

Annual Report 2020





AS Eesti Raudtee 2020 Annual Report consists of sustainability, corporate social responsibility, good corporate governance (GCG), accounting and management 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 2020
- End of financial year: 31 December 2020
- 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
- Supervisory Board: Sven Pertens (Chairman), Rene Varek, Carri Ginter, Kaie Karniol, 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 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.

We own, develop, operate, maintain and upgrade the majority of the public railways in the Republic of Estonia.

We are responsible for efficient supervision and safety of rail traffic.

We connect Estonia with neighbouring countries Latvia and Russia through Narva, Koidula and Valga railway border stations.

We are a railway administration appointed by the Minister of Economic Affairs and Infrastructure, representing Estonia in cross-border railway agreements.

We operate as the region's railway competence centre.

8



**1219 km
of railways**

(incl. 225 km of
electrified track)



**61 railway
stations**



**129 passenger
platforms**

**150 years
of history**

We continue the work of the Baltic Railway Society on whose initiative train traffic was opened in Estonia in 1870.



672

employees across Estonia



**Representative
office in Moscow**

(Russian Federation)

9

We are members of several organisations that promote responsible management:



We also participate in several railway industry networks (the full list is disclosed on page 43).

STATEMENT OF THE MANAGEMENT BOARD

The year 2020 turned out to be full of challenges for a number of companies, including Estonian Railways. It was marked by changes, adapting to new circumstances and consistent action to ensure sustainability of rail operations. We are pleased to state that while several companies needed to postpone their capital expenditures due to complicated circumstances, the ambitious goals of Estonian Railways concerning its infrastructure were launched in 2020. Our company has begun to implement a very thorough capital expenditure plan until 2030, taking the quality, traffic management and safety to the next level.

We launched infrastructure modernisation

We can be proud that in 2020 we secured sustainable funding for our major projects, arranged several successful and large-scale procurements and concluded contracts. In the first half of the year we signed a 95-million loan contract with the European Investment Bank at favourable terms for the period of 25 years. We have also received significant support from the state for increasing our share capital as well as raising state funds. One of the key steps in attaining our goals was undoubtedly conclusion of a massive contract for modernisation of the traffic management system with the cost of slightly over EUR 115 million, in the framework of which we are planning to upgrade the security systems in six rail sections and about 50 railway stations on the infrastructure of Estonian Railways. This in turn will create preconditions for high-quality, effective and safe rail passenger and freight traffic on our infrastructure.

One of the focus topics for the current decade is the reduction of the transmission of greenhouse gases, for the purpose of which the Government of the Republic launched electrification of the railway network in 2019. The first major goal is to complete the Aegviidu–Tapa–Tartu overhead catenary by the end of 2024 that is in compliance with the procurement contract concluded with AS Eesti Liinirongid (Elron) in 2020 to purchase new electric trains and that enables the passengers take an electric train from Tallinn to Tartu in 2024. In 2020, we took our first step in this direction and concluded a technical solution and preliminary project for expansion of the railway overhead catenary. We also adopted a resolution in 2020 that we will be using electricity only from renewable sources starting from 2021.

Customer focus

Over the years we have become more open and inclusive in our communication with customers and we wish to continue on this path. Last year, we completed a business plan which we coordinated with our major customers. We value satisfaction of our end-customers – to this end we further enhanced the company's structure and set up the Commercial Department for better customer relationship management. A key activity is to lower the infrastructure user fees on freight transport for the purpose of increasing freight volumes on our infrastructure. We can contribute to the fulfilment of the state's goals concerning the railway sector by improving the infrastructure quality while taking account of the customer development plans and using competitive user fees.

We celebrated our major anniversary

Despite the year 2020 setting a number of restrictions for us due to the spread of the COVID-19 virus, we found solutions how to foster cooperation among the employees at the company, teach them new skills and improve the Company's processes. As a responsible employer, we did everything in our power to prevent the spread of COVID-19 by protecting employees and arranging rail traffic as well as providing inevitable railway maintenance, repair and construction works. In 2020, one measure was to allow a number of our employees to work remotely for the purpose of preserving traffic management on the infrastructure. All major gatherings, events, information exchanges and training courses were arranged digitally. Still, we are pleased that we were able to celebrate the 150th anniversary of rail traffic. We believe that the railway trolley ride of rail companies in the Baltic Station early in the morning of the 5th of November and the TV programme "Terevisioon" dedicated to the jubilee event were festive occasions appreciated by the railway workers and enthusiasts. We were also able to hold the seniority badge event where those who have worked at Estonian Railways for a long time received well-deserved recognition.

Focus is on safety

As the operator of the railway infrastructure, safety is of utmost importance for us. All major projects are directly related to safety and with their help, we are taking infrastructure to the next security and quality level. In 2020, we continued with our plan to erect barriers at level crossings and also started to make level crossings safer; we also erected additional safety fences. We consider it crucial to install information signs at the crossings of Estonian Railways – they enable getting help faster in a state of emergency.

Financial performance

While our performance was modest in the first half of the year, the year-end demonstrated a slight pick-up in activity on your infrastructure – oil shale transport and crude oil transit from Belarussia started to recover. While speaking of freight volume, it can be stated that the year was full of challenges, but we are pleased that the addition of new transport companies enables us to make more optimistic forecasts for this year. In 2020, the total freight volume was 11.5 million tonnes which is 12.7% less than in 2019. Therefore, we need to make a special effort with rail freight companies, freight operators and ports to ensure a steady increase and efficient cooperation with neighbouring countries in the transit freight flow in the years to come.

Although the popularity of travelling by train has increased from year-to-year, it was impacted by the spread of the COVID-19 virus in 2020. This was true both for domestic as well as international rail service. However, we believe that once the virus recedes, the situation will improve in 2021 and passengers will once again prefer the most environmentally-friendly means of transport. The EU has designated 2021 as the European Year of Rail, thus we are hopeful about our future.

