operating income	55.8	63.8	62.8	63.0	45.8
Revenue	32.8	31.1	39.5	41.5	32.9
incl. infrastructure services	29.7	28.7	34.4	36.7	28.7
incl. other services	3.1	2.4	3.5	4.8	4.2
Other revenue	23.0	32.7	23.3	21.5	12.9
incl. government grants for assets	7.1	7.8	5.3	4.9	4.7
incl. governments to achieve performance targets	14.6	24.1	16.0	16.0	7.5
incl. other income	1.3	0.8	2.0	0.6	0.8
Operating profit before depreciation and amortization (EBITDA)	22.4	32.7	29.7	29.3	11.9
Net profit	0.0	7.1	8.9	8.6	-7.6
Cash flow from operating activities	1.6	13.6	13.0	28.2	-1.3
Investments	34.9	32.0	31.5	26.4	13.8
Assets at year-end	374.4	356.9	342.6	334.1	304.2
Assets at year-end excl. government grants	226.7	214.3	201.9	191.4	186.7
Equity at year-end	176.1	176.1	159.0	150.1	141.5
Interest-bearing liabilities at year-end	34.8	26.3	30.8	30.2	33.9
Total operating expenses	55.5	56.4	53.6	54.1	53.0
incl. goods, materials and services	9.8	8.0	10.4	10.0	10.9
incl. miscellaneous operating expenses	3.5	4.3	3.8	5.2	4.5
incl. personnel expenses	18.7	18.4	18.2	18.2	18.2
incl. depreciation and amortisation	22.1	25.3	20.5	20.4	19.1
incl. other expenses	1.4	0.3	0.7	0.3	0.3

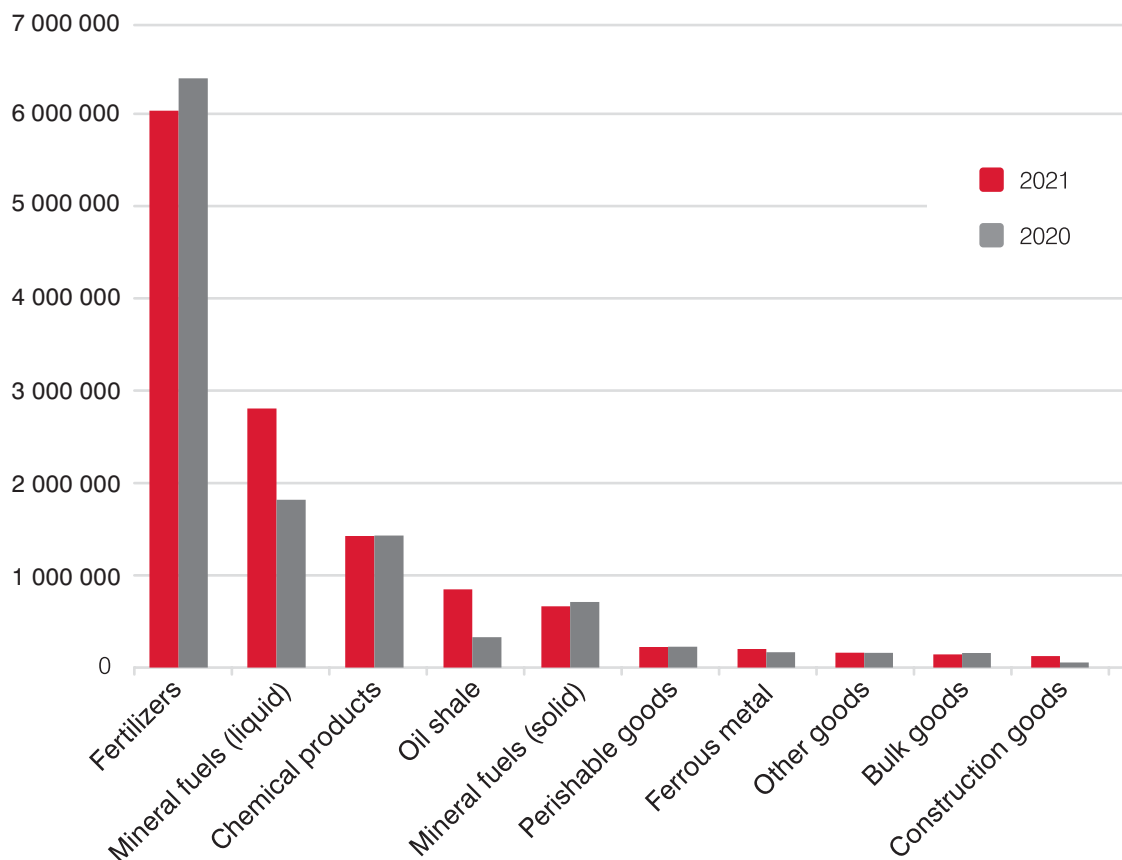
Operating Volumes

Four freight transport companies (AS Operail, AS Sillamäe Sadam, AS Enefit Power, AS GoRail) and two passenger transport companies (AS Eesti Liinirongid and AS Pasažieru vilciens) operated on the infrastructure designated for public use by the company. From the traffic scheduling period beginning on 12 December 2021, contracts for the use of infrastructure have also been concluded with non-public railway undertakings that transport goods of consignors and consignees across the border between public and non-public railways.

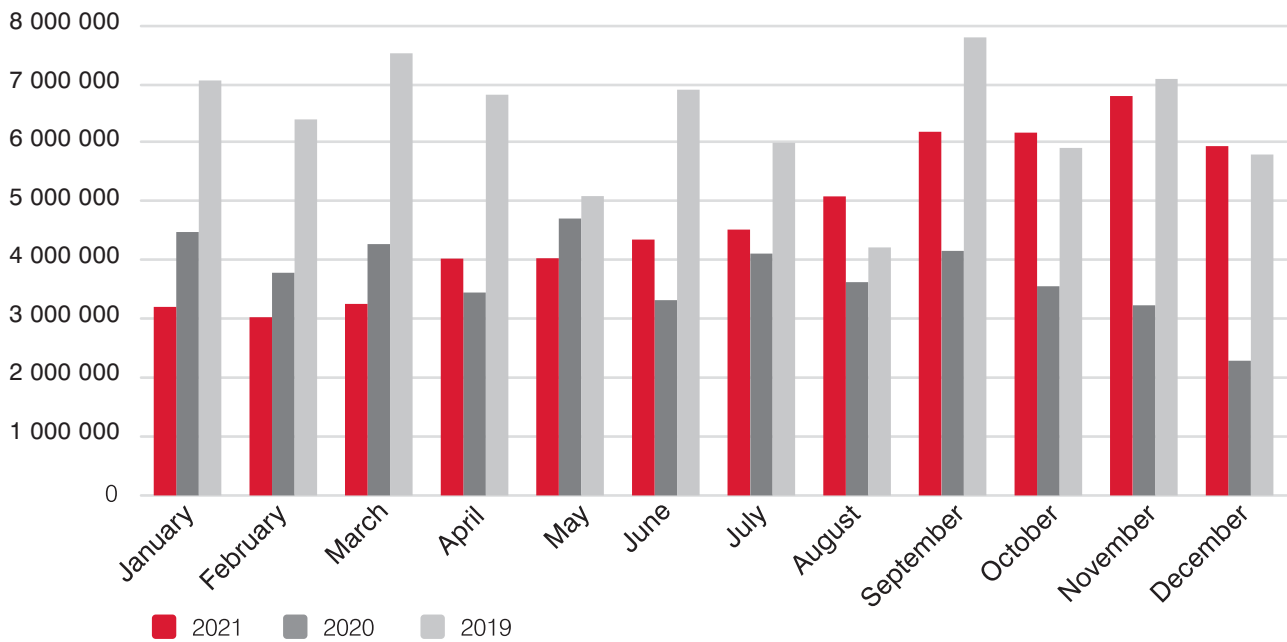
In 2021, 12.76 million tonnes of goods were transported on the infrastructure of Estonian Railways. As compared to 2020, the freight volume increased by 10.6%. The freight transport company Operail AS transported 93.4% of the goods.

In 2021, fertilizers still made up the largest share of the freight transported, totalling 6.0 million tonnes and decreasing by 6.2% as compared to the previous year. Rail transport of liquid petroleum products totalled 2.82 million tonnes, increasing by 56.8% as compared to 2020. The transport of chemical goods increased by 0.1% and totalled 1.4 million tonnes. The transport of oil shale (0.74 million tonnes) increased by 2.6 times. The volume of container transport in 2021 was 56.43 thousand TEU (20-foot standard container) which was 25.5% more than in 2020.

TOP 10 freight (tonnes)

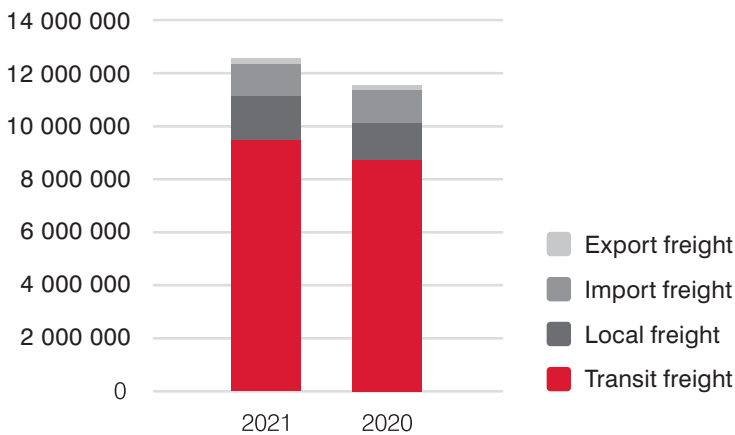


Monthly freight volume of containers 2019 - 2021 (TEU)



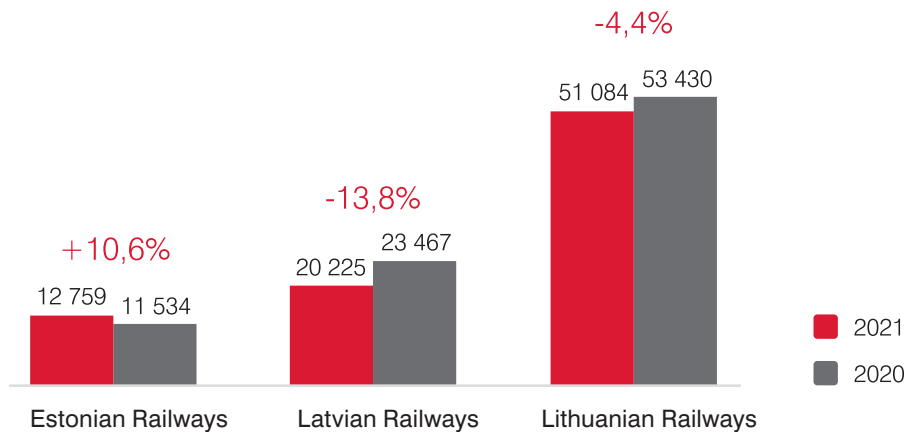
In 2021, transit shipments through Estonia totalled 9.53 million tonnes of goods, i.e. 8.6% more than in 2020. The volume of local shipments increased by 32.9% and totalled 1.79 million tonnes. Import shipments totalled 1.15 million tonnes, decreasing by 4.8%, and export shipments by 0.29 million tonnes, increasing by 41.3% as compared to 2020.

Volume (tonnes) and structure of freight transport by type 2020 - 2021



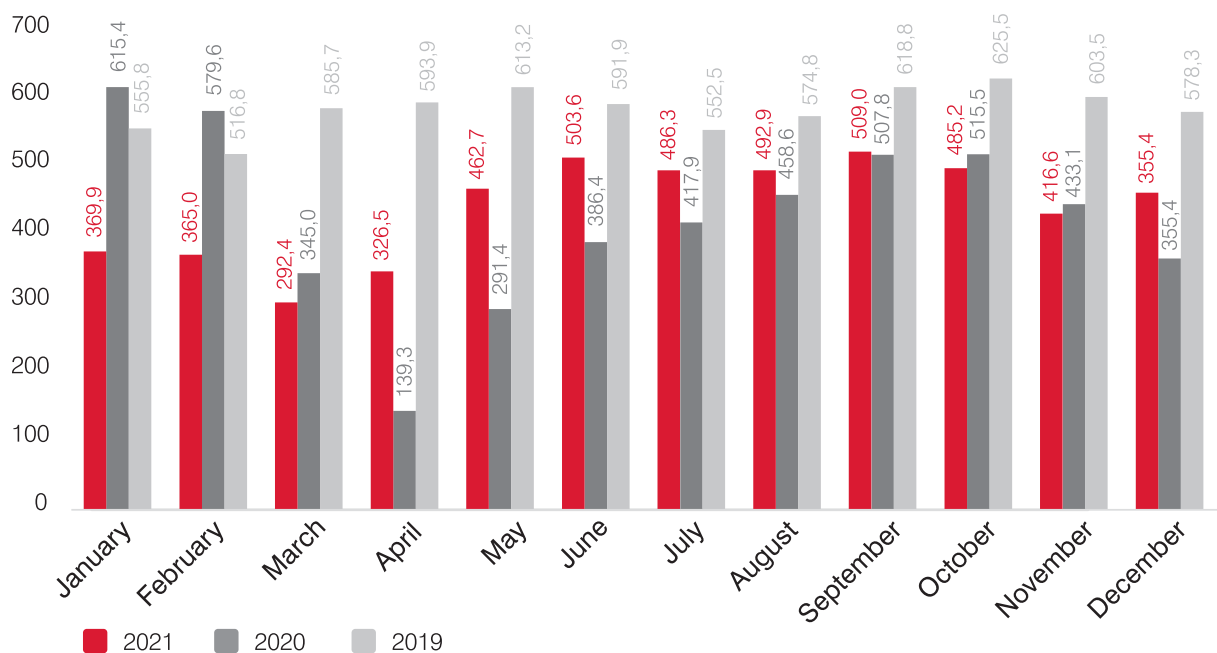
In 2021 the freight volume decreased on both – Latvian and Lithuanian railways.

Freight volume on the public railway of the Baltic States 2020–2021 (thousand tonnes)



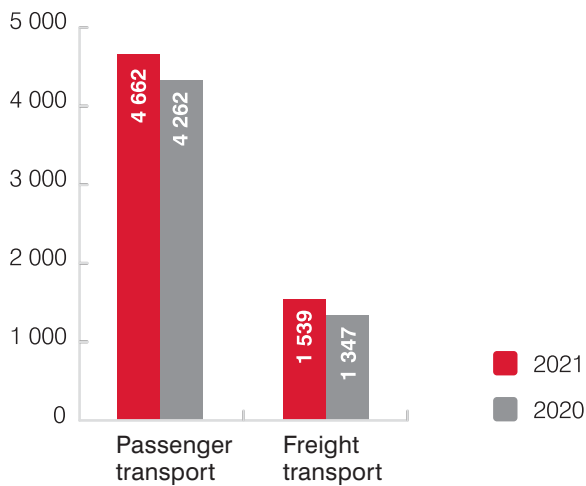
In 2021 5.17 million passengers (+2.4%) were transported by diesel and electric trains operating on the infrastructure of Estonian Railways. Estonian Railway was not able to organize the international route of Tallinn–St. Petersburg–Moscow due to COVID-19 restrictions. With regards to other Baltic States, the number of rail passengers was 11 million in Latvia and 3.95 million in Lithuania.

Monthly number of local passengers on the infrastructure of Estonian Railways (thous.) 2019-2021



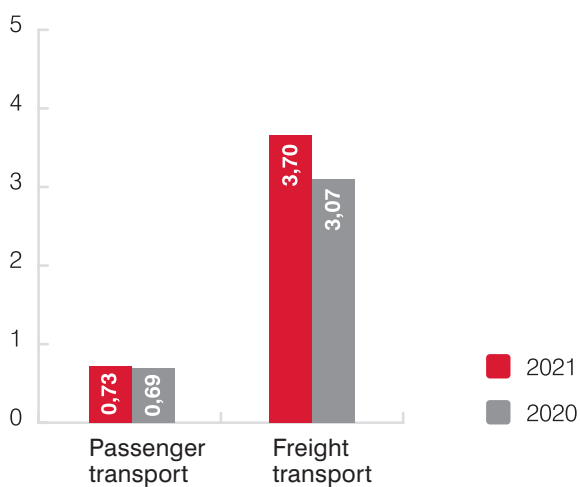
The passenger trains covered 4.66 million train kilometres on the Company's infrastructure which made up 75.2% of all train usage (2020: 76.0%). The train kilometres of passenger trains increased by 9.43% as compared to 2020 and that of freight trains by 14.2%.

Rail usage (thous. train km)



In 2021, the work of rolling stock totalled 4.42 billion gross tonne kilometres on the infrastructure of Estonian Railways, incl. work of freight trains of 3.70 billion gross tonne kilometres or 83.6%. As compared to 2020, the work of freight trains increased by 20.7% and that of passenger trains by 4.7%.

Operation of rolling stock (billion gross tonne km)



RESPONSIBLE SERVICE



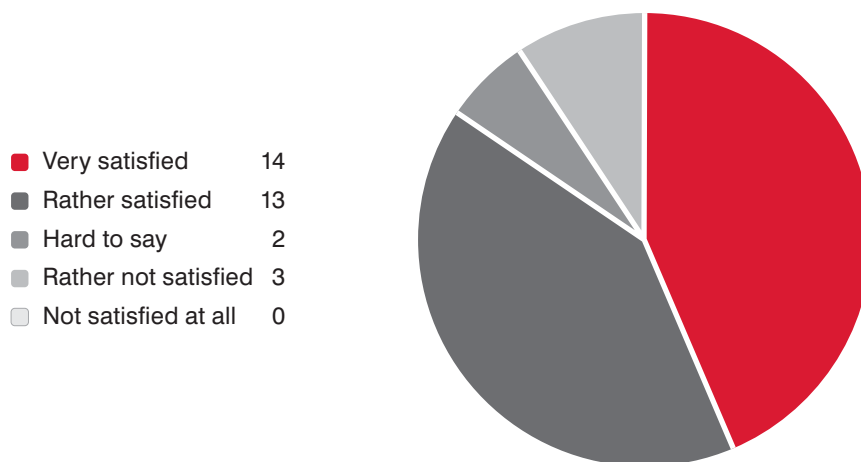
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Passenger transport operators, train passengers and freight transport operators expect us to provide high-quality services – a well-maintained infrastructure and excellent customer service in addition to safety. We greatly appreciate each customer's interaction with Estonian Railways and contribute to improving the quality of customer experience.