Management Board of Estonian Railways

KEY FINANCIAL INDICATORS IN 2020



Sales revenue
EUR 31.1
million

(2019: 39.5)



EBITDA
EUR 32.7
million

(2019: 29.7)



Net profit
EUR 7.1
million

(2019: 8.9)



Equity
EUR 176.1
million

(2019: 159.0)



Investments
EUR 32.0
million

(2019: 31.5)



Total assets
356.9
million

(2019: 342.6)



Domestic freight
volume
1.3
million tonnes

(2019: 2.1)



International freight
volume
10.2
million tonnes

(2019: 11.1)



Number of
railway accidents/
casualties/ fatalities
9 / 7 / 4

(2019: 9 / 8 / 6)



Number of
local passengers
5.0
million

(2019: 7.0)



Number of
international passengers
0.02
million

(2019: 0.11)



Number of
accidents at work/
fatalities
3 / 0

(2019: 1 / 0)



KEY EVENTS IN 2020



January

CV-Online Estonia published the results of the annual survey of top employers, finding the most attractive employers in Estonia. Estonian Railways as the only railway sector's company ranked 10th among the companies in the transportation and logistics sector.

February

President recognised long-term railway worker Aare Arandi with the Order of the White Star.

Seven new safety ambassadors of Estonian Railways passed the railway safety training course of Operation Lifesaver Estonia.

March

A 25-year loan contract was concluded with the European Investment Bank (EIB) with the volume of EUR 95 million to be used for funding capital expenditures related to the transition to automated traffic management.

April

The Government of the Republic decided to increase the share capital of Estonian Railways by EUR 10 million to ensure the Company's capability of implementing the project for modernisation of train safety systems throughout the infrastructure.

May

A railway safety week took place, the key message of which was "Look Left and Right, and Let the Train Pass!".

June

Estonian Railways concluded a contract for automation of its traffic management processes with the Spanish company INDRA SISTEMAS S.A. Its purpose is to automate and digitalise the processes related to traffic management, organisation of traffic by train controllers, and collection of statistical data for analysis.

July

Estonian Railways hosted two groups of students who helped to clean platforms from graffiti. Besides work education, the project also had another advantage – the youth learned about the railway world and listened to the lecture on railway safety.

August

The employees of Estonian Railways participated in the clean-up day of the Estonian Museum Railway in Lavassaare in order to help the museum get ready for the 150th anniversary of the Estonian railway.

The Minister of Economic Affairs and Infrastructure signed a decree in which the expectations of the owner towards the public limited company Estonian Railways were updated.

A collaboration agreement was concluded with Rail Baltic Estonia OÜ for fulfilment of joint goals related to the reconstruction of the Ülemiste Railway Station.

September

Eesti Post issued a postmark to commemorate the 150th anniversary of the Estonian railways.

Estonian Railways launched activities to construct the railway Turba–Rohuküla.

A satisfaction survey of the employees Estonian Railways was carried out throughout the Company.

October

Estonian Railways participated as a partner in the video contest "Mini Nega-vatt2020" of the Environmental Investment Centre targeted at elementary school children. The school children were expected to submit environmentally-friendly solutions on the topic "The World Taken Over by Cars".

Riigikogu (the Parliament) adopted the new Railways Act.

November

Railway workers celebrated the 150th anniversary of the train traffic in Estonia and that of the Baltic Station with a unique rail trolley ride.

Estonian Railways concluded a large-scale contract for control command and signalling (CCS) modernisation with the cost of a little over EUR 115 million. Within the framework of the contract, the train safety systems on six sections and approximately 50 stations of the infrastructure of AS Eesti Raudtee will be upgraded.

Work was launched to build the railway bridge over the Emajõgi River.

A wage agreement was concluded between Estonian Railway Workers' Trade Union and Estonian Railways for the year 2021.

December

150 level crossings on the infrastructure of Estonian Railways were supplied with information signs which provide information about the correct location and contacting the authorities.

The reconstruction of Paldiski Station was completed. It was the last station on the infrastructure of Estonian Railways at the end of 2020 where traffic management was performed manually.

A collaboration contract with Tallinn University of Applied Sciences and Estonian Railways was signed.

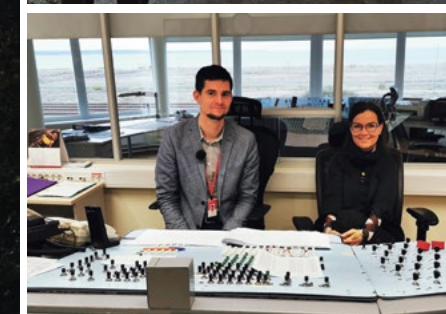
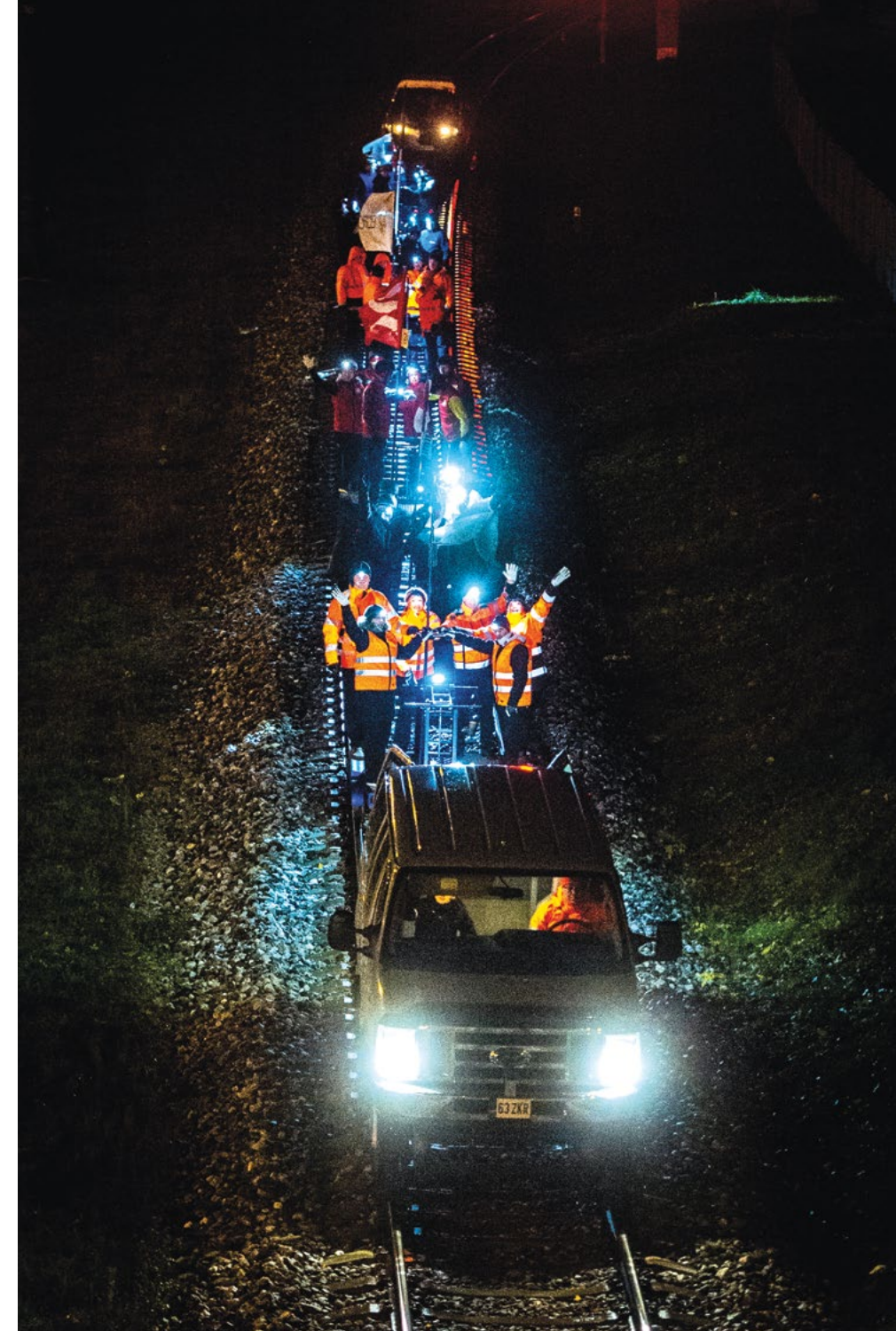
Eesti Railways celebrated the festive 150th anniversary of rail traffic

The year 2020 was a special year for Estonian Railways. The first wide-gauge railway in Estonia (Baltic Railway) was opened to traffic on the Paldiski – Tallinn – Narva – Gatchina section on 5 November 1870 and it was connected to the St. Petersburg – Warsaw railway in the same year. This means that on 5 November 2020, rail traffic in Estonia celebrated its 150 years of operations.

In September, a postmark in collaboration with Eesti Post was released. It depicts the Chairman of the Baltic Railway Association Alexander von der Pahlen, with Narva's railway station and the freight locomotive "Fire Horse" including passenger cars in the background. 12,000 copies of the anniversary postmark of the Estonian railway were printed and together with the postmark, traditionally the first day's envelope and stamp were released. The whole set was designed by artist Indrek Ilves. This postmark was named as the most beautiful postmark of 2020 by popular vote.



First Day Cover



In the early morning on 5 November 2020, the railway workers organised a special anniversary rail trolley rally. The railway operators Eesti Raudtee, Edelaraudtee, Go Rail, Operail, Rail Baltic and Elron celebrated the 150th anniversary of the establishment of the Estonian railway network with the joint ride on manual trolleys from the Tallinn-Väike train station to the Baltic Station which as the central train station of the country also celebrated its 150th anniversary. In addition to the trolley ride, at the festive occasion in the Baltic Station Erik Laidvee, the Chairman of the Management Board of Estonian Railways and Tiit Pruuli, the member of the Supervisory Board of Go Group held speeches. Besides, an information stand was opened in the Baltic Station depicting the Estonian railway as well as the Baltic Station throughout their history.

On the same morning, the TV programme "Terevisioon" was broadcast on ETV (Estonian Television) that was dedicated to the birthday of the Estonian rail traffic.

Estonian Railways prepared an interactive timeline that can be viewed on the homepage that was specially designed for the event: <http://www.evr150.ee>.

REWARDS AND RECOGNITIONS IN 2020



- **The Company once again received the Corporate Responsibility gold level 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 Estonian Railways is in compliance with the requirements of the international standard **ISO 9001:2015**. The regular external audit conducted in 2020 confirmed that we are still in compliance with it.
- **The team of Estonian Railways participated in the series of competitions “The Most Athletic Public Institution 2020”** and achieved a 3rd place in the overall ranking.
- On 8 February 2020, Estonian Railways was recognised at the **armoured train no 7 “Wabadus”** event of the Estonian War Museum – General Laidoner Museum for helping with the project and organising the traffic of the armoured train.
- 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.



BUSINESS PHILOSOPHY

Guiding principles

Estonian Railways is a company with a 150-year history. In accordance with the new version of the Railways Act adopted in 2020, its responsibilities include railway infrastructure management, operation, maintenance and modernisation of the public railway network as well as participation in the development of the railway infrastructure.



VISION

to be the region's most advanced railway infrastructure manager.



MISSION

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



VALUES

cooperation, honesty, innovation and professionalism.

Owner's expectations

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 owner's expectations for Estonian Railways have been formulated by the resolution of the sole shareholder in August 2020. It states that the holding administrator has been classified as a predominantly public purpose company under the State Assets Act. Through the company, the state ensures that an open and transparent access to the public railway infrastructure of Estonian Railways is provided to all market participants and so is a smooth railway connection between Estonian ports and neighbouring countries with 1520 mm gauge railway networks.

In achieving the objectives of public interest, Estonian Railways primarily follows the action plan for developing the public railway infrastructure for the years 2019–2024 adopted by the Government of the Republic on 21 February 2019. The action plan also takes account of the activities in the national plan "Eesti 2030+".

Strategy of Estonian Railways for 2019–2024

All the activities of Estonian Railways are related to the fulfilment of the strategic and operational objectives approved by the Company's Supervisory Board. The Company's strategy is based on the shareholder's expectations, vision, mission and values as well as the laws, norms and national strategies that guide the Company's operations.