In the autumn of 2021, Estonian Railways conducted a customer feedback survey, which was sent to 87 companies, including various transportation companies, wagon owners and rolling stock operators, branch owners/operators and infrastructure managers. 32 companies took part in the survey.

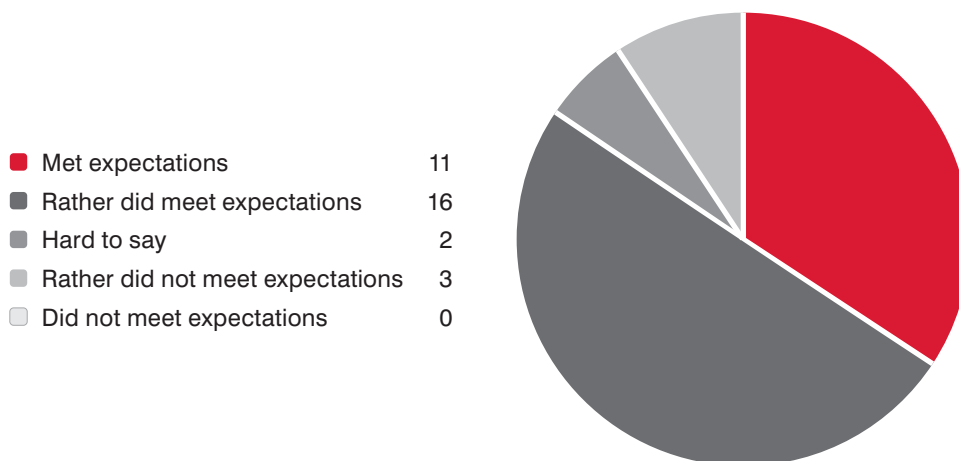
The quality of information exchange was assessed well in our company (28% of respondents were very satisfied, 56% rather satisfied). Speaking of the company's IT systems, the respondents concluded that 13% were very satisfied, 47% were rather satisfied and 31% could not say, which indicates that many of the respondents do not come into contact with the customer portal and other solutions. 22% of the respondents were satisfied with the ease of use of Estonian Railway's website, 69% were rather satisfied.

How would you rate the communication?



34% of the respondents are also satisfied with the services, 50% are rather satisfied with the services provided.

Do the services we offer meet your expectations and needs?



It is planned to repeat the customer feedback survey in a similar form every 1-2 years.



The state of our infrastructure at the year-end 2021:

- share of railway enabling fast rail traffic 0.8% – 140km/h, 6.5% – 135 km/h and 79.3% – 120 km/h;
- share of renovated passenger platforms are 100% in accordance with the rolling stock in use;
- 84% of railway crossings are in good condition;
- 94% of level crossings are equipped with alarms and 30% are equipped with barriers, but the alarms do not partially meet today's safety standards;
- 56% of road facilities (bridges, viaducts, culverts) are in good condition;
- by the end of 2021, 15% of the stations and block posts were switched to new dispatcher centralization.

Quality indicators in 2021:

- use of capacity in border stations: Narva 18.7%, Koidula 19.3%, Valga 31.7% (2020: 21.3%; 18.7%, 27.2% respectively);
- adherence to passenger train schedules: 99.6% (2020: 99.4%);
- adherence to freight train regime: 99.1% (2020: 99.0%);
- number of disruptions: 1679 (2020: 1542);
- number of trains delayed due to disruptions: 188 (2020: 174).

Infrastructure Service Activities in 2021

Road management

The aim of road management planned maintenance works in 2021 was to achieve and maintain safe train traffic at the established speed. The main maintenance work was as follows:

- railway tamping with equipment on 78.6 kilometers (+23% compared to 2020);
- railway tamping 35 switches with equipment (+9% compared to 2020);
- Fastclip-type rail fastening maintenance on 26.2 kilometers (+44% compared to 2020);
- KB-type rail fastening maintenance on 4 kilometers (-56% compared to 2020);
- Replacing 7400 wooden sleepers (+28% compared to 2020) and 268 point beams;
- 491 thermite welding (+113% compared to 2020) ja 89 cross-rail surface welding were completed.

In 2021, in-depth analyzes of the condition of railway facilities were carried out, converting the results into a single scale (see below).

CI (condition index)

0-25 points – needs constant attention

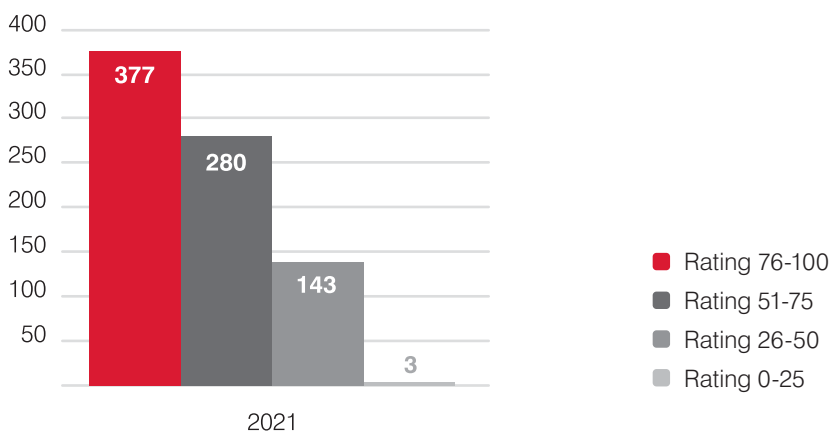
26-50 points – needs attention

51-75 points – in good condition

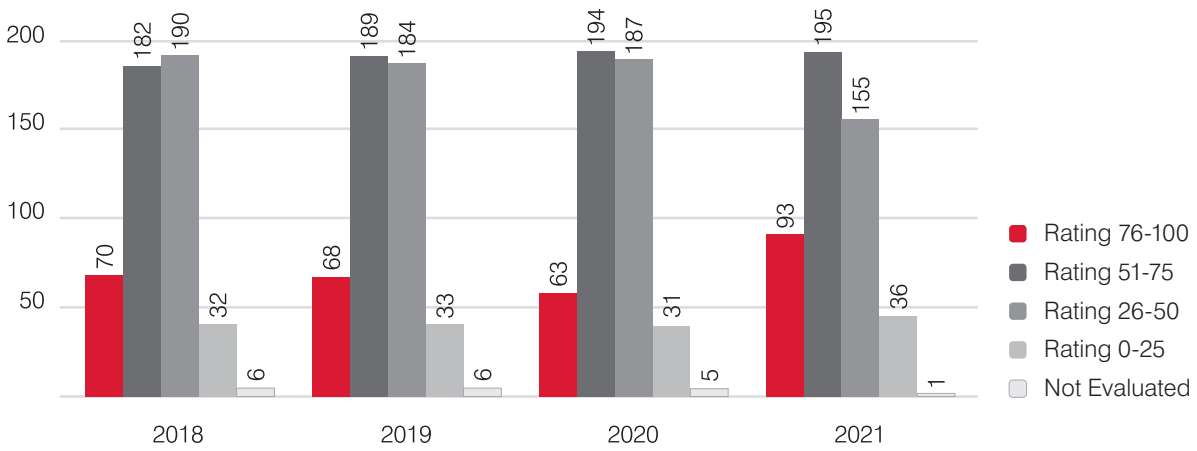
76-100 points – in very good condition

The average rating for the main railway tracks of Estonian Railway was 70, for bridges and culvers 56 (the highest in recent years) and for level crossings 82.

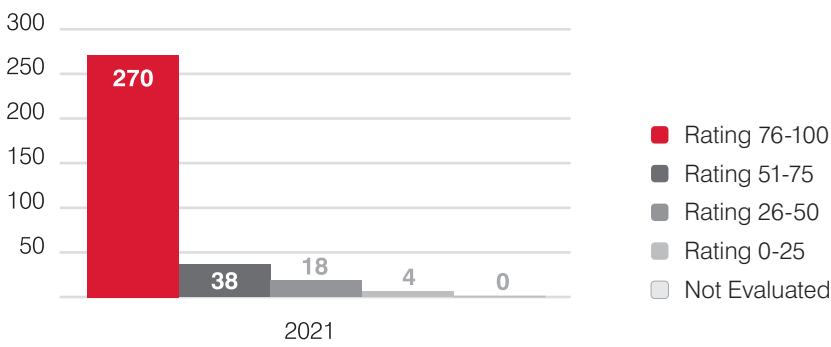
EVR rails CI rating (total length km)



EVR road facilities with CI rating (pcs)



EVR level crossings with CI rating (pcs)



Telecom and safety systems

- Modernization of level crossings.** In order to enable passenger train speeds up to 160 km/h on the Tallinn- Tartu, Tapa-Narva, Tartu-Koidula and Tartu-Valga sections, additional functionalities must be provided to detect faster trains approaching the level crossings. Taking into account the interest of fast release of the traffic behind the barrier the level crossings must be closed for an optimal period of time, ie taking into account the actual speed of the trains, which are vary for freight and passenger trains. We coordinated new schedules with our contract partner (Ingenieria y Control Ferroviario). In 2021, the Veerenni level crossing and the Nõmmküla, Pedja and Kiltsi level crossings were completed within the framework of this agreement.
- Modernization of security systems.** Due to the need to increase train speeds up to 160 km/h we had to coordinate a new time schedule with the CCS (Central Control System) system supplier (joint suppliers Siemens Mobility Eesti filiaal and GRK Rail Oy). We carried out a construction contract as a dynamic procurement system (a framework contract with an open tender as a result of a restricted tender procedure) and a design contract. The most important intermediate stage of the project set for 2021 – a successful manufactory test of the system – has been completed.



Electricity networks

In 2021, the number of incidents registered in the electricity network decreased to 417 (2020: 435). In 2021, several new power points were built for the new security systems, lighting systems were upgraded, electric turnout heaters and more were built. The largest investment was the extension and reconstruction of the Balti station's contact network.

In the field of electricity, Estonian Railways has two roles. We buy electricity and forward it to our sub-consumers. In addition, we plan to become an electricity producer in a near future, as the construction of our first solar park (approx. 50 kW) is being prepared. In terms of energy efficiency, we are moving in the direction of being able to identify both the consumption of different systems and energy losses more accurately. To this end, we have an ongoing project of remotely readable meters, which slowed down in 2021 due to the electronics market situation, but which we will continue in 2022. Gathering more detailed information helps us assess the condition of our networks and equipment and thus schedule investments more accurately. Every year we invest in the renewal of our networks and equipment, and now the condition of our networks can be considered completely satisfactory.

Real estate

In 2021, real estate maintenance department performed the following projects: installation of air conditioners in various buildings; extension of our headquarter premises; conversion from liquid heating to gas heating in buildings related to the management of Muuga station; bringing the buildings related to the management of Ülemiste station in compliance with the fire safety requirements; repair of the Tehnika 26 station managers' rooms; installation of a video surveillance system on the platforms to protect the company's assets and increase security; reconstruction of the first floor of the Telliskivi 60/2 building to provide a better working environment for our employees. In addition, the Ülemiste administrative building was renovated.

Construction work

The year 2021 was undoubtedly a major year of construction, when, for example, the extension of the Balti station was completed, during which two additional waiting platforms with the railways were built, and an additional main road between Paldiski road viaduct and Kitseküla stops was completed by the end of the year. In connection with the construction of the second main road between Pääsküla and Keila stations, the reconstruction of the Pääsküla River railway bridge and the construction of a new viaduct next to Topi's existing viaduct were also started. Work began on the construction of a waiting platform for the Laagri railway station and a pedestrian and bicycle tunnel. The largest railway facilities, which were completed in 2021, are the new Paldiski road viaduct, which will help increase the capacity of the Balti station, and the Emajõgi Bridge and the railway straightening works there, which is a prerequisite for increasing speeds on the railway.



RAILWAY SAFETY AND SECURITY



Due to the so-called zero vision, the safety goal of Eesti Raudtee is that no people will be killed or seriously injured in the company's infrastructure. Our contribution in numbers:

11
passenger underpasses
constructed over
the last years

More than 60 km
of fences
erected
to prevent
railcrossing
at the wrong
place

50
barrier-
equipped level
crossings
(of total of 150)
another 104
crossings will
receive barriers
by 2025

75
automated
traffic light
equipped level
crossings
(total of 150)

122
sound signal
equipped level
crossings
(total of 150)



11
million
euros
of investments
in the coming
years for
installation
of new safety
equipment on
107 level and
9 pedestrian
crossings

570
220 employees
of Estonian
Railways, 160
infrastructure
employees
and 190 first
responders
attended
safety related
training courses
during 2021
(2020:
485 employees)

700
children at
school and in
kindergarden
have attended
training courses
conducted by
our employ-
ees on railroad
safety
(2020: 578)



Also, in spring 2021 our employees participated in a survey of the European railway safety environment, which received a total of more than 40,000 respondents from about 100 different organizations related to the railway sector across Europe. The indicators of the survey are perceived as positive for Estonian Railways in terms of business continuity, communication and leading by example. Based on the results, additional activities are planned for the development of the safety environment of Estonian Railways. We want to continue participating in the railway safety survey every two years.

Preventive work

NGO Operation Lifesaver Estonia (OLE) established by us has almost all the Estonian railway companies as its members. Every year it organises railway safety lectures in kindergartens and schools, reaching up to 4,000 children with its safety information in 2021. We also collaborated with OLE in 2021 in carrying out public campaign to increase rail safety (“Get off the bike and let the train through”, “You Are Expected Home for Christmas” and rail safety week “Get off the bike”). In order to promote railway safety, the Railway Year Fund was also established in cooperation with OLE, within the framework of which two competitions were announced.

- **Call for proposals for the railway year**, in which projects supporting or addressing railway culture and safety and environmental friendliness were expected. Such projects could include the organization of cultural events, community projects, innovative solutions, publishing, etc. A total of eight exciting projects related to railway culture and safety were submitted, of which four applicants were awarded the Railway Year Foundation scholarships: In Nomine OÜ - Selection and reproduction of a train song (allocated scholarship EUR 4,460); NGO Lina ja Lava Selts - Railway safety film and poster with mixed choir RAUDAM (EUR 4,065); Estonian War Museum - General Laidoner Museum - Railway board game (EUR 1,475); NGO Teatrisik - Foorikad come to the rescue (EUR 1,350).
- **Railway year’s creative competition** aimed to find creative solutions regarding railway culture and -security and the environmental friendliness of the railways, which can be used to introduce or carry out various railway-related projects. Out of the 33 projects submitted to the creative competition, the college selected 10, the authors of which were recognized with scholarships from the Railway Year Foundation.

Rescue capacity

Estonian Railways has high rescue capacity and excellent technology as well as total crisis preparedness. We also use our special equipment to help other railway undertakings, even in the event of accidents that do not affect the railway. To ensure a high level of preparedness, our employees have been trained regularly, and various accidents are conducted during the exercises to ensure preparedness. In 2021, we conducted trainings and exercises for the operative group of AS Eesti Raudtee, and in cooperation with partners, a large railway exercise "Elva fright" was organized. In addition to Estonian Railways, Southern rescue centre, South Prefecture, Tartu Ambulance Foundation, Elva Parish Government, AS Operail and many other institutions participated in the exercise. In co-operation with various partners, rescue teams were involved in the collision of a freight train and two cars at a level crossing. The aim of the exercise was to practice cooperation between different agencies so that such cases could be resolved as quickly and efficiently as possible. For example, stopping the leak from freight wagons was practiced, as well as handling many trauma patients and evacuating local residents. In order to make the situation as real as possible, a freight locomotive with a locomotive crew was involved to cover the events. The event was also attended by the Estonian Railway Fire Train and the Environmental Board, which practiced the prevention of environmental pollution.



Incidents

The results of safety investigations in 2021 showed that safety measures are ignored at level crossings and the absence of an approaching train is not verified and trains are not given way. Two young men tried to climb a moving train, but fell under the wheels of the train, and one unattended child went to play on the railway on its own and was hit by a locomotive.

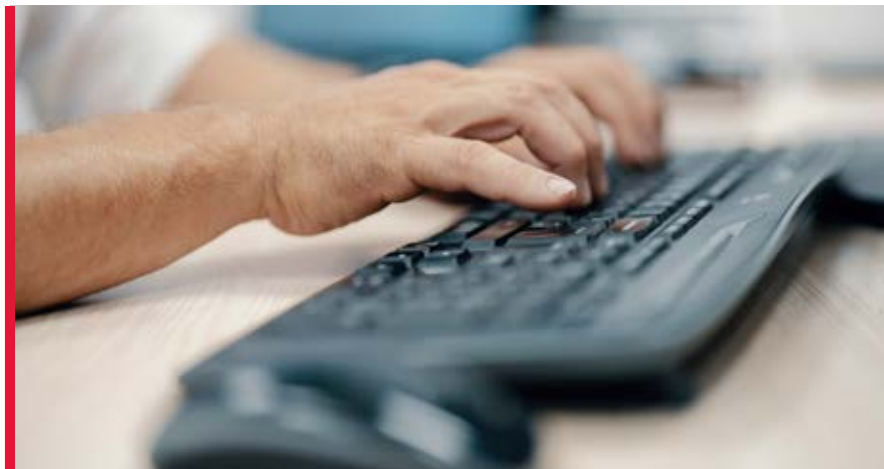
There were no major incidences during years 2020 and 2021. There were 13 accidents in 2021 (2020: 9, incl. ten cases of people being hit by trains, two collisions on the railway level crossing with a car and one collision with an obstacle (a special vehicle running as a train ran over a tree that had fallen due to a storm and derailed).

A total of 10 people were injured in the accidents, including 7 people who died. The majority (6) of the ten accidents involving people were suicides, killing 5 people. Excluding suicides, there were 4 crash accidents, in which 2 people were killed and 2 were injured.

There were 11 incidents (all rail fractures), i.e. as compared to the previous year, there were eight cases more.

There were 342 technical incidents (2020: 309). The year 2021 differs from previous years in that several technical cases were related to the construction work performed in Tallinn. Both the construction workers and the employees of Estonian Railways made mistakes working in the unusual situations. The incidents did not cause any major disruptions to passenger traffic.

In 2021, 4 cases of stealing occurred (2020: 4). There were 242 acts of vandalism on our infrastructure (2020: 246), incl. 86 barriers were mowed down (2020: 58). The remaining cases were mainly events affecting train traffic and/or the public, such as the breaking of traffic lights, damaging barriers, unauthorised persons or items on the railway ground, graffiti, etc.



Information and cyber security

The goal of the information security policy is to ensure uninterrupted functioning of the main and support processes, and sufficient protection of personal data and trade secrets handled at the Company. We wish to prevent incidents, if necessary, identify and solve them and recover from a crisis as quickly as possible. As a result, our employees, customers and contractors are able to trust Estonian Railways and know that the processed data are protected at the required level. In 2021, there were no information security incidents at Estonian Railways.