The strategy of Estonian Railways for the years 2019–2024 is based on four pillars:

- **INFRASTRUCTURE:** modern and self-sustaining company with fully automated traffic management, and safe and optimal infrastructure;
- **TRAINING AND DEVELOPMENT:** value-based, environmentally-friendly and socially responsible corporate culture, and professional and motivated employees;
- **CUSTOMERS:** increasing the volume of passenger and freight transport in cooperation with customers, incl. expansion of the target group of customers;
- **INTERNAL PROCESSES:** optimised and digitised processes, vision zero in railway safety.

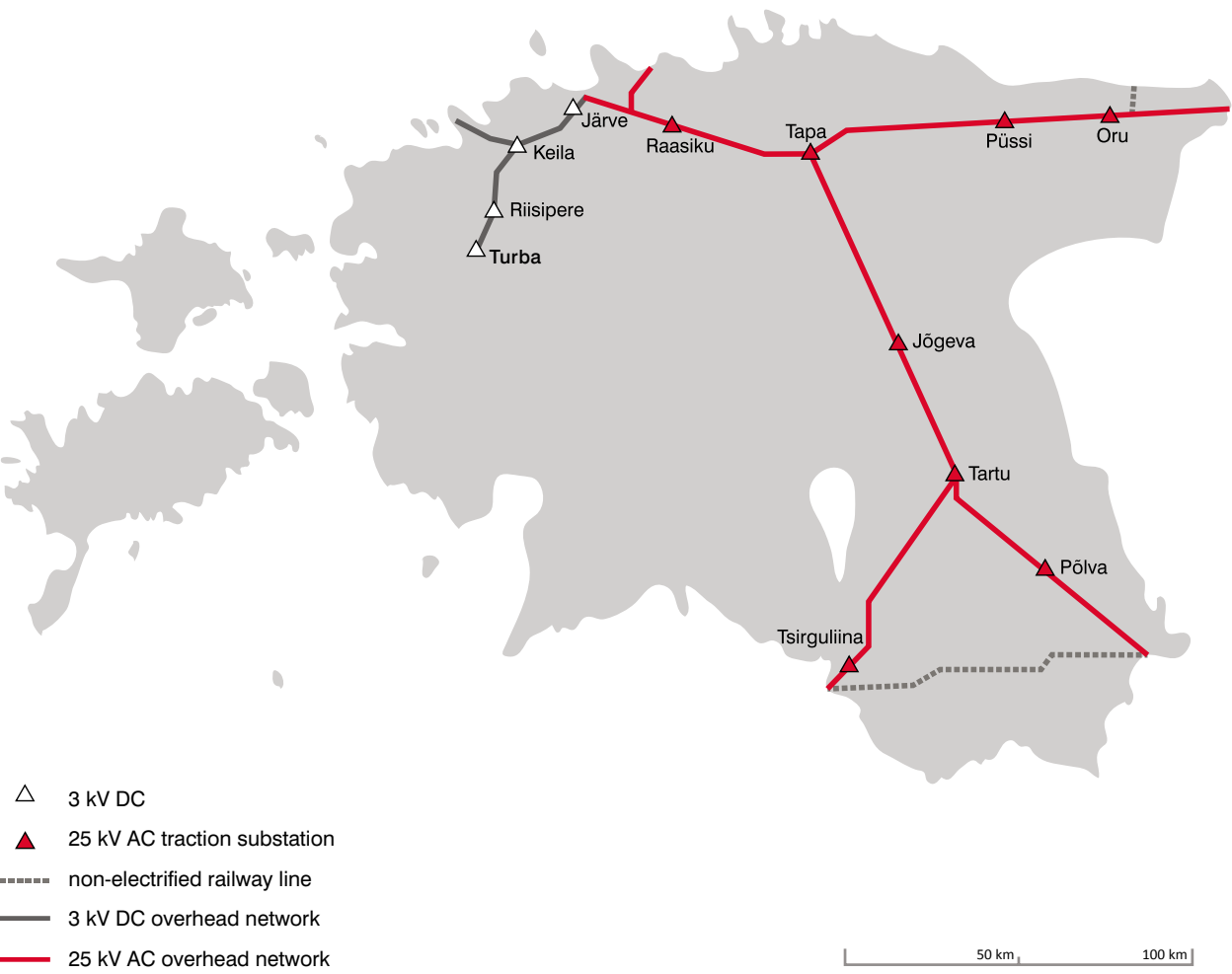
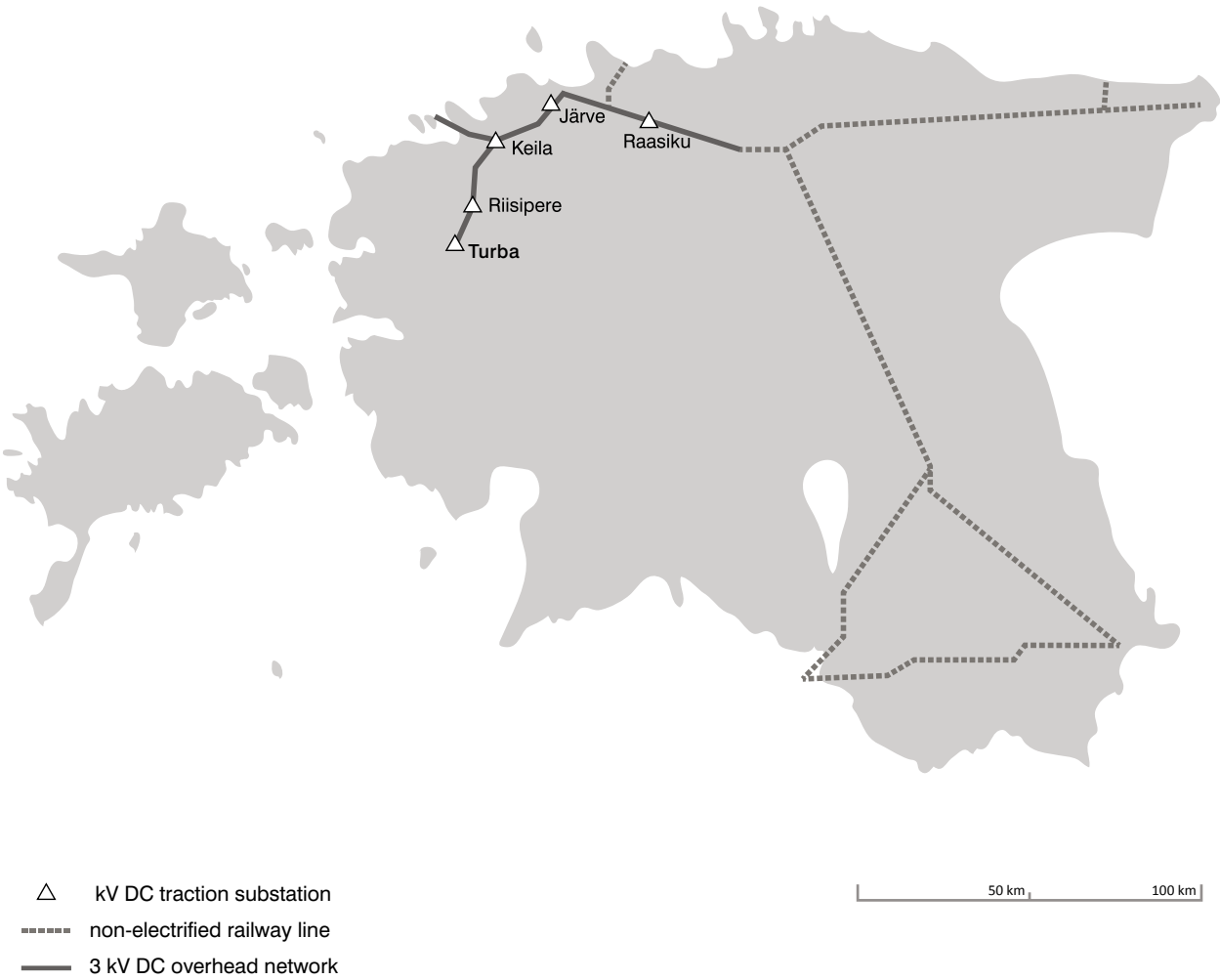
The strategy includes the business plan of Estonian Railways for 2019–2024. According to the business plan, the key investments will be made in digitalization and automation of traffic arrangement processes, modernisation of railway safety systems, increasing of the rail capacity, speed and electrification of the railway on Lääne-Harjumaa line. The business plan will facilitate optimum and efficient use, availability and development of the railway infrastructure, and will foresee a necessary funding balance and monetary resources to attain these goals.