In 2021 we conducted cyber security training courses to all of our employees. Instead of the planned goal of training 450 people, 461 people were trained. In 2021, several cyber security solutions were procured, the implementation of which is planned for 2022. In 2021, we started preparatory activities for ISO 27001.

INNOVATION AND DIGITALIZATION

Estonian Railways focuses on digitalization and automation. We compare the world's best innovative solutions to proactively manage systems, based on new technologies that allow data to be collected and analyzed from equipment on the railway infrastructure.



Key activities in 2021

- Within the automatization of the traffic management project TTCMS (*Timetabling, Traffic Control and Management System*) the development of the functional and technical design of the solution was started and the transmission of a new alert and the registration of the case on the basis of TTCMS data were mapped.
- A market analysis of the integrated maintenance software platform was carried out, during which its compatibility with the railway infrastructure and the possibilities of integration with the asset management module and the geographic information system (GIS) solution had to be determined. As a result, measurement results and reports from security systems as well as other areas would be presented in digital form instead of on paper.
- Switch to Microsoft 365.
- Information spaces were introduced on the Confluence platform for better information management, documentation and archiving of major projects.
- MS SharePoint was introduced for the joint creation and management of various documents.
- The use of MS Power BI for creating project scheduling desks for large projects and for cross-project aggregation scheduling was expanded.

SUSTAINABLE SUPPLY CHAIN

Each year, Estonian Railways organises procurements worth tens of millions of euros: construction and repair works, various services, purchases of equipment, spare parts, machinery, office supplies, etc. We publish procurements in excess of the EUR 30,000 thousand thresholds in the register of public procurements. According to the general procurement principles, the Procurement Department reviews all procurements with the cost in excess of EUR 10,000. There is an in-house quarterly review of all purchases between EUR 1,000 – EUR 10,000.

Socio-economic impact of procurements

The goal of the public procurement rules is to make procurements generating a cross-border interest available to as many EU suppliers as possible. There is a general rule that the higher the cost of the procurement, the more comprehensive is the list of companies that the invitation to tender is sent to.

In 2021, 201 procurement contracts were signed in total amount of EUR 90 million (2020: 226 contracts in total amount of EUR 162 million). Majority, ie. 89% of procurement contracts have been concluded with Estonian partners (2020: 90%). This percentage has remained at a similar level over the years, so the contribution of Eesti Raudtee as a supplier to the local economy is stably significant.

Estonian Railways operates in an area where safety and environmental protection are of utmost importance and we also take this into account when preparing the underlying documents of public procurements. We also expect procurement participants and our cooperation partners to provide quality services in compliance with contract terms.

The environmental requirements are often set out in procurement terms, so that the materials to be procured or to be used in the provision of services or work need to be in compliance with the required certificates. If possible, we will lay special emphasis on recycling of materials. When drafting the terms, we also take into account the costs over the lifecycle, for example, considering the durability of materials and subsequent maintenance costs.



ENVIRONMENTAL IMPACT AND MANAGEMENT



In 2021, the audit of the ISO 14001 certification was carried out that we passed without any major environmental findings. At the Estonian Association for Environmental Management in which we are one of the founding members, our responsibility is to lead the topic of the professional standard of an environmental manager who evaluates the competency of environmental consultants and their work culture. If the main aspect of the

environmental impact of our activities last year was the old creosote-containing sleepers), the focus is now on reducing noise.



Noise and Vibration

Rail traffic generates vibration and noise. Vibration can be felt most in buildings right next to the railway, in the railway protection zone. According to studies, the range of vibration caused by train traffic is about 25 meters, so the vibration does not spread beyond the railway protection zone.

Depending on the type of soil, the transmission of vibration through the ground varies: the denser the soil, the better it dampens the vibration. In the vicinity of the railway, there are predominantly geologically high-bearing soils with lower vibration transmission properties.

To reduce vibration and noise, Eesti Raudtee uses welded rails when constructing new railway sections. Washers installed between sleepers and rails also help reduce noise. We have built noise barriers in Tartu and Muuga, for example.

In 2021, we received 12 noise complaints (2020: 3), which was mostly due to railway maintenance works in Keila and Tapa, construction activities in the Pääsküla and Baltc station area, one about the condition of the railway and one about the freight train passing through an area.

In 2021, we carried out a large number of noise assessments. At the beginning of the year, a thorough noise modeling and assessment was completed at the Laagri location. Noise measurements were ordered in Narva in the residential quarter of Paemurru, as well as in Keila Ülejõe road 10, Roheline st 6b and Raudtee st 9. In all noise surveys, the noise from the railway was below the limit value.

Energy and Air Pollution

Air pollution arising from our direct activities and its impact on the environment and climate changes is mostly minor. The key pollutants from carbon monoxide, sulphur dioxide, nitrogen oxide and natural organic compounds arise from heating the boiler houses, one of which uses light fuel and the other natural gas, as well as the use of the Company's machine park.

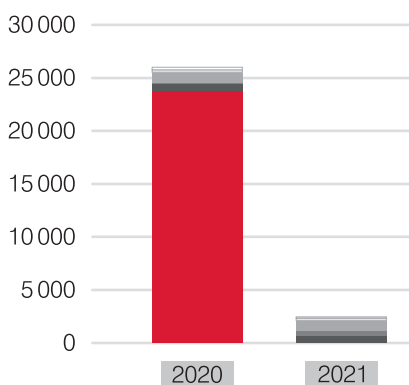
Estonian Railways has adopted a trend to use more cost-efficient systems. We currently have only two larger boiler houses, where we calculate ambient air quality on a quarterly basis – light heating oil boiler house in Muuga and gas boiler house in Narva. In 2021, the combined emissions of these boiler houses totalled 271 tonnes of CO₂ and 0.7 tonnes of other emissions (more detailed information is provided in the GRI index at the end of the report).

In 2021, Estonian Railways decided to switch to the use of renewable energy. The Company bought 38.7 GWh of electric energy per year, which is equal to the electricity consumption of about 10,000 households per year. About 40% of the purchased electricity is used for the infrastructure of Estonian Railways. It is used for operating railway management systems and stations, providing lighting for the infrastructure, melting snow and ice from switches in winter. The electric trains of the company that organises passenger transport consume also about 40% of the purchased electricity while 20% of it is used by other consumers that are linked with the network of Estonian Railways. The transition to energy from renewable sources will make a big contribution to environmental protection.

Purchasing green energy has a significant impact on the company’s carbon footprint. In 2020, electricity accounted for 93% of the carbon footprint; in 2021, the biggest source of pollution was diesel fuel for cars. The transition to renewable energy meant that if in 2020 more than a million trees per year would have been needed to absorb the carbon footprint of Estonian Railways, then in 2021 this number would be less than one hundred thousand.



Change in CO₂ footprint of Estonian Railways



□ Aviation fuel in relation to business trips	28	19
▒ Gasoline	32	30
■ Diesel fuel	1247	1206
■ Natural gas	3	107
■ Heating oil	431	556
■ Electricity	23954	0

Materials and Chemicals

For the maintenance and construction of infrastructure, we prefer more environmentally-friendly materials. If possible, we subsequently try to re-use materials.

In our operations, we use two large groups of chemicals: various oils and pesticides. For greasing switches, we use a biodegradable lubricant and for lubrication, we use pressure guns that can be tuned to dispense the minimum necessary quantity on switch pads. The new switches to be installed are already free from lubricants.

For weed control we have used glyphosate-based herbicides. For years we have searched for more environmentally-friendly options. Herbicides containing glyphosate are allowed to be used until 15 December 2022. By that time, we must also have an environmentally friendly alternative.

Waste and Recycling

The biggest problem so far has been the old, obsolete sleepers which can be classified as hazardous waste due to their being covered by the carcinogenic substance creosote. The lifetime of such pine sleepers is up to 20 years and their appropriate disposal is extremely costly.

For the last two years, Estonian Railways no longer purchases pine sleepers. All new railway sections are being built on concrete sleepers.

In January and February 2022, we disposed of 800 tonnes of sleepers that had been removed from use in 2021. We generated a total of 81.6 tonnes of other hazardous waste, most of which was plastic and rubber parts used in railway construction.





Utilized other hazardous waste volumes in 2021

	Volume kg
construction waste	340
plastics	44 424
batteries and accumulators	83
asbestos-containing construction materials	19
daylight lamps	68
tires	1 887
cables	200
equipment containing hazardous parts	1 894
paints, lacquers	27
packaging of hazardous substances	97
equipment containing chlorofluorocarbons	42
fluorescent lamps	107
absorbents, cleaning cloths	112
bitumen	1 580
hydraulic oils	570
electronics	249
mineral oils	41
rubber	29 820
total	81 560

In 2021, we secured storage sites for our sleepers to provide a guarantee for the disposal of waste.

Leaks and Spills

We always treat potential leaks and spills with extreme caution. The trains carrying hazardous freight (fuel, fertilizers) may be a source of major soil pollution. In 2021, we had no major accidents or leaks from the rolling stock.

Wildlife

Estonian Railways normally operates within its safety zone. However, there are also nature reserves adjacent to the railway, but they do not reach the safety area. For example, there is a protection zone for butterflies on Valga-Koidula section, Põdrangu nature reserve, Äntu protected nature park, Seljamäe reserve area and Mustallika nature reserve on Tapa-Tartu route. Conservation zones have been set for them, for which the maintenance work is allowed to be performed on existing structures.

We plan our construction work only on the basis of previously conducted environmental research. While performing work, we always need to consider the effect on wildlife. Railway construction may lead to the felling of trees and bushes, trampling on the ground and the plants, and movement of soil.

One of the most exciting researches was the determination of the population of a protected plant in the village of Ellamaa on a railway land in connection with the fulfillment of the design conditions of the second stage of the Haapsalu railway. Unfortunately, the experts were unable to find the plant.

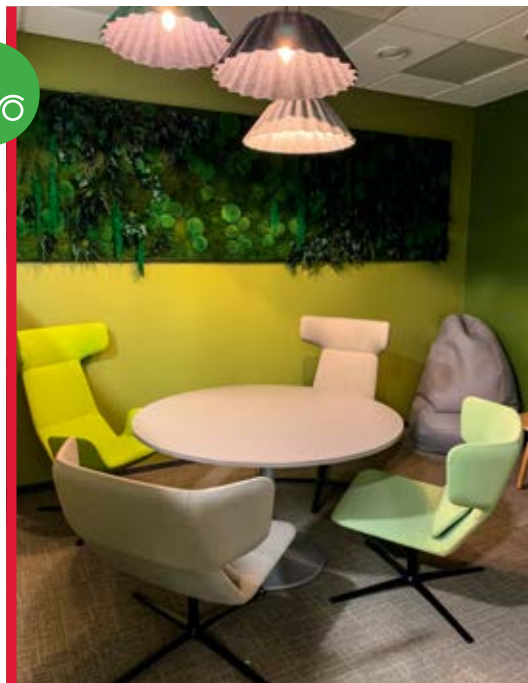
For building new railway sections, we also consider the migration routes of wild animals, and we build underpasses for their crossing.

Green Office

Since 2019, Estonian Railways launched the green office management system at the head office. The respective certificate granted to us at the year-end is a testimony of our ability to follow sustainable operation principles with regard to creating a healthy working environment, using of natural resources as well as organising procurements and making purchases.

For this purpose:

- we use lights with motion detectors to save energy;
- we separate waste by type for the recycling purpose in our kitchens and there are containers for various types of waste in the outside garbage houses;
- we avoid unnecessary printing of documents;
- we drink clean tap water and offer it our customers.



The Company's employees are increasingly environmentally-conscious and wish to contribute even more to environmental protection. In 2021, we focused on encouraging more active use of video conferences, supporting sports activities of our employees and creating a new resting area for our employees.



The competition "Step Hunting" took place among the employees of Estonian Railways. The goal was to promote healthy and environmentally-friendly movement and motivate people to walk as much as possible on foot. The steps accumulated in the step hunt virtually covered the entire infrastructure of Estonian Railways during the competition. 12 teams took a total of 17 992 765 steps – total the amount compared to previous year. We walked through the entire infrastructure of Estonian Railways for 11.3 times (2020: 6.3).

Relations with Local Communities

The railway crosses towns and cities – in one way or another, every person in Estonia is in contact with the railway. Our task is to inform the general public of what is happening on the railway and ensure safety in every section of the railway at any time. By building new railway level and pedestrian crossings we also involve the representatives of the local government and the community in the planning stage. We take the habits and desires of local people into consideration to the extent possible.

As part of the reconstruction of the Lääne - Harju railway sections, two frequently used crossings will be eliminated and a light traffic tunnel will be built in the same location, thus increasing safety when crossing the railway. These places are the Laagri stop and, in cooperation with the city of Keila, the railway crossing of the Tuula road in Keila. At Tartu station, access to the inter-road platform will be improved by replacing the disabled person with a deposit that takes into account all road groups

Employees of the Estonian Railways' Electricity Networks Agency installed new lighting at the pedestrian and cyclist crossing on Väike-Kaare Street in Tartu, where a local resident turned to the company for additional lighting.

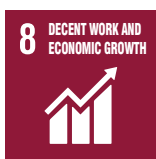
In cooperation with the Jõhvi Rural Municipality Government, Eesti Raudtee initiated a project to build a light traffic tunnel and access roads to the territory of the city of Jõhvi. This is a place where the railways are crossed very much illegally.

The Tapa rural municipality government and Eesti Raudtee signed a cooperation agreement for the restoration of the Tapa railway station building.

On the 95th anniversary of the city of Tapa, on 7 August 2021, a historical co-operation agreement was signed between the Estonian Railways and the Tapa rural municipality government, laying the cornerstone for tidying up the railway station building. The aim is to find a purpose for this dignified and important building for the community.



WORKING ENVIRONMENT



The key topics in human resources include ensuring staff with solid railway knowledge, development of employees by supporting the use of technological solutions and all-important occupational safety.

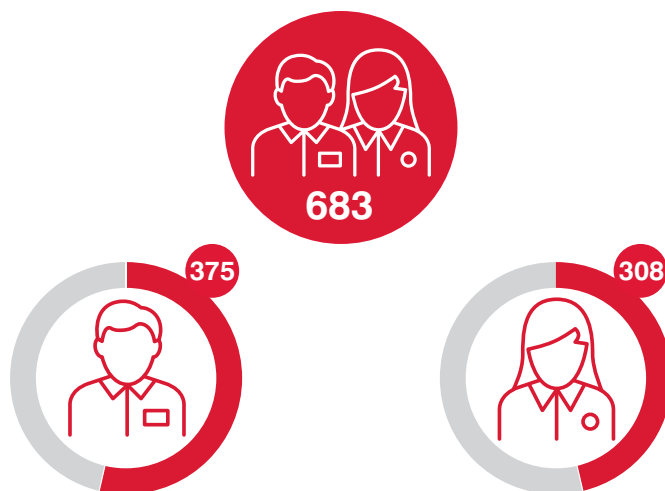
The railway area is highly specific and various railway companies compete as employers to hire the same people. We are striving at improving the well-being of our employees because we value people who are experts in their fields and we also wish to be an attractive employer for new hires.

The fulfilment of the strategic goals of Estonian Railways depends on the contribution of its employees. The goals and activities related to the staff arise from legislation or have been laid down in the human resources policy, training strategy or training principles, recruitment procedure and remuneration system.

Overview and General Information

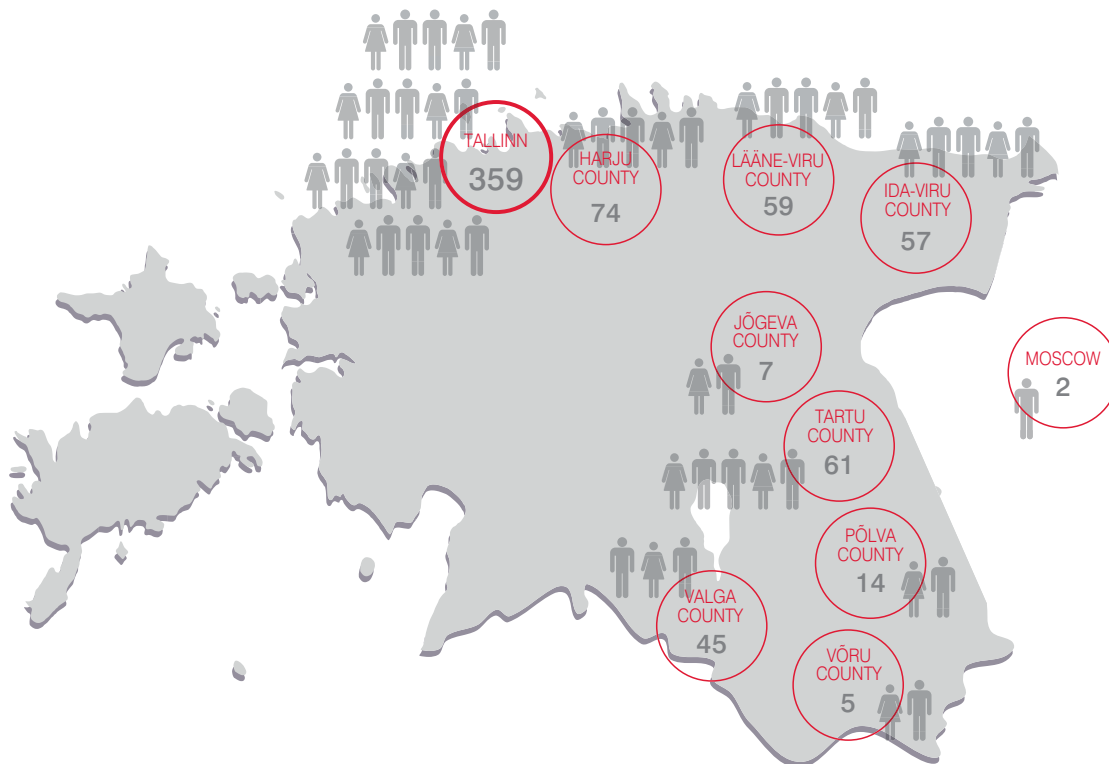
Estonian Railways employs almost 700 employees: the annual average number of employees was 675, while it was 683 at the year-end. Most of the employees worked in infrastructure and traffic services: 327 and 240, respectively. The share of women and men in the Company is almost the same (men 55%, women 45%), the biggest variations occur in the construction service, (4 women, 14 men), security service (1 women, 17 men) and infrastructure service (40 women, 286 men).

The average length of service of our employees is 19 years. In 2021, 6.2% of employees voluntarily left the Company (2020: 5.5%). The average age of employees was 52.



Number of employees, year-end	TOTAL	Women	Men
2020	672	312	360
2021	683	308	375
Younger than 30	24	5	19
30–49-year-olds	240	92	148
50 or older	419	211	208
Incl. 60 years and older	162	85	77
Incl. retirement-age	80	40	40

Number of employees by counties



	TOTAL	Women	Men
Number of new employees	68	19	49
Number of employees who left	57	25	32

The increase in the number of employees is due to the number of employees actively recruited for project management, construction, energy, mechatronics, automation and IT skills, which we will continue to need in the coming years.

Employer Reputation, Staffing and Fair Recruitment

The company surveys the commitment and satisfaction of its employees with more than two years of satisfaction surveys. The survey was not conducted in 2021, the next survey will be conducted in 2022.

In 2021, the most important issue was to raise the reputation of Estonian Railways as an employer and to ensure future growth. According to the CV-Online survey, we have been in the top ten employers in the logistics and transport sector for several years. However, due to the specific field of activity, the attractiveness is lower among young people.

In 2021, Estonian Railways participated in the Employer Attractiveness Survey. More than 5,500 students from higher education and vocational schools took part in the survey conducted in May, and the results showed that our reputation among students of vocational schools and higher education institutions is good at 87% and 85%, respectively, and interest in working at Estonian Railways at 24% and 18%. It turned out that young people expect interesting and developing work from the employer, equal and fair treatment of employees and high competence of managers.

We cooperate with universities, colleges and vocational schools to ensure the future growth of our employees. The chairman of the council of Estonian Railways is also a member of the council of TTK University of Applied Sciences (TKTK). As an expert in the field, a representative of Estonian Railways belongs to the program councils of the Tallinn University of Technology (TalTech) Master's Degree Program in Logistics and the Bachelor's Degree in Business. The employees of the company were lecturers in many subjects, supervisors of dissertations at all levels of higher education or were members of the dissertation defense committees at TKTK and TalTech.



We introduce the job and internship opportunities of Estonian Railways at Tartu Vocational College, Tallinn Industrial Education Center and TKTK. In March, we participated in the career fair Key to the Future, in the framework of which we published 10 internship advertisements, for which 220 students applied. In April, we participated in the virtual Logistics Seminar "Idea Creates the Future" organized by TKTK, where participants also had the opportunity to get acquainted with companies in virtual student booths. In September, we participated in the Unemployment Insurance Fund's virtual Job and Career Fair, where we introduced our ongoing competitions.

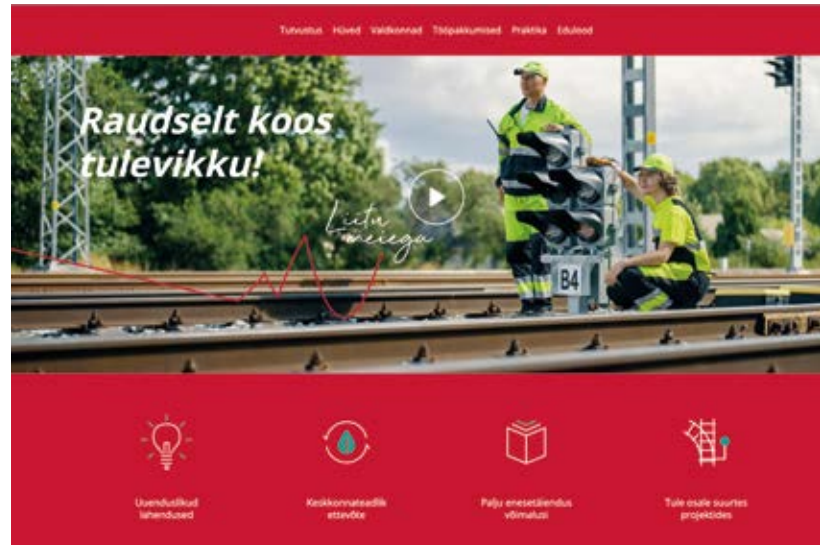
Eesti Raudtee has taken a conscious direction to contribute to the development of young professionals of the future and has allocated 10,000 euros for this purpose by 2021 by a decision of the Supervisory Board. The first three scholarships were awarded in May last year, and in December 2021, scholarships were awarded to two more bachelor's students.

In order to shape the reputation of the employer, last year, in cooperation with our employees, we created a new employer brand for „Raudselt koos tulevikku!“ and created the company’s career page “Come to work!” on our website www.evr.ee/tuletoole to better highlight the company’s job opportunities, value proposition and internships. We introduced our new employer’s brand through recruitment video in various media channels across Estonia.

We support recruitment through our employees and pay employees a recruitment bonus for each recommended and new employee.

In addition, we have set ourselves the goal of shaping the reputation of Estonian Railways as an employer among high school students by explaining why it is worthwhile to study in this field. We are an open company and young people are welcome to visit, work days, internship programs. In 2021, 20 young people completed an internship at Estonian Railways. The internship of some trainees lasted more than 700 hours, which means that we had an internship with us for half a year. We have internship supervisors who are professionals in their field. We recognize their responsible work and highlight it among other employees.

We digitized the company’s recruitment process through the introduction of recruitment software. The software helps us to provide a better application experience for those who want to work and speeds up the recruitment activities in the company.



In May 2021, we conducted an e-guest lesson for almost 400 students, where we talked about the activities of Estonian Railways. Our employees spoke live on YouTube to 7.-12. class students about different professions in of Estonian Railways, reminded them of the safety rules to follow near the railway and showed our unique machines. Questions from young people were also answered.

Last year, we started cooperating with the Career Studio, which aims to support young people in finding internships and jobs. In cooperation with the career studio, we also made a video to introduce the company’s jobs.





Involvement and Recognition of Employees

Company values that the employees should express in their behaviour and crisis situations are an integral part of the organisational structure. Besides values, our work ethics is also based on the code of ethics, laws, respect towards others, non-discrimination, equal treatment, giving and receiving feedback to/from each other.

To keep our employees in the same information flow, we arrange regular information days which were organised in Tallinn, Tartu and Narva following government COVID-19 guidelines and restrictions. It was also possible to watch the information days live on Youtube and afterwards on our company's internal channels. In March 2021, we also conducted a virtual information session with Arkadi Popov, the head of the West Tallinn Central Hospital, who answered questions from employees about vaccination and the COVID-19 virus.

We recognise and reward employees whose activities are in line with the Company's values, in 2021 we renewed the respective statutes and we awarded the titles with a cash prize in four categories: Locomotive of the Year, Carrier of Honor of the Year, Professional of the Year, Manager of the Year, Idea of the Year, Newcomer of the Year, Risk Manager of the Year, Trainer of the Year and Team of the Year.

In the summer of 2021, we were able to do a joint event for the company's employees, which in 2020 we were forced to cancel due to the spread of the COVID-19 virus. We postponed the annual solemn seniority badge event from last autumn to the spring of 2022.

We launched an idea bank, the aim of which is to collect innovative ideas from employees that will improve the working processes and environment of Eesti Raudtee and otherwise support the company's operations. In 2021, employees submitted 18 ideas to us through the idea bank.

We remember our employees at anniversaries, work anniversaries, family events, the departure of senior employees. It is also important for us to remember colleagues who have already retired and whose events we have supported with company souvenirs.

In 2021, Estonian Railways also helped to remember former railway workers. For example, the company helped the Estonian Railwaymen's Union, the aim of which is to enhance the history of the development of railway transport in Estonia and to unite railway workers. It has become a nice tradition for them to remember the former railway workers on their anniversaries. That is why Estonian Railways prepared diplomas and small souvenir gifts for former railway employees. We also helped ex-railroaders get Christmas presents.



Remuneration and Benefits



In terms of remuneration, we also proceed from the goal of retaining specialists who are good in their field, we pay competitive wages to them and apply other motivating means of remuneration. The basis for remuneration of the employees of Estonian Railways is the Company's remuneration and motivation plan.

In addition to the remuneration, the employees of Estonian Railways are entitled to receive:

- performance pay based on performance, fulfilment of goals, attitude to work, helpfulness, loyalty, initiative, cooperation, etc.;
- three paid health days per calendar year;
- in 2021 we added up to 3 additional health days 2021 for more convenient vaccination process;
- in 2021, we drew 3 gift cards for the accommodation package of the SPA hotel among all the employees who sent us the vaccination certificates;
- additional paid vacation days depending on the length of employment and also for special regime positions;
- holiday pay once a year the size of which depends on the length of employment;
- employee insurance in case of occupational accidents;
- quarterly sports compensation of 90 euros –in 2021, 304 employees used it;
- pension subsidy depending on the length of employment 10-50% of the salary;
- compensation for termination of employment for health reasons 1–2 months' salary, depending on length of service;
- allowances in case of joyful events (jubilee, work jubilee, Christmas, Mother's Day, wedding, birth or starting school of a child) as well as personal losses, such as the loss of a beloved one;
- joint events;
- for the time of participating in the training meetings of the reserve force, we maintain the basic salary of the employees according to the contract.
-

In 2021, the company's salary system changed, creating a separate motivation system for the company's large investment project managers.

Relations with the Trade Union

The Estonian Railway Workers Trade Union is a partner to Estonian Railways in negotiations related to employee workplace conditions, remuneration, work safety, workload, termination of employment contracts and other work-related terms and conditions. Meetings with the representatives of the trade union take place regularly, the goal is to always find a solution that is satisfying to both parties.

38% of the employees are members of the trade union of Estonian Railways (2020: 43%). The collective agreement of Estonian Locomotive Workers' Trade Union covers all employees, ie. 100% of the Company (2020: 100%).

In 2021, we signed a new collective agreement with the Estonian Railway Workers Trade Union.



Occupational safety and health care

The specificity in our work poses a higher risk on employee safety and health. In occupational safety we proceed from the Occupational Safety and Health Act, various relevant regulations, the standard ISO 45001:2018 and risk assessment results.

We manage key safety, occupational safety, quality and environmental principles as one system, covering all positions at Estonian Railways. The key risk factors of Estonian Railways identified in the risk analysis include rail traffic, contact with electrical work and nightshifts. The employees have the right to decline from performing dangerous activities, inform their supervisors about it who are responsible for finding a solution to the problem.

When developing the safety system, employees can participate in the discussions and inform occupational environment commissioners and occupational environment members of risks as well as engage in direct personal communication.

In 2021, safety trainings were held, which were attended by a total of 220 employees of Estonian Railways and 160 employees of infrastructure users.

We also started digitizing occupational safety training and guidance, which will allow better control of the process in the future and give trainers more time for other activities.

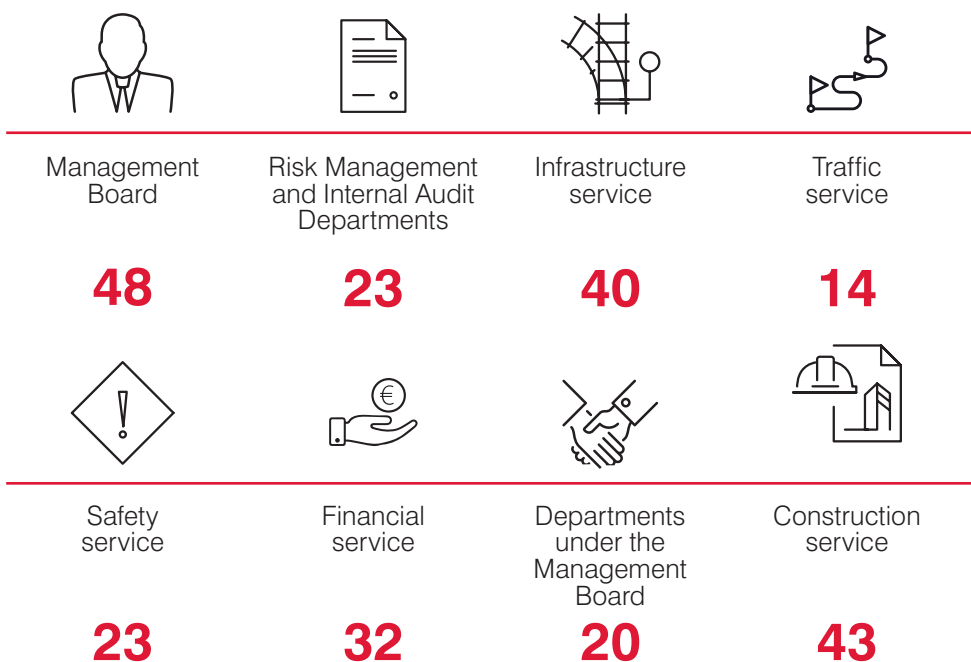
In 2021, there were no accidents at work with the employees of Estonian Railways (2020: 3). We believe that both past and near-accidents need to be discussed with employees to prevent future accidents.

Training Courses and Development

The strategic goals for the development and training of the staff of Estonian Railways include obtaining of management quality, digital skills and necessary language proficiency, as well as preservation and further development the Company's knowledge base and development of cooperation internally and with external partners (incl. vocational and higher educational institutions).

One peculiarity that characterizes us is the strong emphasis on internal training. In Estonia, there are not enough educational institutions providing railway-related education, but it is important that the internal knowledge is preserved and passed on. As Estonian Railways employs many soon-to-retire professional employees with long-term experience, they share their practical knowledge with the young generation.

The average number of training hours in 2021 by services





The key activities of employee training in 2021:

- At the beginning of May 2021, Eesti Raudtee started conducting general training for special vehicle drivers.
- The company's internal Estonian language courses continued, with 118 employees participating (we also support employee studies in the Speakly e-learning environment, where 53 employees studied).
- Cyber security training.
- Creating a project manager development program.
- Launch induction training for a new employee.
- Change management training for managers.
- Training of traffic management system for traffic controllers at the State Transport University of Belarus.

We also partially directed internal trainings to the e-learning environment. There are 24 trainings in the Confluence online environment, in which our employees can learn independently.

In order to motivate employees to improve their Estonian language skills and pass language level exams, we reward employees who have passed the B2 and C1 level exams with a positive result. In 2021, six B2 graduates and two C1 graduates were rewarded financially.

Diversity, Equal Treatment and Non-Discrimination

We do not take into account the employee's age, gender, nationality, mother tongue when selecting staff, evaluating employees, creating development opportunities for employees, promoting employees, remunerating employees and selecting employees in a redundancy situation; the employee's religious, political or social beliefs or membership of a legal association.

We wish to have an organisational culture free from discrimination, harassment and humiliation. When recruiting employees, the key selection criteria include the candidate's work experience, knowledge, skills, desire to learn and work at Estonian Railways, and a match with their future co-workers and organisational culture.

The employees of Estonian Railways come from different backgrounds, nationalities and cultures. Regardless of the employees' background, we value equal rights, responsibilities and opportunities in an employment relationship, acquiring education and participation in social activities.

The Company's key information materials are available both in Estonian and Russian. All employees of Estonian Railways are always welcome to participate in joint events.

In 2021, there were no cases of discrimination.

During the reporting year, a dispute regarding the termination of the employee's contract ended because the employee of retirement age did not pass a medical examination. In court proceedings, the decision was made in favor of the employer..

SOCIAL CONTRIBUTION



Involvement of the Youth

In summer 2021, we engaged groups of students in maintenance work in Tapa and provided them primary work experience and useful activity for summer. The youth learnt many things about the railway world – on the first working day, they were shown the head office of Estonian Railways, told about the railways area and work, and the youth also underwent a thorough safety-related training session.

In June 2021, we also involved young people in the Kristiine district in disseminating railway safety messages. Estonian Railways, Kristiine District Government, the regional police and the young people of Kristiine Youth Center marked the safety messages “Please get off the bike!” and “Thank you!” at the level crossings. The aim of the campaign is to remind road users that when crossing a level crossing, take a wheel or scooter by the hand and cross the railway as a pedestrian.

Support Activities and Cooperation Projects

In spring 2021, with the decision of the Estonian Railway Council, Estonian Railways supported the NGO Estonian Museum Railway with EUR 15,000 with the aim of supporting the restoration of locomotives of the Estonian Museum of Railways in Lavassaare and the development of outdoor exhibits.

With our membership fees we also support the NGO Operation Lifesaver Estonia that promotes railway safety which totalled EUR 120,000 in 2021.

In accordance with the collective agreement, we supported the activities of the Estonian Railway Workers' Trade Union with EUR 12,660 in 2021.

We also contributed to collaboration project both with our know-how, infrastructure as well as employee time.

- **As partners, we participated in the event “Mini Negavatt 2021” organised by the Environmental Investment Centre.**

Within the framework of the initiative, elementary school children were expected to submit environmentally friendly solutions to the contest. The topic of the video contest was “The World Drowning in Cities” and Estonian Railways supplied the special educational award at the contest.

- **Film-makers, musicians and photographers use our infrastructure.**

Our infrastructure was used for making films or taking pictures for approximately ten projects in 2021, and we allowed them to do shoot films and take photos for free for as long as they agreed to comply with our requirements and safety rules.

- **European Railway Year Fund.**

In honor of the railway year, the Estonian railway companies decided to join forces and create a fund to support the possible railway activities of students, young people, railway fans and all interest groups. In particular, the fund supports projects that give people a better understanding of the role and future of railways and highlight the advantages of rail over other modes of transport.





- **Visit of the European Railway year train „Connecting Europe Express“ to Estonia.**

The journey of „Connecting Europe Express“ began in September 2021 from Lisbon with the aim of raising public awareness of the benefits and environmental friendliness of rail transport. Train stops were scheduled for as many as in 26 countries throughout the month. On September 20, the European train arrived to Estonia and events were held for the public in Valga, Tartu, Jõgeva, Tapa and the Balti station in Tallinn. While the exhibition of the railway year, the idea of a European train and also the safety facts were introduced in smaller cities, a slightly larger event took place in Tallinn. During the day, those interested could visit the European train, Operation Lifesaver Estonia safety tent and the climate tent of the European Commission Representation in Estonia. On 21 September, Henrik Hololei, Head of the European Commission's Directorate-General for Mobility and Transport, Taavi Aas, Minister for Economic Affairs and Infrastructure, and the Latvian and Lithuanian Ministers of Transport sent a train from Tallinn to Vilnius. The leaders of all companies related to the Baltic and Finnish railways also took part in the train ride.



Voluntary work of employees

Each employee of Estonian Railways is the ambassador of the Company's values. As a company we promote our employees' contribution to social notification activities and we allow it to be done during the working hours.

The employees of Estonian Railways primarily go to schools and kindergartens to talk about railway safety, both under the framework of "Back to School" initiative as well as at their own initiative. In 2021, our employees went to schools and kindergartens to talk to children about railway safety, more than 700 children were trained.