In 2017, Estonian Railways launched reconstruction of the Haapsalu/Rohuküla railway. In 2019, the Riisipere–Turba section was opened and EUR 2 million was allocated from the state budget for 2020 for the design of the railway between Turba and Rohuküla. Procurements were announced to prepare the main projects of Turba–Ellamaa and Ellamaa–Risti railway sections.

The Government also decided at its cabinet meeting on 27 June 2019, that in order to lower greenhouse emissions, a railway electrification project shall be prepared. Designing the first sections of the electric railway was launched in 2020. The goal is to carry out procurement for preparation of the technical solution for electrification and preparation of preliminary projects. By autumn we had fulfilled this goal and following the procurement, contracts have been concluded with two Spanish companies and works are proceeding. The first major goal of this project is to build the overhead catenary of Estonian Railways on Aegviidu–Tapa–Tartu sections, enabling passengers to take an electric train from Tallinn to Tartu in 2024.



Electrified railway lines in 2020



Electrified railway lines by 2028

SOCIAL IMPACT OF OUR ACTIVITIES



As an infrastructure company, we play a significant role in the development of the Estonian society. The infrastructure of Estonian Railways forms the majority of the public railway network of the Republic of Estonia. The railway is an artery that impacts the development of life and business around it. Almost 80% of the Estonian population lives in the impact area of the railway. With our activities, we create opportunities for the mobility of people and goods, employment and environmentally-friendly transport.

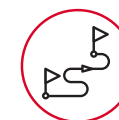


Our role in stimulating economic growth:

Good transport connections and services contribute to economic growth and business development, especially through boosting freight exports and tourism.

In 2020 when most companies need to postpone their investments and development plans into future, Estonian Railways launched large-scale investments. Last year, it invested EUR 32 million in improvement of safety and quality of the infrastructure, thereby creating new jobs and securing large procurement contracts for contractors. In 2021, the volume of investments will be almost EUR 53 million. In this way Estonian Railways will help boost economy with its counter-cyclical activities.

The owner has also instructed Estonian Railways to help increase freight volumes on the Estonian national railway. One of the instruments for improvement of the competitive position of the Estonian railway sector is railway infrastructure user fees. The average infrastructure user fees of Estonian Railways have decreased by more than 40% in tonne equivalent in 2015-2020, i.e. ca 17% in tonne kilometres, decreasing from EUR 2.27 per tonne in 2015 to EUR 1.30 per tonne in 2020.



Our role in people's mobility:

The railway offers a wider range of opportunities for people's daily movements and travel. Well-organised rail transport is convenient, fast and safe. 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:

As a link between the regions, 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 transport is an environmentally-friendly alternative to air and road transport. The scale effect and electrification of the Estonian railway infrastructure play a role in this.

In October 2019, the Government of the Republic approved Estonia's positions on the strategy developed by the European Commission to achieve climate neutrality by 2050. Full electrification of the railway would reduce CO2 emissions by ca 60,000 tonnes on average per year by 2050, and rerouting freight transport to rail would lead to a reduction of 37,000 tonnes of CO2 on average per year and acquisition of electric trains by AS Eesti Liinirongid (Elron) of 7,500 tonnes of CO2 per year.

In recent years, the Estonian state-owned railway logistics company AS Operail has increased the capacity of container trains in Estonia, introduced new routes and today container trains weighing more than 1,000 tonnes run from Tartu to the ports of Muuga and Sillamäe. One commercial trailer truck carries only 27 tonnes of freight at a time. In this way one freight train replaces more than 30 commercial vehicles. In 2020, it is estimated that freight companies have replaced ca 14,000 commercial vehicle trips by rail.

Shifting of transportation from road to rail increases road safety and reduces environmental pollution throughout the sector. Replacing commercial vehicles by rail transport will help alleviate the burden on the country's main roads and will reduce fuel consumption three to four times.



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.

All of this is based on responsible management practices. The Estonian state as the owner has also set this expectation for us - our ambition is to be a role model to Estonian companies in terms of good management practices, social responsibility and a strong business culture.