The employees of Estonian Railways also voluntarily participate in various safety-related activities. For example, we took part in various level crossings as part of the 'Get off the wheel' campaign, where we shared safety information and souvenirs. In 2021, two new railway safety commissioners attended the training course arranged by Operation Lifesaver Estonia.

We also participated in Omniva's charity campaign "Find a new home for Mõmmik", where the goal was to find new owners for the toys that were left over at home.



AS EESTI RAUDTEE ANNUAL FINANCIAL STATEMENTS 2021



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MANAGEMENT REPORT

Business activities

Eesti Raudtee (hereinafter also the Company) operates in several roles at the same time: as a network operator and railway infrastructure manager, we manage, operate, maintain, renew and contribute to the development of public railways. As the main tasks of railway infrastructure management, Eesti Raudtee distributes the capacity of its own public railway and collects infrastructure usage fees.

The year 2021 resulted in a significant decrease in transport volumes in Latvia (approximately 14%) and remained in Lithuania, the transport volume on Estonian public railways increased by almost 11%. However, the development opportunities for freight transport in the region are limited by Russia's export-oriented development strategy, which strictly favors domestic ports for the transport of export goods (eg Ust-Luga). On February 24, 2022, the aggression of the Russian Federation in the Republic of Ukraine began. In order to pursue a common foreign and security policy, the European Union has agreed on certain sanctions against Russian and Belarusian banks, companies and individuals. The list of sanctions also includes AS Krievra Raudteed, which performs the functions of the railway administration of the Russian Federation. Investment services to Russian Railways are prohibited.

Eesti Raudtee does not provide these services. Due to the functions of the Estonian Railway Administration, Eesti Raudtee mediates payments between Estonian and other railway undertakings of the Railway Transport Council, including Russia and Belarus, therefore their impact on Eesti Raudtee's financial results is insignificant when imposing additional restrictive measures on Russian Railways.

The Transport and Mobility Development Plan 2021-2035 sets the goal of increasing the share of rail freight turnover (in net tonne-kilometers) in Estonia's freight turnover to 40% by 2035 compared to road transport, the level in 2020 was 28%. With regard to international transit trade, the development plan states that cooperation must be promoted in order to transport Asian goods to the Northern European market by rail.

The number of train users in Estonia has been growing every year, reaching 8.3 million passengers in 2019, of which about 85% on the infrastructure of Eesti Raudtee. Due to the limitations of COVID-19, the number of passengers on the Company's infrastructure decreased in 2020-2021, on which the operating results of Eesti Raudtee directly do not depend. There were also no other significant circumstances related to COVID-19 that would have changed the Company's revenue or the value of its assets and liabilities (see Annual Financial Statements Note 1.1).

The Transport and Mobility Development Plan for 2021-2035 aims to reach 20 million rail passengers in 2035. To this end, it is desired to increase the speeds of railways with a track gauge of 1520 mm in order to reduce the time-space distances between Estonia's major traction centers to ensure faster connection times compared to commercial bus traffic. The development of the Tartu-Valga fast and convenient railway connection and the launch of the Tartu-Riga and Tallinn-St. Petersburg train connections have been mentioned as important development directions.

Operating income

In 2021, the revenue of AS Eesti Raudtee totalled EUR 32.79 million (2020: EUR 31.1 million). In 2021, infrastructure services accounted for 86.6% of revenue (2020: 86.0%). 54.3% of user fees were received from freight companies (2020: 55.7%). In a year, the railway infrastructure user fees from freight companies increased by 3.4% and that from passenger transport companies increased by 9.4%.

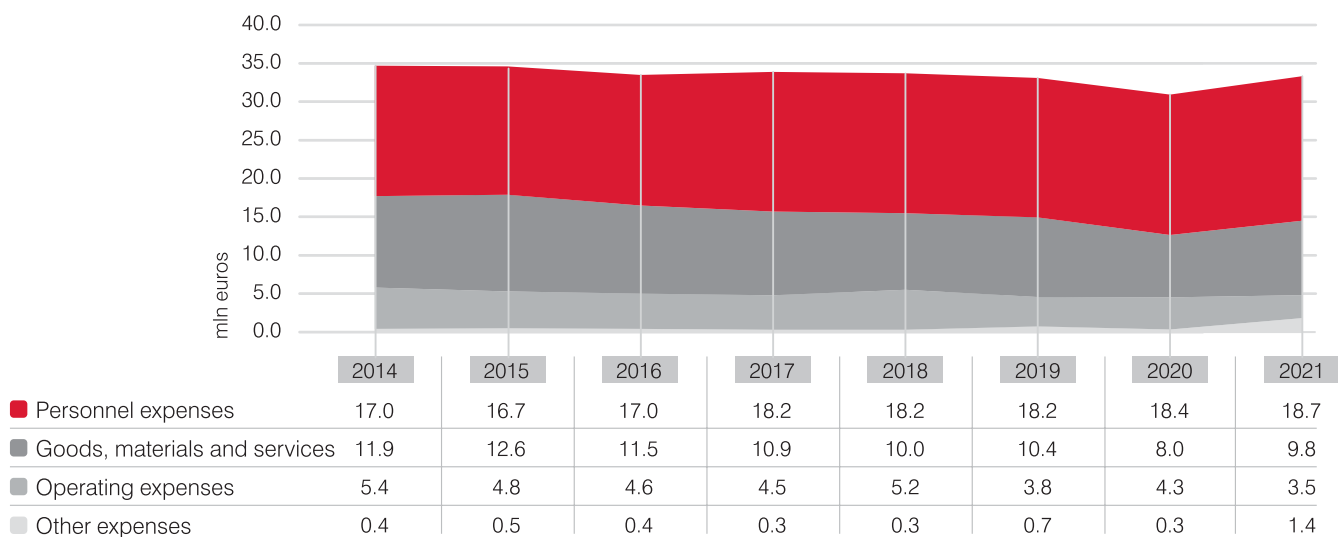
The remaining infrastructure service income was primarily generated by leasing out the service facilities (rolling stock standing roads, travel information boards, locomotive swing bridge in Koidula, waiting areas of Tartu railway station), also rental of real estate, fiber optic fiber and wagons, and sales of scrap metal and electricity.

A significant part of the revenue of Eesti Raudtee (approx. 1/3) is from the infrastructure usage fee received from transport companies serving transit in Russia and Belarus. In the event of a complete interruption of the transit or trade embargo, the liquidity risk is hedged by a financing agreement concluded between Eesti Raudtee and the Ministry of Economic Affairs and Communications (see below and Annual Financial Statements Note 17).

Government grants to achieve performance targets made up 63.4% of the infrastructure company's other income (EUR 23.03 million). At the end of 2015, the Company concluded a long-term financing agreement with the Republic of Estonia for allocation of public funds to ensure the Company's long-term sustainability of operations and the quality of the railway infrastructure. The agreement ensures that under normal business conditions the Company's revenue consisting of infrastructure user fees, profit generated by other commercial activities and funds allocated by the state or other persons), and railway infrastructure expenditure would be balanced over a five-year period. In years 2019 and 2020, EUR 24.10 million was allocated to the Company which was recognised as other operating income in 2020, making up to 73.8% of other operating income. This provision in 2020 and in previous years helped Estonian Railways to ensure that railway infrastructure expenditure would be balanced during the period 2015-2020.

Operating expenses

In 2021, the operating expenses of Estonian Railways totalled EUR 55.55 million (2020: EUR 56.35 million), decreasing by approximately 1.4% in a year. The cost of goods, materials and services used increased by approximately 22.6% as compared to 2020 due to higher energy prices and infrastructure maintenance costs. Other operating expenses decreased by 18.3%. Compared to 2020, there were no major changes in personnel expenses.



In regards to the EU sanctions against Russia, there are no direct relations between Estonian Railways and Russian suppliers, also there are sufficient reserves to mitigate supply risks in the medium term.

Results for the year

Estonian Railways earnings before amortisation for 2021 was EUR 22.36 million, which was 31.7% less than in 2020. In 2020, the Company earned a significant net profit, partly attributable to government grants received for attaining performance targets of prior years and government grants received from the state budget for operating expenses. As the obligation to ensure the balance of income and expenditures of the railway infrastructure manager in previous years has been fulfilled by the state, in 2021 the company did not earn a net profit. Considering the possible decrease in the volume of freight transport, the principle of determining the railway infrastructure usage fee to taking into account the ability of different market segments to pay this fee and the need for large investments, the sole shareholder expects that AS Eesti Raudtee will not make a profit in the coming years.

The Company's General Meeting presided by the Minister of Economic Affairs and Infrastructure of the Republic of Estonia shall decide the payment of dividends. It is the owner's expectation that since the Company is not operating on the free market, the state does not expect it to pay regular dividends, but the respective decision shall be made on the basis of the Company's outlook in the long run.

As at 31 December 2021, the Company's assets totalled EUR 374.42 million (2020: EUR 356.86 million), of which property, plant and equipment accounted for EUR 312.25 million or 83.4%. The financial ratios were in compliance with the requirements set by the keys creditors (see Annual Financial Statements Note 2.6).

In the financial year 2021, the risks related to changes in currency exchange rates, interest rates and stock exchange rates did not realize. The accounting policies for financial instruments are discussed in more detail in Note 1.7 and financial risks in Note 2. The objective of managing the financial risks of financial instruments is to develop and implement preventive hedging measures to ensure the liquidity and credit-worthiness of the Company.

Investments

The strategic task of Estonian Railways as an infrastructure manager is, as set in the owner's expectations, to reduce the technological backlog and to introduce modern solutions in traffic management and infrastructure management. To achieve this, approximately EUR 840 million will be invested in 2021–2028, to renew the railway in accordance with the Transport and Mobility Development Plan 2021–2035 approved in November 2021. The largest investment projects are the electrification of the railway (approx. EUR 274 million in the strategy period), the renovation and straightening of the railway necessary to increase speeds (approx. EUR 165 million), the first stage of modernization of cross-infrastructure safety systems with automation (approx. EUR 160 million), building the second stage of Haapsalu railway (approx. EUR 116 million), etc. All investment projects also include a component of improving railway safety.

In 2021, EUR 34.9 million was invested (2020: EUR 32.0 million), of which EUR 15.9 million (2020: EUR 19.3 million) were co-financed from the state budget (European Union and the Republic of Estonia). The major projects in 2021 were as follows:

- Lääne-Harju consolidation project EUR 13.3 million, incl:
 - construction of tracks and track facilities and major repairs EUR 8.5 million
 - renewal of security systems (incl. in Keila, Paldiski and Balti stations) EUR 4.4 million
 - Pääsküla 4th track construction EUR 0.4 million
- reconstruction of the Tapa – Tartu railway and increase of speeds of 135 km/h EUR 5.4 million
- cross-infrastructure renewal of security systems and automation of traffic management EUR 4.7 million
- preparations for railway electrification EUR 1.3 million
- reconstruction of the Tapa – Narva railway and increase of speeds of 135 km/h EUR 1.2 million

Responsible activity

The Company has prepared a report in accordance with the Global Reporting Initiative (GRI) sustainability reporting standard, which covers the Company's operations and key performance indicators in the areas of risk management, human resource management, human rights and anti-corruption, as well as the environmental impact of the Company's operations.

The said report shows that in 2021 there were no cases of corruption involving the Company or its suppliers. There were also no cases of discrimination in the Company, as the Company's organizational culture is free from unequal treatment, harassment and humiliation.

The direct and indirect environmental impact of the company decreased significantly in 2021, as the use and distribution of electricity from renewable sources was switched to at the beginning of the year. Therefore, the impact of Eesti Raudtee's activities on the environment is rather small.

ANNUAL FINANCIAL STATEMENTS

Statement of financial position

<i>In thousands of euros</i>	Note	31.12.2021	31.12.2020
ASSETS			
Non-current assets			
Property, plant and equipment	3	304 275	293 178
Intangible assets	4	2 706	1 394
Prepayments for property, plant and equipment tangible assets		5 258	6 635
Long-term receivables		9	10
Total non-current assets		312 248	301 217
Current assets			
Inventories	5	6 543	5 701
Receivables and prepayments	6	19 100	13 476
Cash and cash equivalents	2.3	36 526	36 467
Total current assets		62 169	55 644
TOTAL ASSETS		374 417	356 861
EQUITY AND LIABILITIES			
Equity			
Share capital		80 303	80 303
Statutory reserve capital		4 473	4 119
Retained earnings		91 341	91 695
Total equity	7	176 117	176 117
Non-current liabilities			
Loan liabilities and borrowings	8	31 423	23 826
Government grants	17	147 709	142 570
Other non-current liabilities		511	639
Provisions		244	106
Total non-current assets		179 887	167 141
Current liabilities			
Loan liabilities and borrowings	8	3 415	2 448
Payables and prepayments	9	14 009	11 140
Government grant prepayments	17	113	0
Provisions	15	876	15
Total current liabilities		18 413	13 603
Total liabilities		198 300	180 744
TOTAL EQUITY AND LIABILITIES		374 417	356 861

Notes to the financial statements on pages 84-112 are an integral part of the financial statements.

Statement of comprehensive income

<i>In thousands of euros</i>	Note	2021	2020
OPERATING INCOME			
Revenue		32 785	31 095
Other operating income		23 027	32 671
TOTAL OPERATING INCOME	11	55 812	63 766
OPERATING EXPENSE			
Goods, materials and services	12.1	9 847	8 032
Other operating expense	12.2	3 510	4 297
Personnel expense	12.3	18 732	18 411
Depreciation and impairment	3, 4	22 095	25 329
Other operating expense		1 363	283
TOTAL OPERATING EXPENSE		55 547	56 352
OPERATING PROFIT/LOSS		265	7 414
Financial income and expense	13	-265	-325
PROFIT BEFORE INCOME TAX		0	7 089
PROFIT FOR THE YEAR		0	7 089

Notes to the financial statements on pages 84-112 are an integral part of the financial statements.

Statement of changes in equity

<i>In thousands of euros</i>	Share capital	Statutory reserve capital	Retained earnings	TOTAL
BALANCE AS AT 31.12.2019	70 303	3 674	85 051	159 028
Mandatory reserve capital	0	445	-445	0
Increase of share capital	10 000	0	0	10 000
Total comprehensive profit for 2020	0	0	7 089	7 089
BALANCE AS AT 31.12.2020	80 303	4 119	91 695	176 117
Mandatory reserve capital	0	354	-354	0
Total comprehensive profit for 2021	0	0	0	0
BALANCE AS AT 31.12.2021	80 303	4 473	91 341	176 117

For more information on share capital and other items of equity please refer to note 7.

Notes to the financial statements on pages 84-112 are an integral part of the financial statements.



Statement of cash flows

<i>In thousands of euros</i>	Note	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		0	7 089
Depreciation and impairment of property, plant and equipment	3, 4	22 095	25 329
Depreciation of property, plant and equipment of the government grant	17	-7 082	-7 814
Profit/loss from the sale and liquidation of property, plant and equipment	3	-871	-156
Adjustment/revaluation of provisions		1 014	15
Right of superficies fee		-128	-128
State budget operating support		0	-24 100
Loss from financial income/expense	13	265	325
Other adjustments		-7	-49
Change in receivables and prepayments	6	-241	-2 358
Change in inventories	5	-842	228
Change in payables and prepayments	9	2 211	-1 573
Government grants for operating expenses received from the state budget	17	0	17 100
Grants for operating expenses not received	17	-14 550	0
Interest income received	13	32	61
Interest paid	13	-334	-388
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		1 562	13 581
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	-29 799	-29 550
Inventories used in the construction of fixed assets	3	-1 703	0
Proceeds from sale of property, plant and equipment	3	891	245
Government grants for property, plant and equipment received from the state budget	17	3 293	7 577
Government grants received for property, plant and equipment	17	9 860	10 312
Cash received from deposit		8 500	19 000
Depositing cash into deposit account		0	-8 500
Repayment of loans granted		1	1
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		-8 957	-915
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital contribution	7	0	10 000
Loans received	8	10 000	20 000
Repayments of loans received	8	-1 007	-23 690
Finance lease payments	8	-1 539	-1 431
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		7 454	4 879
TOTAL CASH FLOW		59	17 545
Cash and cash equivalents at the beginning of the financial year		36 467	18 922
Cash and cash equivalents at the end of the financial year		36 526	36 467
CHANGE IN CASH AND CASH EQUIVALENTS		59	17 545

Notes to the financial statements on pages 84-112 are an integral part of the financial statements.

NOTES TO THE ANNUAL FINANCIAL REPORT

General information

AS Eesti Raudtee is a 100% state-owned company registered in the Republic of Estonia on January 14, 2009. The company is administered by the Ministry of Economic Affairs and Communications of the Republic of Estonia.

The Management Board authorised the financial statements for the year ended 31 December 2020 for issue on 18 March 2022.

Note 1: Accounting Policies

1.1 Basis of preparation and measurement and changes in them

The Entity's financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been prepared on the historical cost basis.

Change in presentation of data

In the statement of financial position under the Property, plant and equipment group has been adjusted by presenting the prepayments for property plant and equipment on a separate row, a corresponding adjustment has also been made to comparative data of 2020. The column "Construction in progress" in Note 3 Property, plant and equipment has also been adjusted accordingly.

Changes in the accounting policies

The financial statements are prepared on a consistent and comparative basis, which means that the Company always follows the same accounting policies and principles of presentation. The accounting policies and presentation are amended only if required by new or revised International Financial Reporting Standards (IFRS) as adopted by the European Union and their interpretations, or if the new accounting policy or presentation provides a more objective view of the financial position, financial performance and cash flows of the Company. The accounting policies applied in the preparation of this report are the same as those used in the Company's financial statements for the year ended 31 December 2020.

The following new or revised standards and interpretations became effective for the Company from 1 January 2021:

COVID-19-Related Rent Concessions - (effective from 1 January 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. The company estimates that there will be no significant impact on the financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - (effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The company estimates that there will be no significant impact on the financial statements

New or revised standards and interpretations effective from 1 January 2022

New or revised standards and interpretations have been issued that become mandatory for the Company from 1 January 2022 or later and that the Company has not early adopted:

Covid-19-Related Rent Concessions – Amendments to IFRS 16 – (effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months.

The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period.

Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments.

There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The company estimates that there will be no significant impact on the financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Spread of COVID-19 virus

Due to COVID-19, the management estimates that the volume of the company's revenue, the value of assets and the value of other assets or liabilities have not changed significantly, the effect of which should be reflected in the financial statements.