Focus topics of responsible action

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.

Similarly to 2019, the Company was awarded the gold level quality label of the Estonian Corporate Responsibility Index in 2020.

Corporate responsibility is already strongly intertwined in the daily operations of Estonian Railways, and we increasingly wish to contribute to the development of the society, the well-being of our employees and the protection of the environment. To this end, in 2019 we developed an action plan for responsible business for 2019–2021.

Along with creating the action plan, we also assessed the expectations of stakeholders regarding our responsible action. We asked our staff and external stakeholders what in their opinion should our main focus in terms of the social and environmental impact and management practices be.

Based on the input, we formulated the priority topics of corporate 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 organisational culture and fight against corruption;
- open communication in order to maintain the role of a reliable partner among all stakeholders.



Role in achieving 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. In 2019, we conducted an initial assessment of how and to which UN sustainable development goals our activities can contribute, and we supplemented this assessment in 2020.



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.



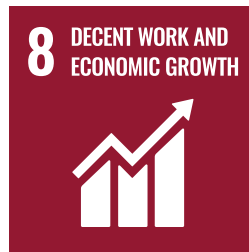
Keywords relevant to us:

- 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:

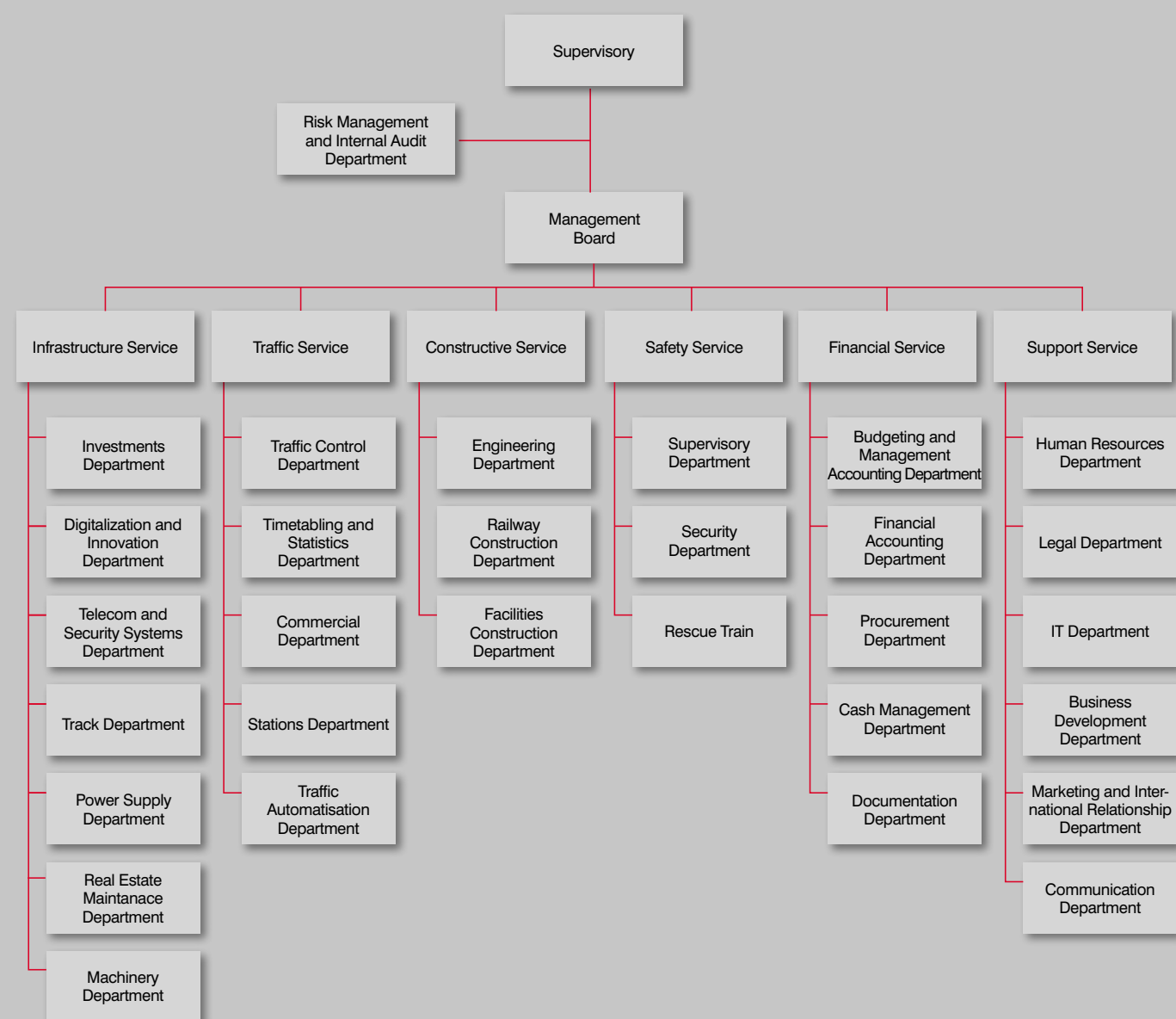
- Connector of urban, suburban and rural areas;
- Viability of rural areas;
- Sustainable urbanisation;
- Multi and intermodality;
- Accessible, convenient, economical and safe public transport.

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



MANAGEMENT

Organisational chart



Corporate Governance Report

General meeting

The Regular General Meeting presided by the Minister of Economic Affairs and Infrastructure approved the annual report for 2019.

Supervisory Board

Until 15 May 2020, the Supervisory Board had five members: Priit Rohumaa (Chairman), Siiri Lahe, Ain Tatter, Raigo Uukkivi and Enn Veskimägi. Since 15 May 2020, the Supervisory Board has six members: **Sven Pertens** (Chairman), Carri Ginter, Kaie Karniol, Indrek Laineveer, Kaido Zimmermann and Rene Varek. Since February 2021, Kaido Zimmermann was removed from the Supervisory Board due to his election as the Chairman of the Management Board in March.

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 operations and those with the cost of EUR 400,000 or higher. 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 2020, the Supervisory Board held eight meetings and adopted five resolutions without calling a meeting. One member of the Supervisory Board did not participate in one Supervisory Board meeting, the other members of the Supervisory Board participated in all meetings. One member of the Supervisory Board did not participate in voting by letter on two occasions.