1.2 Critical accounting estimate

The financial statements have been prepared using a variety of management estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are based on management's best knowledge and may not reflect actual performance. Changes in management's estimates are recognized in the statement of comprehensive income during the period in which the change is made. The following estimates have the greatest impact in 2021. financial information.

a) Determination of the useful lives of property, plant and equipment

The estimated useful lives of property, plant and equipment are based on management's estimate of the period of actual use. Experience so far has shown that the actual useful lives of assets are generally longer than the estimated useful lives of the assets. In 2021 the useful lives of items of property, plant and equipment for which plans for their conversion and reconstruction are known have been revised.

The weighted average depreciation of fixed assets is 3,9% of the acquisition cost of fixed assets. A change of one percentage point in depreciation rates would change the depreciation charge by 5.7 million per year

b) Determination of the recoverable value of property, plant and equipment

As at 31 December 2021, the Company prepared a test on the recoverable amount of property, plant and equipment determining the value in use of the assets using the discounted future cash flow method.

Using the weighted average cost of capital accepted by The Consumer Protection and Technical Regulatory Authority as a discount rate of 3,602% (2020. aastal 3,12%), and a long-term growth rate projected by the European Central Bank (1.9%), the recoverable amount of fixed assets exceeds their carrying amount.

1.3 Foreign currency transactions

Foreign currency transactions are recorded by applying the official exchange rates of the European Central Bank at the dates of the transactions. Monetary items denominated in a foreign currency as at the reporting date are translated into euros using the official exchange rates of the European Central Bank as at the reporting date. Gains and losses arising on foreign currency transactions are recognised in profit or loss as income and expenses respectively in the period in which they arise.

1.4 Property, plant and equipment

Tangible fixed assets are tangible assets which are used for the provision of services, leasing or administrative purposes and which are used for more than one year. Property, plant and equipment is carried in the statement of financial position at its carrying amount, less any accumulated depreciation and any accumulated impairment losses.

Acquisition cost

Property, plant and equipment are initially recognized at cost.

- The cost of an item of property, plant and equipment comprises the purchase price and any directly attributable expenditure on bringing the asset to its operating condition and location.
- The cost of a self-constructed fixed asset consists of the cost of site preparation, materials and services for manufacturing and commissioning, and labor compensation

Subsequent expenditure on an item of property, plant and equipment is included in the cost of the asset or recognized as a separate item only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. When a component of an item of property, plant and equipment is replaced, the cost of the new component is added to the cost of the item and the replaced component is written off from the statement of financial position. If necessary, the useful life of the asset is changed. Current maintenance and repair costs are expensed in the statement of comprehensive income

Depreciation

Each part of an item of property, plant and equipment that has a significantly different useful life and whose cost is significant in relation to its total cost is depreciated separately.

Depreciation of fixed assets is calculated on a straight-line basis over the estimated useful life of the asset. The exception is land that is not depreciated.

The useful lives of property, plant and equipment are reviewed at least at the end of each financial year in the context of the annual inventory of fixed assets and adjusted if necessary, on a prospective basis. If the estimated useful life of an asset is significantly different from that established, the remaining useful life of the asset is changed, resulting in a change in the depreciation charge for the asset in subsequent periods.

Useful life of items of property, plant and equipment

The useful life of property, plant and equipment is determined by management's estimate of the period of actual use.

The estimated useful lives of items of property, plant and equipment used in an enterprise are as follows:

Buildings

Buildings	10 - 100 years
Facilities	5 - 100 years
Railways	20 - 50 years

Machines and equipments

2 - 30 years

Other

3 - 15 years

Property, plant and equipment is derecognised upon disposal or if the Company does not expect an economic benefit from the sale of this asset, including reclassification to non-current assets held for sale. Gains and losses from derecognition of property, plant and equipment are recognised as “Other income” or “Other expenses” in the period in which the derecognition arises.

1.5 Intangible assets

An intangible asset is initially recognised at cost, comprising its purchase price and any expenditure directly attributable to the acquisition. Intangible assets are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. Acquired software is classified as intangible assets with a defined useful life.

The costs related to ongoing software maintenance are recognised as expenses at the time they are incurred.

Software that is not an integral part of hardware is recognised as an intangible asset. The software developed and controlled by the Company is recognised as an intangible asset when the following conditions have been met:

- Making software available for use is technically feasible;
- It is possible to use software;
- Future economic benefits from software will flow to the Company;
- Software development costs can reliably be estimated.

Capitalised software development costs include staff costs and other development-related direct costs. The development costs that do not meet the conditions above are recognised as expenses.

Software is amortised over 5 years.

1.6 Inventories

Inventories are initially recognised at cost which comprises all costs of purchase and other direct costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using FIFO method. After recognition, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale.

1.7 Financial instruments

Financial assets

Classification

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments on the Company's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

All the Company's debt instruments are classified in the adjusted acquisition cost category.

Equity instruments

The Company has no investments in equity instruments.

Impairment

The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Company measures impairment as follows:

- trade receivables amounting to expected credit losses over the life of the asset;
- cash and cash equivalents that are considered to have a low credit risk exposure in the reporting period equal to 12 months' expected credit loss;
- for all other financial assets, the amount of credit losses expected to be incurred over a 12-month period, unless the credit risk (ie the expected life of the financial asset in default) has increased significantly after initial recognition; if the risk is significantly increased, the credit loss is measured at an amount equal to the expected credit loss over a lifetime.

Financial liabilities

All financial liabilities (trade payables, loans received, accrued expenses and other payables) are initially recognised at cost, including any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

The amortised cost of current financial liabilities is generally equal to their nominal value. Therefore, current financial liabilities are stated in the amount that is to be paid. Non-current financial liabilities are measured at amortised cost using the effective interest rate method. Interest expense on financial liabilities are recognised as financial expenses.

Non-current liabilities comprise liabilities that are due to be settled within more than one year after the reporting date or if the Company has no unconditional right to defer settlement of the liability for more than 12 months after the end of the reporting period. All other liabilities are classified as current liabilities.

Accrued expenses comprise liabilities recognised on an accrual basis under a contract or some other relevant document, which are to be settled in the next period.

1.8 Impairment of assets

The Company assesses at each reporting date whether there is any indication that an asset other than inventories and investment properties may be impaired. If any such indication exists, the recoverable amount of the asset is tested.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss is recognised as an expense in the period in which it is identified.

The recoverable amount of non-current assets is the higher either of its fair value less costs to sell or value in use. Value in use is calculated by discounting the asset's estimated future cash flows to their present value by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If an asset does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised for other assets of the company are reversed when there is any indication that an impairment loss recognised in prior periods no longer exists and changes have taken place in estimates that were used to determine the recoverable amount of the asset.

Prior impairment loss is reversed only in extent that the net book value of the asset would not exceed the initial book value found according to normal depreciation without the impact of impairment.

1.9 Revenue recognition

Revenue is income arising in the course of the Company's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a good or service to a customer.

Revenue from the use of railway infrastructure

Eesti Raudtee ensures that basic services ensuring access are provided to all rail transport companies as laid down in the Railways Act, i.e. which broadly speaking means that the infrastructure in the Company's ownership is made available for use to rail transport companies. The services are provided according to the agreement concerning the use of the railway infrastructure that is renewed annually for the following time-

tabling period. The fee for use of the railway infrastructure established in accordance with the methodology of the Minister of Economic Affairs and Infrastructure is determined by the Director General of the Consumer Protection and the Technical Regulatory Authority for the entire timetabling period 2020/2021, 2021/2022 and 2022/2023. Revenue from the use of the railway infrastructure is recognised in the period in which the Company has provided services.

Real estate services

Real estate services include rental income which has been received for the rent of premises and intermediation of utilities of leased premises. The revenue from real estate services is recognised in the period in which the service is provided.

Sale of inventories

The Company primarily recognises the sale of scrap metal which is generated in the process of renewal of infrastructure when old materials are replaced as the sale of inventories. In addition to scrap metal, the Company also disposes of the inventories and materials that have become unusable from the point of view of the Company's operations. Revenue from the sale of inventories is recognised when control over the asset has been transferred to the customer.

Other services

Other services include various services where the Company is the key service provider as well as rental income from leasing out carriages, fees for carrying out exams, etc. Revenue from providing services is recognised in the accounting period in which the services are rendered.

1.10 Employee benefits

Short-term employee benefits (wages and salaries payable and vacation pay liabilities), which are measured in undiscounted amounts, are recognised as liabilities on an accrual basis as the related service is provided. Salary, wage and vacation pay liabilities are recognised on the basis of contracts signed with employees and the provisions of labour legislation that impose on the Company a legal obligation to make the payments.

Termination benefits are employee benefits payable as a result of the Company's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The event which gives rise to an obligation is the termination rather than employee service. Therefore, the Company recognises termination benefits when, and only when, it is demonstrably committed to terminate the employment of an employee or a group of employees before the normal retirement date, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the reporting date, they are discounted to their present value.

Vacation pay liability is recognised in the period when the liability arises, that is when the employee has the right to the receivable. Earned vacation pay or the change is recognised as an expense in the statement of comprehensive income and as a short-term liability in the statement of financial position.

The Company recognises the expected cost of profit sharing and bonus payments only when it has a present legal or constructive obligation to make such payments and a reliable estimate of the obligation can be made.

1.11 Income tax

According to the applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on their profits. Corporate income tax is paid on dividends and other payments that have the nature of profit distributions. The effective tax rate is 20/80 of the amount paid out as net dividends.

The statement of financial position does not recognize a potential income tax liability on the Company's unrestricted equity that would arise from the distribution of the unrestricted equity as dividends. The maximum amount of income tax liability that could be incurred as a result of the payment of all unrestricted equity in the form of dividends is disclosed in Note 14. Dividend income tax is recognized as an expense when dividends are declared.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Income tax payable on fringe benefits, gifts, donations, entertainment expenses and non-business expenses is recognised as an expense on an accrual basis.

1.12 Leases

The Company as a lessor:

Assets leased out under operating leases are presented in the statement of financial position as items of property, plant and equipment. Items of property, plant and equipment, which have been leased out under operating leases, are depreciated over their useful lives using a policy consistent with the one applied to similar assets. Operating lease income (less of any incentives provided to the lessee) is recognised as income in the period in which it arises.

The Company as a lessee

Leases are classified in accordance with IFRS 16.

When concluding a contract, it is assessed whether it is a lease or whether it contains a lease. A contract is a lease if it gives the right to control the use of the specified asset over a period of time against payment. The Company considers the lease as an uninterrupted period of lease, which includes periods of possible extension of the lease if the lessee is reasonably certain that he will exercise the option and periods of possible termination of the lease if the lessee is certain that he will not exercise the option. The Lessee shall reassess its reasonable certainty as to whether it will exercise its right of renewal or its right of cancellation when there is a material event or change in circumstances that is under the Lessee's control and affects the duration of the lease. The Company changes the lease term in the event of a change in the uninterrupted period.

Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability. At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right to use the asset is recognized in the statement of financial position under Property, plant and equipment.

At the commencement date, the lessor measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

When finding an alternative loan rate for a lessee, the company will:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Company;
- makes adjustments specific to the lease, eg lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) payments, less any lease incentives receivable;
- b) variable lease payments that are index or rate dependent and are initially measured using the index or rate prevailing at the beginning of the lease term;
- c) amounts expected to be payable by the lessee under residual value guarantees;
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The company pays the right of superficies to the owners of land under railway infrastructure. As the tenancy fees are based on the land tax, management estimates that this is a variable lease payment that is not based on a market price indicator. Therefore, these lease payments are recognized as expense in the period in accordance with the IFRS 16.

Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, whichever comes earlier.

After the commencement date, a lessee shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be needed to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if:

- a) either there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

The Lessee shall determine the modified lease payments for the remaining lease term on the basis of the revised contractual payments. For this purpose, the lessee uses the unchanged discount rate, unless the change in the lease payment is due to a change in the floating interest rate.

A lessee shall recognize a change in a lease as a separate lease if (a) the change increases the lease volume by adding the right to use one or more underlying assets; (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand alone price to reflect the circumstances of the particular contract.

The Company has decided not to apply the requirements of IFRS 16 to short-term leases and low value leases. Payments related to short-term leases and low value leases are recognized as an expense in the income statement on a straight-line basis. Short-term leases are those with a lease term of up to 12 months or less. Low value leases are leases of IT equipment.

1.13 Provisions and contingent liabilities

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation, but the ultimate amount or timing of the obligation is uncertain.

The amount recognised as a provision is based on management's estimates and experience and, where necessary, the estimates of independent experts. Non-current provisions are presented in discounted amounts.

Benefits payable to employees on the termination of the employment relationship are recognised only after an agreement has been reached with the representatives of the employees involved regarding the specific terms of termination (redundancy) and the number of employees involved, and after the employees have been advised of the specific terms. The Company does not recognise provisions for expenses arising in connection with its continuing operations.

The Company has to pay benefits for incapacity for work to persons that have lost their capacity for work by the fault of the Company. The provision for relevant benefits is calculated based on the number of entitled persons, the period over which the benefits are expected to be paid and the size of the benefits.

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements (Note 15) and they are not disclosed in the Company's statement of financial position.

1.14 Government grants

Income from government grants is recognised at its fair value when it is sufficiently certain that the Company meets the conditions of the government grant and that it will be granted.

Government grants related to purchase of property, plant and equipment

Government grants relating to the purchase of property, plant and equipment are recognised under the gross method. Assets acquired with government grants are initially recognised at cost in the statement of financial position; the amount received as a government grant is recognised as deferred income from the government grant within non-current liabilities in the statement of financial position. The acquired asset is depreciated, and the grant as deferred income is recognised in profit on a systematic basis, over the useful life of the asset.

Government grants related to operating activity

Grants related to operating expenses are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related expenses for which the grants are intended to compensate. The Company accounts for government grants used to compensate operating expenses using the gross method, according to which the compensated costs and grant received are recognised separately as expense and income.

1.15 Events after the reporting date

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the reporting date but which will have a significant effect on the result of the next financial year are disclosed in the notes to the annual financial statements.

1.16 Statement of cash flow

The statement of cash flows is prepared using the indirect method — cash flows from operating activities are reported by adjusting operating profit for the effects of non-cash items and changes in operating receivables and payables. Cash flows from investing and financing activities are reported using the direct method.

1.17 Statutory reserve capital

Pursuant to the Commercial Code of the Republic of Estonia, mandatory reserve capital has been established. At least 1/20 of the net profit must be entered in the reserve capital each financial year until the reserve capital amounts to 1/10 of the share capital. The legal reserve may be used to cover losses as well as to increase the share capital. No disbursements may be made to shareholders from reserve capital.

1.18. Related party transactions

Members of the Supervisory Board and Management Board of AS Eesti Raudtee, as well as other persons and companies who can control or significantly influence the financial and business decisions of the company, are considered related parties in the preparation of the financial statements. In addition, related parties and related companies of the persons listed above are considered related parties. As the shares of AS Eesti Raudtee are 100% owned by the Republic of Estonia, railway undertakings controlled or controlled by the Republic of Estonia are also considered related parties in the preparation of the financial statements.

Note 2: Financial Risk Management

2.1 Financial risks

There are several financial risks associated with the company's operations:

- market risk, which includes currency, cash flow, fair value interest risk and price risk;
- credit risk,
- liquidity risk.

The Company's established procedure for management of financial risks lays down rules for internal hedging of financial risks. The biggest risk for Eesti Raudtee is liquidity risk, i.e. ability to fulfil all obligations assumed and ensure a sustainable level of investments.

2.2 Market risk

Currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate in the future due to changes in exchange rates. Assets and liabilities denominated in euro are treated as currency-neutral assets and liabilities. The Company is exposed to fluctuations in various exchange rates, particularly those relating to the Swiss franc and the Russian rouble.

As at 31 December 2020 and 31 December 2021 the company didn't have significant currency risks, since liabilities were mainly in euros.

The following table provides an overview of the Company's currency risk exposures as at the reporting date:

<i>In thousands of euros</i>	31.12.2021		31.12.2020	
	CHF	RUB	CHF	RUB
Cash and cash equivalents	498	8	419	4
Receivables	247	0	291	0
Payables	-226	-1	-255	-1
Net exposure	519	7	455	3

The net exposures in the above currencies are immaterial for the Company and potential exchange rate fluctuations would not have a material effect on the Company's financial statements.

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate in the future due to changes in market interest rates.

Cash flow interest rate risk arises from the Company's floating rate liabilities and involves the risk that financial expenses will increase as interest rates increase.

As at 31 December 2021 the Company has two loan liabilities, out of which a loan from Swedbank has a floating interest rate and depends on EURIBOR, a loan from EIB has a fixed interest rate. Compared to 2020, the average interest rates in 2021 did not change significantly (Note 8). If the interest rate changed by one percentage point, the interest expense would increase by 355 thousand euros per year.

2.3 Credit risk

Credit risk is the Company's potential loss caused by the inability of the other party of the financial instrument to meet its obligations. Cash in bank accounts, deposits, trade receivables and other receivables are exposed to credit risk.

As of the reporting date, a provision for allowances for trade receivables has been established for invoices that are significantly overdue. The provision for expected credit losses has taken into account the fact that the Company has a legal basis for collecting receivables and legal proceedings have been initiated or are being initiated regarding impaired receivables

Impairment allowance for trade receivables as at 31 December 2021:

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Discount balance at the beginning of the reporting period	628	75
Discounts for the reporting period	81	553
Receivables received during the reporting period	-252	0
Receivables written off during the reporting period	-370	0
Discount at the end of the period	87	628

Receivables related to the government grants are recognised in the statement of financial position only to the extent that there is certainty that these receivables will be received, as the Company has met all the conditions set out in the government grant agreement. Taking into account the previous payment behavior and financial position of the partner of the government grant agreement, the Company has no doubts about the collection of receivables, therefore the impact of the credit loss is not estimated by the Company.

Although cash and cash equivalents and bank deposits with maturities of greater than 3 months also fall under the expected credit loss model of IFRS 9, the identified impairment loss was insignificant as at 31 December 2020 and 31 December 2021.

The Company's cash and cash equivalents and deposits with maturities over three months are kept at the largest banks operating in Estonia Swedbank, SEB and Luminor Estonia.

<i>In thousands of euros</i>	31.12.2021	31.12.2020	Moody's rating
Bank accounts and deposits			
Swedbank	29 125	22 366	Aa2
SEB Pank	1 037	907	Aa2
Luminor Estonia	6 356	21 690	Baa1
Bank account of the Company's office in Moscow	8	4	unknown
	36 526	44 967	

Given the bank's credit ratings, the credit risk related to cash and cash equivalents has been assessed as minimal by management.

2.4 Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient financial assets to meet its obligations as they fall due.

To ensure liquidity, the Company must have a liquidity buffer (volume of available funds) of at least 2 million euros. Free funds may be invested only in deposits, the investment of funds in other instruments is decided by the Supervisory Board.

The instruments used to manage liquidity risk are loans and bonds, operating and finance leases, sale and leaseback, factoring, guarantee, letter of credit and derivatives.

The Company diversifies its funds between different banks based on the current account balance fee applied by the bank.

The table below provides an analysis of financial liabilities by maturity, including estimated future interest payments as of 31.12.2021 and 31.12.2020:

31.12.2021

<i>In thousands of euros</i>	Carrying amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years	More than 5 years	Note
Bank loans	28 992	29 880	2 242	2 243	16 381	9 014	8
Lease payables	5 844	6 339	1 517	1 523	1 439	1 860	8
Trade payables	8 554	8 554	8 554	0	0	0	9
Other payables	101	101	101	0	0	0	
Total	43 491	44 874	12 414	3 766	17 820	10 874	

31.12.2020

<i>In thousands of euros</i>	Carrying amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years	More than 5 years	Note
Bank loans	20 000	20 752	1 182	2 204	17 366	0	8
Lease payables	6 274	7 688	1 571	1 345	4 772	0	8
Trade payables	5 425	5 425	5 425	0	0	0	9
Other payables	638	638	638	0	0	0	
Total	32 337	34 503	8 816	3 549	22 138	0	

2.5 Operational risks

The operational risk for the Company is primarily business disruptions and a significant damage to assets. The Company is ensured against the damage to assets and business disruptions and has liability insurance of its operations which protects it against the claims of third parties. In addition, the Company has insurance contracts related to the liability of the management (Management Board, Supervisory Board, top executives) and the liability of the employer. The employees of the rescue train have been insured against accidents. The Company has insurance contracts for cybersecurity protection and protection against the damage to motor vehicles.

2.6 Capital management

The Company's shares are owned by the state. Decisions on the distribution of dividends, increase or decrease of share capital are made by the Republic of Estonia and exercised through the Ministry of Economic Affairs and Communications.

The Company's policy is to maintain a strong capital base and maintain the credibility in the capital markets. The Company has access to various credit facilities whose duration and volume allow management to carry out the investment programme designed for the next 12 months.

The Company's equity is sufficient for enabling the Company to raise additional debt capital if necessary. For more information on equity refer to Note 7.

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Debt liabilities (Note 8)	34 836	26 274
Cash and cash equivalents (Notes 2.3 and 8)	36 526	36 467
Net debt (debt liabilities-cash and cash equivalents) (Note 8)	-1 690	-10 193
Equity	176 117	176 117
Total capital (net debt+equity)	174 427	165 924
Debt to equity ratio	20%	16%
Ratio of net debt to total equity	-1%	-6%

2.7 Fair value

IFRS 7 determines the hierarchy of the fair value measurements, which are based on whether the inputs of the measurement are observable or not. Observable inputs reflect the market data obtained from third parties; unobservable inputs reflect the assumptions about the market. Based on these two types of inputs the following hierarchy of fair value measurements have been created:

Level 1 – quoted prices (unadjusted) on active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. When available, observable market data is used in valuation techniques and Company's own estimates are relied on as little as possible.

The Company estimates that the fair values of financial assets and liabilities carried at amortised cost in the statement of financial position do not differ materially from the carrying amounts recognized in the Company's statement of financial position as at 31.12.2021 and 31.12.2020. As the majority of the Company's long-term borrowings have a floating interest rate that changes in line with changes in cash market interest rates and the management estimates that the risk margin has not changed significantly, their fair value does not differ significantly from the carrying amount.

The residual value of short-term receivables, less discounts is estimated to be equal to their fair value.

Note 3: Property, Plant and Equipment

<i>In thousands of euros</i>	Land and buildings	Right-of-use buildings	Machinery and equipment	Right-of-use vehicles	Other equipment	Construction in progress	Total	Note
31.12.2019								
Cost	441 370	4 304	76 758	1 752	1 135	11 609	536 928	
<i>Incl. EU and Domestic government grants</i>	145 248	0	8 064	0	0	0	153 312	
Accumulated depreciation	-197 929	-473	-45 259	-517	-950	0	-245 128	
<i>Incl. EU and Domestic government grants</i>	-33 406	0	-1 299	0	0	0	-34 705	
Carrying amount 31.12.2019	243 441	3 831	31 499	1 235	185	11 609	291 800	
Movements in 2020								
Acquisitions and improvements	60	0	918	0	80	25 318	26 376	
<i>Incl. leased assets</i>	0	0	570	0	0		570	
Addition of right-to-use assets	0	4	0	0	0	0	4	
Removal of access rights	0	-1	0	-2	0	0	-3	
Reclassification	20 272	0	6 146	0	0	-26 148	270	
<i>Incl. EU and Domestic government grants</i>	15 388	0	3 882	0	0	-19 270	0	
Carrying amount of assets sold and written off	-59	0	-30	0	0	-281	-370	
Depreciation and impairment of fixed assets	-19 240	-510	-4 585	-510	-55	0	-24 900	
<i>Incl. EU and Domestic government grants</i>	-7 342	0	-472	0	0	0	-7 814	17
31.12.2020								
Cost	454 066	4 307	82 464	1 515	1 189	10 498	554 039	
<i>Incl. EU and Domestic government grants</i>	159 340	0	11 724	0	0	0	171 064	
Accumulated depreciation	-209 592	-983	-48 516	-792	-979	0	-260 862	
<i>Incl. EU and Domestic government grants</i>	-39 453	0	-1 550	0	0	0	-41 003	
Carrying amount 31.12.2020	244 474	3 324	33 948	723	210	10 498	293 177	
Movements in 2021								
Acquisitions and improvements	164	0	1 704	0	28	29 138	31 034	
<i>Incl. leased assets</i>	0	0	894	0	0	0	894	
Addition of right-to-use assets	0	216	0	0	0	0	216	
Reclassification	20 559	0	3 572	0	0	-22 542	1589	
<i>Incl. EU and Domestic government grants</i>	13 828	0	2 110	0	0	-15 938	0	
Carrying amount of assets sold and written off	-13	0	-3	0	0	0	-16	
Depreciation charge/impairment of fixed assets	-16 214	-517	-4 484	-402	-58	-49	-21 724	
<i>Incl. EU and Domestic government grants</i>	-6 439	0	-643	0	0	0	-7 082	17
31.12.2021								
Cost	471 607	4 523	86 409	1 515	1 150	17 045	582 249	
<i>Incl. EU and Domestic government grants</i>	173 168	0	13 834	0	0	0	187 002	
Accumulated depreciation	-222 637	-1 500	-51 672	-1 194	-970	0	-277 973	
<i>Incl. EU and Domestic government grants</i>	-45 892	0	-2 193	0	0	0	-48 085	
Carrying amount 31.12.2021	248 970	3 023	34 737	321	180	17 045	304 276	

In addition to the movement between construction in progress and buildings, the cost of inventories used in the construction of property, plant and equipment is also reclassified.

In 2021, fixed assets were sold at a sale price of 891 thousand euros (2020 sales price: 245 thousand euros). Profit on the sale of assets are recognised in the statement of comprehensive income under other operating income in the amount of 871 thousand euros (2020: 156 thousand euros), see also Note 11.3.

The Company has fully amortised property, plant and equipment at cost:

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Buildings (buildings and facilities)	52 237	55 114
Machines and devices	22 226	22 866
Other equipment	814	879
Total	75 277	78 859

As at 31 December 2021 and 31 December 2020, no assets of the Company were pledged as loan collateral.

Note 4: Intangible Assets

<i>In thousands of euros</i>	Intangible asset	Software project in progress	Total intangible assets
31.12.2019			
Cost	3 970	0	3 970
Accumulated depreciation	-3 106	0	-3 106
Carrying amount 31.12.2019	864	0	864
Changes in 2020			
Acquisitions and improvements	0	894	894
Reclassifications	952	-887	65
Depreciation and impairment of fixed assets	-429	0	-429
31.12.2020			
Cost	4 922	7	4 929
Accumulated depreciation	-3 535	0	-3 535
Carrying amount 31.12.2020	1 387	7	1 394
Changes in 2021			
Acquisitions and improvements	223	1471	1 694
Reclassifications	62	-26	36
Depreciation and impairment of fixed assets	-418	0	-418
31.12.2021			
Cost	5 208	1452	6 660
Accumulated depreciation	-3 954	0	-3 954
Carrying amount 31.12.2021	1 254	1 452	2 706

Projects in progress includes the development of the traffic management system, the expected completion of which is planned for 2026.

Note 5: Inventories

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Road administration spare parts	4 482	3 948
Spare parts for Telecom and Security Systems	1 648	1 296
Electricity agency spare parts	309	343
Other inventories	104	114
Total inventories	6 543	5 701

The Company did not write down obsolete or unusable inventories during 2021 and 2020.

Note 6: Receivables and Prepayments

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Trade receivables	2 653	2 365
Government grants not received from the state budget for operating expenses to ensure the balance of income and expenditures of (Note 17)	14 592	0
Government Grants Receivables (Note 17)	132	841
Tax prepayments (Note 10)	1 567	1 598
Deposits with maturities over three months	0	8 500
Prepaid expenses	153	169
Other short-term receivables	3	3
Total receivables and prepayments	19 100	13 476

Movements of allowance for doubtful accounts:

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Impairment balance at the beginning of the reporting period	628	75
Write-offs for the reporting period (Note 12.2)	81	553
Receivables received during the reporting period	-252	0
Receivables written off during reporting period	-370	0
Impairment balance at the end of the reporting period	87	628

Note 7: Changes in Equity

7.1 Share capital

All shares of AS Eesti Raudtee are owned by the Republic of Estonia. They are governed and exercised by the Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and Infrastructure at the General Meeting of Shareholders.

As at 31 December 2021, the Company's share capital amounted to EUR 80,303 thousand euros (2020: 80,303 thousand euros) and was made up of 80,302,814 ordinary shares of the same class and a par value of 1 euro each. All shares have been fully paid for.

Each share grants the holder the right to attend general meetings of the Company and carries one vote in decisionmaking. All shares have equal rights when it comes to distribution of profits or allocation of liquidation proceeds on the Company's potential liquidation.

According to the Company's articles of association, the maximum authorised number of ordinary shares is 127,823,296 and the maximum authorised share capital amounts to 127,823 thousand euros.

7.2 Statutory reserve capital

In 2021 the statutory reserve capital was increased by 354 thousand euros (2020: 445 thousand euros).



Note 8 Loans and Lease Liabilities

Loan and lease liabilities as at 31.12.2021

<i>In thousands of euros</i>	Balance	Incl. non-current portion	Incl. current portion	Maturity date	Interest rate
					6 months euribor +
Swedbank loan agreement	18 992	16 962	2 030	15.12.2025	0,95%
EIB loan agreement	10 000	10 000	0	04.10.2046	0,32%
Lease liabilities	5 845	4 461	1 384		average 1,55%
Total loan and lease liabilities	34 837	31 423	3 414		

Total loan and lease liabilities 31.12.2020

<i>In thousands of euros</i>	Balance	Incl. non-current portion	Incl. current portion	Maturity date	Interest rate
					6 monts euribor +
Swedbank loan agreement	20 000	18 993	1 007	15.12.2025	0,95%
Lease liabilities	6 274	4 833	1 441		average 1,55%
Total loan and lease liabilities	26 274	23 826	2 448		

In 2021, interest expense on bank loans and bonds amounted to EUR 189 thousand (2020: EUR 229 thousand) (Note 13).

Net debt

<i>In thousands of euros</i>	Cash and cash equivalents	Loan liabilities with repayment up to 1 year	Loan liabilities with repayment over 1 year	Total
Net debt 31.12.2019	18 922	-6 321	-24 484	-11 883
Loans received		0	-20 582	-20 582
Loans repaid		6 389	18 724	25 113
Reclassification from long-term to short-term		-2 516	2 516	0
Net debt 31.12.2020	36 467	-2 448	-23 826	10 193
Loans received		0	-11 108	-11 108
Loans repaid		2 546	0	2 546
Reclassification from long-term to short-term		-3 512	3 512	0
Net debt 31.12.2021	36 526	-3 414	-31 422	1 690

The Company has a loan agreement with Swedbank with a repayment term of 15 December 2025.

On the 04 March 2020 the Company entered into a loan agreement with the European Investment Bank (EIB) for a loan amounting 95 million over a period of 25 years. The purpose of the loan is to finance the company's investment plan for the modernization of the Estonian railway network. In 2021, the said loan has been drawn by EUR 10 million with the repayment term of 4 October 2046.

As at 31 December 2021 and 31 December 2020, the Company's assets have not been pledged as collateral for loans.

Note 9: Trade Payables and Other Liabilities

<i>In thousands of euros</i>	31.12.2021	31.12.2020
Liabilities on goods and services	9 383	6 409
<i>incl liabilities for property, plant and equipment</i>	4 604	3 946
Other liabilities	89	5
Accrued liabilities to employees	3 138	2 710
Tax liabilities (Note 10)	723	695
Deferred income	676	1 321
Total	14 009	11 140

Note 10: Prepaid Taxes and Tax Liabilities

<i>In thousands of euros</i>	31.12.2021		31.12.2020	
	Tax prepayment	Tax liabilities	Tax prepayment	Tax liabilities
Value added tax	1 035	0	1 270	0
Income tax	0	238	0	226
Income tax on fringe benefits	0	8	0	1
Social security tax	0	436	0	424
Funded pension tax	0	12	0	17
Unemployment insurance tax	0	29	0	27
Balance of prepaid taxes	532	0	328	0
Total	1 567	723	1 598	695

Note 11: Revenue and other Income

11.1 Revenue by activities

<i>In thousands of euros</i>	2021	2020
Infrastructure services	29 718	28 695
Rental income	496	499
Sale of inventory	745	806
Other services*	1 826	1 095
Total sales revenue	32 785	31 095

* Other services include telecommunications services, energy sales and other one-off services (examination, wagon mediation, etc.).

11.2 Revenue by geographical areas

<i>In thousands of euros</i>	2021	2020
Total sale to the EU countries		
Estonia	32 645	30 881
Latvia	57	80
Lithuania	41	4
Other countries	13	5
Total sales to countries outside the EU		
Russia	29	125
Total sales revenue	32 785	31 095

Major part of the Company's sales revenue comes from rendering services to companies under the dominant influence of the Republic of Estonia. Also refer to transactions with related parties in Note 16.

11.3 Other operating revenue

<i>In thousands of euros</i>	2021	2020
Gain on sale of property, plant and equipment	871	156
Fines, penalties and rewards	274	191
Financing from the Government grants for operating expenses (Note 17)	14 592	24 100
Financing from the Government grants for operating income (Note 17)	7 082	7 814
Other operating income	208	410
Total other operating income	23 027	32 671

Note 12: Operating Expenses

12.1 Goods, materials and services

<i>In thousands of euros</i>	2021	2020
Raw materials and consumables	1 316	1 991
Services purchased for resale	843	473
Tehnolocigal electricity	1 847	879
Railway repair and maintenance	2 581	1 479
Real estate maintenance	854	724
Repair and maintenance of means of transport	679	595
Maintenance of telecommunications, electricity and safety systems	584	483
Freight security services	820	805
Other rail transport services	323	603
Total goods, materials and services	9 847	8 032

12.2 Other operating expenses

<i>In thousands of euros</i>	2021	2020
Lease and rental charges, right of superficies	448	421
Electricity	420	256
Utilities	502	485
Office expense	822	629
Business travel expense	38	31
Training expense	130	84
National and local taxes	325	320
Insurance services	202	194
Spare parts and maintenance of cars	23	20
Outsources services	343	468
Information services	48	93
Other staff costs	430	218
Environmental costs	24	501
Bad debt (Note 6)	-289	553
Other expenses	44	24
Total other operating expenses	3 510	4 297

12.3 Personnel expenses

<i>In thousands of euros</i>	2021	2020
Remuneration, performance fees, holiday pay and bonuses	14 329	14 048
Taxes on personnel expenses	4 403	4 363
Total personnel expense	18 732	18 411
Number of employees		
Number of employees at the beginning of the period	672	698
Number of employees at the end of the period	683	672
Average number of employees	675	686

Note 13: Financial Income and Expense

<i>In thousands of euros</i>	2021	2020
Interest income	32	61
Interest expense	-334	-388
incl. interest expense on loans	-189	-229
interest expense on finance lease	-145	-159
Profit/loss from foreign currency translation differences	38	2
Total financial income and expenses	-264	-325

Note 14: Income Tax

The statement of financial position does not recognize a potential income tax liability representing the amount of tax that would have to be paid if all of the Company's retained earnings were distributed as dividends is not recognised in the statement of financial position. The income tax payable on the distribution of dividends is recognised as an expense in the period in which the dividends are declared.

As at 31 December 2021, the Company's undistributed profits totaled EUR 91 341. Considering the Commercial Code's requirement to transfer at least 5% of the financial year's net profit to statutory reserve capital, it is possible for the Company to make distributions from its retained earnings as 31 December 2021 in amount up to EUR 91 341 thousand (2020: EUR 91 341 thousand). The maximum income tax liability that would arise, if all of the undistributed profits were distributed as dividends as at 31 December 2021, amounts to EUR 18 268 thousand (2020: EUR 18 268 thousand), net dividends amounts to EUR 73 073 thousand (2020: EUR 73 073 thousand).

According to the profit allocation proposal made by the Management Board, in 2021 the Company will not distribute dividends.

Note 15: Contingent Assets, Contingent Liabilities and Contractual Commitments

Potential liabilities arising from the tax audit:

The tax authority has neither initiated nor conducted the Company's tax audit or individual case review for the period 01.01.2021-31.12.2021 nor period 01.01.2020-31.12.2020. The tax authorities have the right to inspect the company's tax records for up to 5 years from the filing date of the tax return and to determine the additional amount of tax, interest and fines if errors are detected. According to the management of the company, there are no circumstances which could lead the tax authorities to impose a significant additional amount on state-owned enterprises.

Liabilities arising from construction contracts

As at 31 December 2021, the company has entered into agreements for the years 2022 to 2045, of which the liabilities arising until the end of the agreement period total to EUR 186.1 million (2020: EUR 183.5 million).

The most important construction contracts are related to the following investment projects:

- Upgrading security systems across infrastructure
- Modernization of level crossings
- Modernization of the traffic management system

Liabilities arising from government grants

The European Union Cohesion Fund has the right to recover funds in the event of a breach of the grant agreement. As at 31 December 2021, 160 million euros had been received from such government grants (31 December 2020: 150 million euros).