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. Until 10 June 2020, the members of the Audit Committee were Jaak Annus (Chairman), Roman Laidinen and Priit Rohumaa and since 10 June 2020, 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 25 March 2020, the members of the Safety Committee were Tarmo Vahemets (Chairman), Dago Antov, Sirle Loigo and Tauno Suurkivi. Since 25 March 2020, Raigo Uukkivi was elected as an additional member of the Safety Committee. Since 10 June 2020, the members of the Safety Committee are Tarmo Vahemets (Chairman), Dago Antov, Sirle Loigo, Tauno Suurkivi and Kaido Zimmermann (member until February 2021).

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.

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 2020, the Management Board held 58 meetings.

Two members of the Management Board may jointly represent the public limited company in all legal proceedings whereby one of them needs to be the Chairman or Vice Chairman of the Management Board. Two members of the Management Board jointly hold the sub-delegation right whereby one of them needs to be the Chairman or Vice Chairman of the Management Board.

In 2020, the member of the Management Board was Chairman/CEO Erik Laidvee and Vice Chairman/CFO Andrus Kimber.



- In March 2021, **Kaido Zimmermann** became the Chairman of the Management Board. He has long-term experience in the railway area, having managed both AS Eesti Raudtee as well as worked as head of the Planning and Designing Department of RB Rail AS, a joint venture of Rail Baltic. He also has extensive knowledge in railway infrastructure and logistics, including international experience.



- The second member of the Management Board is **Andrus Kimber**, who has been Vice Chairman of the Management Board and CFO since October 2017. He has a strong financial and risk management background. He previously also has long-term management experience from being a member of the Management Board and working as the Head of Credit Department at SEB Bank and he also has managed the Environmental Investment Centre.

The members of the Management Board are not members of the management boards of other companies and neither are they chairmen of the supervisory boards of other companies.

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 2020, the Chairman of the Management Board/CEO Erik Laidvee and the Vice Chairman/CFO Andrus Kimber received bonuses totalling two and half month 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:

- shareholders
- members of the Supervisory Board
- members and responsibilities of the Audit Committee and Safety Committee
- members of the Management Board
- articles of association
- information about paid benefits and donations
- information about the auditor
- decisions of the regular general meeting
- public procurement plan
- corporate governance report
- annual reports
- interim financial statements
- operating rules
- network statements
- normative traffic schedule
- price list

Value-based organisational culture

In 2020, the members of the Supervisory Board and Management Board, heads of the structural units involved in procurements, members of procurement committees and other key employees with the declaration obligations disclosed their business interests and involvement in other companies arising from the procedure for prevention of conflicts of interest at Estonian Railways. This prevents potential violations of the employees' procedural restrictions.

As a state-owned company we need to be always fully transparent in our activities from beginning to end. During the last several years, we have consciously paid a lot of attention to fostering governance culture and business ethics, and as an organisation have made huge progress in this respect and in the anti-corruption battle. Our effects have also been noticed outside the Company and we have been asked to share our experience in this field with other companies. Our Risk Management and Internal Audit Departments have given lectures to the members of the management and supervisory boards of public companies and non-profit organisations on the topics of governance, internal control as well as prevention of corruption. We also shared our experience in the review "CORRUPTION as CORROSION" of the Corruption Crime Bureau of the Central Criminal Police about how bad incidents may benefit a company. We also prepared videos about tipping in collaboration with the NGO Corruption-Free Estonia that were distributed to companies.

Over the last three years, we have involved our employees in laying down the Company's values, strengthened governance arising from annual goals, introduced management reporting and enhanced the internal control system. We encourage employees (by recognising 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.

Our goal is to take all the necessary measures in the prevention of corruption to reduce possible cases of fraud and corruption. The most important of these measures are:

- code of values and ethics;
- regular review of the functioning of risks, controls and internal audit, activities of structural units in the Management Board, Audit Committee and/or Supervisory Board;
- identification of fraud and corruption risks in the risk register;
- procedures for avoiding conflicts of interest and regular declarations of interests;
- limits and principles for making and receiving gifts;
- random background checks for employees to the extent permitted and available in public databases;
- defined responsibilities and powers, decentralization of responsibilities;



- regular analysis of the purchase and sales ledger;
- approval of procurement procedures and weekly holding of procurement meetings with independent members;
- cooperation with law enforcement agencies and NGO Corruption-Free Estonia;
- establishing the guidelines for reporting misconduct (incl. misconduct procedure) and determination of channels (telephone, e-mail, hotline, questionnaire);
- more wider registration of incidents;
- preparation of the long-term training plan (corruption prevention and risk management) and arrangement of regular training courses.

In 2020, 120 employees took part in corruption prevention training courses. In addition, a separate anti-corruption training session was provided to the members of the Management Board, Supervisory Board and Audit Committee. Estonian Railways has been organising corruption prevention training courses for its employees over the last six years, and we consider it important to keep regularly arranging also in the future.

In 2020, there were no company-related cases of corruption or other significant non-compliance with the law.