Pending court cases:

1) OÜ Muldkeha filed a claim against AS Eesti Raudtee for unjust enrichment and damages in the amount of 1,221 thousand euros. The court accepted the action on 24 January 2020. AS Eesti Raudtee does not recognize the claim. The land on which the embankment was based was not privatized to the applicant via pre-emption right due to the dismantling of the railway by the applicant in 2004. The embankment can no longer be considered a building. The land under the embankment was left in state ownership and the embankment became an important part of the property. The State refused to establish the right of superficies in favor of the applicant and in 2018 established the right of superficies in favor of Eesti Raudtee. The Harju County Court made a decision on 22 June 2021, by which partially satisfied OÜ Muldkeha claim and ordered compensation from Eesti Raudtee in favor of OÜ Muldkeha in the amount of 739,283.52 euros plus default interest. AS Eesti Raudtee filed an appeal against the decision of the Harju County Court with the Tallinn Circuit Court on 21 June 2021. The circuit court hearing took place on 2 February 2022. On 10 March 2022, the circuit court annulled the decision of the Harju County Court and made a new decision to dismiss the action in full. The plaintiff has the right to file an appeal in cassation with the Supreme Court.

As of 31 December 2021, AS Eesti Raudtee has formed a provision to cover possible court expenses in the amount of 856,090 euros.

2) At 12 November 2018, AS Eesti Raudtee filed an action with the court in respect of the partially unpaid user fee for the single rides of AS Operail locomotives over the period of three years in the amount of 6,152 thousand euros plus default interest of 244 thousand euros. At 20 November 2018, the court accepted the action for proceedings. In its response, AS Operail does not acknowledge the claim related to the fixed cost of the user fee of single locomotive rides and filed objections. AS Eesti Raudtee has negotiated a compromise settlement with AS Operail. No agreement has been reached to the satisfaction of both parties.

A preliminary sitting was held on 18 June 2020. On 29 June 2020, the court proposed to the parties to compromise on the amount for about a quarter of the claim i.e. 1.3 million euros. The parties had to notify the court of the compromise no later than 28 August 2020. AS Eesti Raudtee has negotiated a compromise settlement with AS Operail. AS Operail did not agree with this compromise. A preliminary hearing was held on 29 October 2020 where the parties explained their views. The next preliminary hearing was to take place on 14 January 2021, but the court wanted to hold a hearing at the end of March. AS Operail requested that the proceedings be suspended or the hearing adjourned for 8 months in connection with the Supreme Court's decision in administrative matter no. 3-16-2653.

The court has not yet adjudicated the request and no new hearing time has been set.

3) On 9 July 2020 Labor Inspectorate initiated a procedure no 3-1/20/331 to verify compliance with the requirements provided for in the legislation regulating occupational health, safety and employment relations. The Labor Inspectorate has pointed out the following main violations: § 48 (1) of the TLS: there is no agreement for the implementation of on-call time and / or the remuneration is less than 1/10 of the agreed salary; § 48 (2) of the TLS: rest periods are not guaranteed by the on-call time agreement; § 46 (1) of the TLS: working time exceeds 48 hours and 7 days on average; § 51 (1) of the TLS: violation of the requirements for daily rest time; § 52 (1) of the TLS: less than 48 hours of consecutive rest; OHS § 13 (1) 3): no new work environment risk analysis has been performed. On 23 April 2021, the Labor Inspectorate issued three precepts for the elimination of deficiencies and set a deadline for the elimination of deficiencies on 1 July 2021. The Labor Inspectorate has terminated the proceedings regarding the elimination of the deficiencies.

Note 16: Related Party Transactions

The Management Board of the Company discloses transactions with members of the management body and related companies, as well as transactions with railway companies controlled or dominated by the Republic of Estonia.

The contracts of the members of the Management Board provide for severance pay in the amount of 3 months' remuneration in case of removal of a member of the Management Board. No provision has been made for the benefit in the statement of financial position.

Balances with related parties

In thousands of euros

Receivables

Entities related with members of the Management and Supervisory Boards

23

9

Government related railway entities

2 433

2 406

Liabilities

Entities related with members of the Management and Supervisory Boards

129

373

Government related railway entities

617

1 286

Transactions with related parties

In thousands of euros

Services sold

Entities related with members of the Management and Supervisory

130

37

Government related railway entities

30 011

27 635

Services purchased

Entities related with members of the Management and Supervisory

5 974

1 525

Government related railway entities

2 563

1 797

Remuneration and benefits to management

364

357

Note 17: Government Grants

Government grants receivable (Note 6)

In thousands of euros

	31.12.2021	31.12.2020
Government grant receivable for the purchase of property, plant and equipment	126	842
Government grant receivable from the state budget for operating expenses to ensure the balance of income and expenditures of the company	14 592	0
Other government grant receivables	6	0

Government grants for operating expenses

In thousands of euros

	2021	2020
Government grant received from the state budget for operating expenses to ensure the balance of income and expenditures of the company (Note 11.3)	14 592	24 100
Other government grants received	36	0

Government grants for assets

In thousands of euros

	2021	2020
Liabilities related to government grants at the beginning of the period	142 570	133 666
EU funds (purchased fixed assets)	109 234	104 026
EU funds (prepayments received)	2 361	5 993
Domestic government grants	25 296	19 814
Prepaid domestic government grants for fixed assets	5 679	3 833

Movements during the accounting period

Increase in government grants for acquired fixed	12 334	16 718
EU funds	9 117	8 615
Domestic government grants	3 217	8 103
Recognition of liabilities acquired through government grants in income	-7 082	-7 814
EU funds	-6 036	-7 039
Domestic government grants	-1 046	-775

Long-term liabilities related to government grants at the end of the period

147 822	142 570
EU funds (purchased fixed assets)	110 598
EU funds (prepayments received)	4 078
Domestic government grants	31 329
Prepaid domestic government grants for fixed assets	1 817

On 28 December 2015, the Company and the Ministry of Economic Affairs and Communications entered into a financing agreement to ensure the five-year-balance of income and expenditures for the period of 5 years. The contract has been prolonged till 31 December 2025. Overall user-centered performance targets are important for funding in the following areas: train performance in terms of train path speed and reliability, network capacity, level of safety, volume of activity, environmental protection and consumer satisfaction. As the objectives set out in this agreement are not related to the acquisition of direct fixed assets, the funds received are recognized as government grants.

At 28 June 2018, Annex 4 to the funding contract "Investments for special purposes in 2018-2020" was concluded, on the basis of which the Company was paid EUR 21.5 million for funding its investment projects in 2018, including renovation of Tallinn-Tartu and Tapa-Narva railway lines and increasing speed to 135 km/h, as well as construction of Riisipere-Turba railway line. In 2021, additional amount of 3.3 million euros was allocated to finance the same investment projects. During 2021, the Company used 7.1 million euros of the government grants received (2020: 5.9 million euros).

The Company has the obligation to ensure that the assets are properly maintained and used for the designated purpose for a period of five years after the project's eligibility period has expired.

Note 18: Events After the Balance Sheet Date

On February 24, 2022, the aggression of the Russian Federation in the Republic of Ukraine began. In order to pursue a common foreign and security policy, the European Union has agreed on certain sanctions against Russian and Belarusian banks, companies and individuals. The list of sanctions also includes Russian Railways, which performs the functions of the railway administration of the Russian Federation. Investment services to Russian Railways are prohibited.

Eesti Raudtee does not provide these services. Due to the functions of the Estonian Railway Administration, Eesti Raudtee mediates payments between Estonian and other railway undertakings of the Railway Transport Council, including Russia and Belarus, therefore their impact on Eesti Raudtee's financial results is insignificant when imposing additional restrictive measures on Russian Railways.

A significant part of the revenue of Eesti Raudtee (approx. 1/3) is from the infrastructure usage fee received from transport companies serving transit in Russia and Belarus. In the event of a complete interruption of the transit or trade embargo, the liquidity risk is hedged by a financing agreement concluded between Eesti Raudtee and the Ministry of Economic Affairs and Communications.



INDEPENDENT AUDITOR'S REPORT

To the Shareholder of aktsiaselts Eesti Raudtee

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of aktsiaselts Eesti Raudtee (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

Ettevõtte raamatupidamise aastaaruanne sisaldab:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Annual Report, Management report and GRI Content Index (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Management report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the financial statements

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

In preparing the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Lauri Past
Auditor's certificate no. 567

Kristiina Veermäe
Auditor's certificate no. 567

AS PricewaterhouseCoopers
Licence No 6
Pärnu mnt 15, 10141 Tallinn

18 March 2022
Tallinn, Estonia

Profit Distribution Proposal

Net profit of AS Eesti Raudtee for the year 2021 was 0 euros.

The Management Board of AS Eesti Raudtee proposes to the General Meeting of shareholders to confirm the retained earnings EUR 91,341 thousand.

Signatures of the Management Board

The annual report of AS Eesti Raudtee for the year ended 31 December 2021 consists of the management report, the annual financial statements, the independent auditor's report and the loss allocation proposal.

The Company's Management Board has prepared the management report, the annual financial statements and the loss allocation proposal.

Kaido Zimmermann
Chairman - CEO

Andrus Kimber
Vice-chairman - CFO

Arvo Smiltiņš
Member of the Management board - technical director

18 March 2022

List of Business Activities

Business activity	EMTAK code	2021	2020
Infrastructure services	52219	29 342	28 419
Lease and rental services	77391	417	154
Purchased and resold energy	35141	994	599
Telecommunications services	61901	376	290
Real estate services, rental of building and premises	68201	497	499
Sale of inventory	45311	745	806
Other services	82991	414	328
		32 785	31 095

GRI CONTENT INDEX

The annual report of Eesti Raudtee has been prepared in accordance with the requirements of the most widely used Global Reporting Initiative (GRI) standard for sustainability reporting. The report covers those environmental, social, responsible management and market behavior issues that are most relevant to Eesti Raudtee operations, keeping in mind the impact and stakeholder expectations.

GRI standard	Number	Disclosure	Page numbers in report and/or explanation
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Reporting basis (GRI 101: 2016)

General Disclosures (GRI 102: 2016)

Organisational Profile

102-1	Name of the organisation	3
102-2	Activities, brands, products, and services	35-45
102-3	Location of headquarters	3
102-4	Location of operations	6-8
102-5	Ownership and legal form	3, 8
102-6	Markets served	36-39
102-7	Scale of the organisation	8, 25, 60-61, 124
102-8	Information on employees and other workers	60-61, 122 (All activities are carried out by own employees, except for subcontractors in project-based procurement.)
102-9	Supply Chain	51 As a result of the company's activities, trains must be able to move smoothly and safely on the railway. To ensure this, the company carries out the following activities itself, through subcontractors and procuring goods from suppliers: - rail maintenance; - maintenance of telecommunication and security systems; - technical and property management; - electricity supply; - traffic management; - ensuring security and safety; - supply of materials; - construction and development; - various support functions.
102-10	Significant changes to the organization and its supply chain	Change in Supervisory Board members
102-11	Precautionary principle or approach	52
102-12	External initiatives	73
102-13	Memberships of associations	31

Strategy

102-14	Statement from senior decision-maker	10-11
102-15	Key impacts, risks, and opportunities	20-21, 27-28

Ethics and Integrity		
102-16	Values, principles, standards and standards of conduct	18, 20-21, 27
102-17	Identification and resolution of ethical issues	69
Governance		
102-18	Governance structure	24-26 (The ultimate responsibility for social and environmental issues lies with the Management Board of AS Eesti Raudtee)
Stakeholder Engagement		
102-40	List of stakeholder groups	The company's most important stakeholders are employees, customers, passengers, suppliers and subcontractors, cooperation partners and other organizations in the field, sole shareholder and public sector institutions and the wider Estonian public.
102-41	Collective bargaining agreements	67
102-42	The way in which interest groups are involved	Stakeholders are considered to be parties directly involved in the activity, whose activities affect the company or who are affected by the company's activities, and the public.
102-43	Approach to stakeholder engagement	18-19, 21, 30, 40-41 (In addition: communication with closer stakeholders takes place in the course of daily work (see GRI 102-40). The expectations of a wider range of stakeholders for the company's activities were mapped at the end of 2019 through an online survey as part of the preparation of the annual report. A customer satisfaction survey was also conducted in 2021).
102-44	Key topics and concerns raised	18-19, 21
Reporting Practice		
102-45	Entities included in the consolidated financial statements	AS Eesti Raudtee has no additional consolidation entities.
102-46	Defining report content and topic Boundaries	3, 20-23
102-47	List of material topics	19, 21
102-48	Restatements of information	No restatements.
102-49	Changes in reporting	This is the company's third GRI-compliant report and covers a wider range of topics than previously reported.
102-50	Reporting period	3
102-51	Date of most recent report	Previous annual report was released 30.04.2021
102-52	Reporting cycle	The report is prepared annually. According to the State Assets Act, interim reports are prepared and published quarterly.
102-53	Contact point for questions regarding the report	Monika Lilles (monika.lilles@evr.ee)
102-54	Claims of reporting in accordance with the GRI Standards	The report complies with the standard of International Global Reporting Initiative (GRI) and is based on the basic requirements of the standard.
102-55	GRI content index	118-121
102-56	External Assurance	The compliance with GRI requirements are not controlled by a third party.

Sustainability focus topics

Quality, Continuous Operations, Capacity, Accuracy of Schedules

Management Approach (GRI 103: 2016)	103-1 to 103-3		40-41
	non-GRI	Performance indicators	41

Economic Performance (GRI 201: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		76-79
	201-1	Direct economic value generated and distributed	76-79

Indirect Economic Impact (GRI 203: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		20-23
	203-1	Infrastructure investments and services supported	78-79
	203-2	Significant indirect economic impact	20

Purchasing Principles (GRI 204: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		51
	204-1	Purchases from local suppliers	51

Anticorruption (GRI 205: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		27
	205-1	Operations assessed for risks related to corruption	As a result of an overall risk assessment covering the entire company, it is known which risks may be involved in corruption (in particular in relation to procurement).
	205-2	Communication and training about anticorruption policies and procedures	27. The principles are accessible to all employees. All staff with procurement, decision-making and managerial responsibilities must participate in the training.
	205-3	Confirmed incidents of corruption and actions taken	In 2021 there were no cases or procedures involving employees or subcontractors.

Energy (GRI 302: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		44, 53-54
	302-1	Energy consumption within the organisation	53

Biodiversity (GRI 304: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		57
	304-1	Operational sites on protected areas or of high biodiversity value	57

Emissions (GRI 305: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		53-54
	305-1	Direct (Scope 1) GHG emissions	53 (Data only for those boiler houses for which the company is obliged to measure ambient air emission)
	305-7	Nitrogen oxides (NO _x), sulphur oxides (SO _x), and other significant air emissions	Nitrogen oxides NO_x – 0,34 tons sulphur oxides SO_x – 0,05 tons Particulate matters in total PM – 0,02 tons Volatile organic compounds VOC – 0,08 tons Carbon dioxide CO₂ – 270,17 tons Carbon oxide CO – 0,25 tons Data only for those boiler houses for which the company is obliged to measure ambient air emissions.
	non-GRI	Electrification	19, 53

Effluents and Waste (GRI 306: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		55-56
	306-2	Waste by type and disposal method	56 (The company does not calculate the amount of non-hazardous waste. Hazardous waste is handed over to a waste company, there is no overview of the exact method of disposal)
	306-3	Significant spills	56

Environmental Approach (GRI 307: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		52-57
	307-1	Non-compliance with environmental laws and regulations	There were no non-compliances.

Employment (GRI 401: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		60-69
	401-1	New employee hires and employee turnover	60 (The company operates in one country and therefore does not keep records by smaller regions.)
	non-GRI	Other indicators of the collective	60-61, 122

Occupational Health and Safety (GRI 403: 2018)

Management Approach (GRI 103: 2016)	103-1 to 103-3	67
	403-1 to 403-7	67
	403-9	Work-related injuries, absences and days lost, fatal accidents at work
	non-GRI	Safety training for employees
		67, There were no accidents with employees in 2021.
		46, 67

Training and Education (GRI 404: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	68-69
	404-1	Average hours of training per year per employee
		68 (As both men and women have equal opportunities to participate in the trainings, the company does not keep records by gender.)
	404-2	Programs for upgrading employee skills and transition assistance programs
		68-69 (There are no development programs after the termination.)
	404-3	Percentage of employees receiving regular performance and career development reviews
		All employees pass will be evaluated by performance and development talks
	non-GRI	Leadership development programs
		69

Diversity and Equal Opportunity (GRI 405: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	69
	405-1	Diversity of governance bodies and employees
		60-61, 124

Non-Discrimination (GRI 406: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	69
	406-1	Incidents of discrimination and corrective actions taken
		69 (no cases occurred)

Local Communities (GRI 413: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	58-59, 70-71
	413-2	Operations with significant actual and potential negative impacts on local communities
		53, 58-59
	non-GRI	Complaints received from residents
		53

Customer Health and Safety (GRI 416: 2016)








Management Approach (GRI 103: 2016)	103-1 to 103-3		46-49
	416-1	Assessment of the health and safety impacts of product and service categories	Safety risks have been assessed throughout the railway infrastructure and core business.
	non-GRI	Safety and security indicators	49
	non-GRI	Safety awareness in society	47, 73

Socioeconomic Compliance (GRI 419: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3		24-29
	419-1	Non-compliance with laws and regulations in the social and economic area	27



Table of employees as at 1 January 2022

	Members of the Management Board and Management		Other office workers (excluding the board and management), engineers and so-called technical staff		Workers		Total
							
Number of employees under 30			13	5	5		23
Number of employees aged 30–49	3		83	92	63		241
Number of employees aged 50 and over	3	1	95	197	109	10	415
- incl. employees 60 and over			34	77	42	5	158
- incl. employees in pensioner age group			16	36	23	2	77
Number of employees in total:	6	1	191	294	177	10	679
Percentage of permanent employees (excl. members of the Management Board) (% of all employees in the category)							100%
Number of employees under 30			6	2	2		10
Number of employees aged 30–49			19	10	3		32
Number of employees aged 50 and over	2		8	7	10		27
- incl. employees 60 and over			1		1		2
- incl. employees in pensioner age group			1			1	2
	2	0	33	19	15	0	69
New employment contracts in total:	0	0	21	17	18	0	56
Number of employees under 30			1	3	3		7
Number of employees aged 30–49			10	4	5	1	20
Number of employees aged 50 and over			6	16	7	1	30
- incl. employees 60 and over			4	14	4	1	23
- incl. employees in pensioner age group			3	11	3	1	18
Number of contracts ended during the year:			17	23	15	2	57