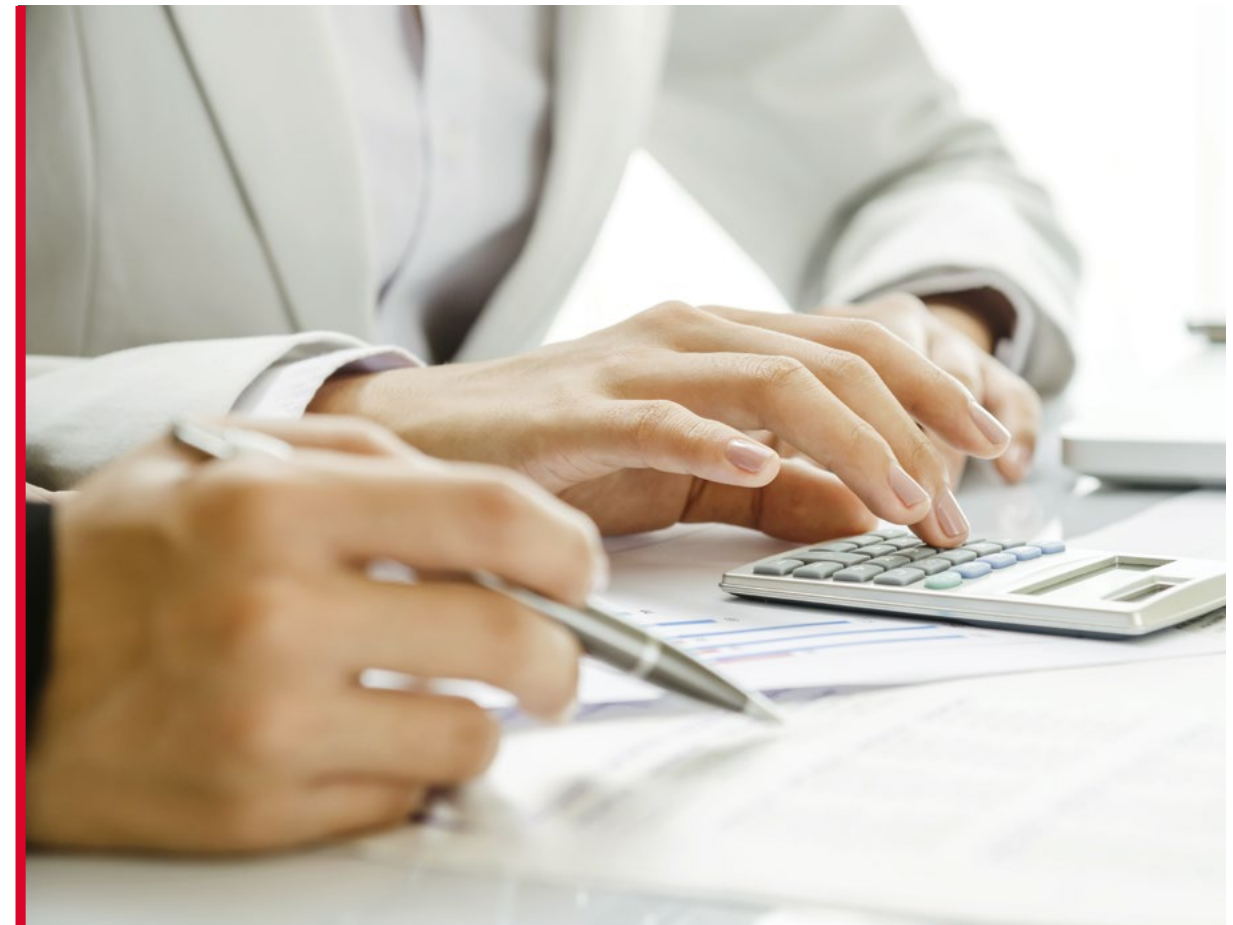
Risk management

Through risk management, the Company obtains assurance that its 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. In the course of the internal control system and risk management, people are appointed who are responsible for the effective management of risks.

Risks and risk categories:

Financial risks	Operational risks	Strategic risks	Compliance risks
Liquidity risk	Safety	Political environment	Regulations
Credit risk	Business continuity Processes	Decline in freight transport volumes	Claims for damages
Interest rate risk	Staff	Insufficient financing of infrastructure	Capacity allocation
Currency risk	Technology and IT	Investing capacity	
Market price risk	Safety and environment		
	Arrangement of assets and inventories		
	Procurements and contracts		
	Fraud, theft and vandalism		



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. Part of the risk assessment process is workshops where we review the characteristics that affect and trigger the risk and analyse the suitability and effectiveness of the mitigation measures that have been implemented.

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.

In 2020, Estonian Railways identified and managed 104 risks.

In 2020, Estonian Railways launched a large-scale investment programme, the successful implementation of which will greatly depend on risk management of various projects and on how thoroughly the Company will be able to manage the factors contributing to realization of risks. For this, we require that our contractors follow the risk management principles of Estonian Railways. Such an approach ensures that all parties manage risks in a similar manner, a company is aware of the highlighted risks and how to mitigate them.

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.

The management's responsibility is to:

- make sure that the Company's safety management system functions and the intended results are achieved by it;
- ensure that the safety management system complies with the Company's strategy, guiding principles and goals;
- promote the process-based approach at the Company, and safety and risk-based thinking;
- ensure availability of necessary resources for ensuring safety;
- inform, guide and support employees so that they would help increase the effectiveness of safety at the Company;
- promote positive safety culture and continuous improvement of the safety level;
- determine clear roles, duties and responsibilities of the structural units and employees.

The general principles of the safety management system are uniform throughout Europe and its underlying message is: safety must be an integral part of the daily operations of each railway operator. Estonian Railways is in compliance with all the safety measures laid down in various regulations; however, the Company has set an even higher goal for safety.

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

- follow international and national legislative acts and company-wide safety requirements;
- adopt only such communication and safety equipment that would ensure uninterrupted communication and safe rail traffic;
- with our partners we ensure safety and security on freight transport, and are involved in prevention, reaction to accidents and liquidation of their consequences;
- identify the circumstances of accidents, incidents, emergency situations and other cases endangering rail traffic, assess risks and apply additional preventive measures;
- ensure employee competencies for working in their positions (necessary training courses and mentoring);
- 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;
- have laid down the conditions and safety requirements for maintenance and railway infrastructure, and oversee that they are followed by the railway operators and cooperation partners.



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. In order to attain permanent success in quality management, it is necessary to engage cooperation partners. Feedback of each customer and co-operation partner provides an opportunity to create additional value and it is important to understand their current and future needs.

In the internal control system of Estonian Railways, the processes, activities and functions of the Company constitute the second line of defence. With the help of mapping the value chain, we are able to better plan changes so as to more accurately forecast the outcome.

For more convenient mapping of the processes, we use the functionality of the Company's information management software and in 2021 we will take all upgraded processes into the new environment so that all employees would have an overview of the current processes and they could make amendments to the processes.

In 2020, the focus was on the following activities while rearranging internal processes:

- upgrading of the management system manual;
- organisation of construction works;
- launch of the certification process of collaboration partners;
- upgrading of freight accounting;
- upgrading of incident processing;
- partial digitalization of the operations of stations.

We pay major attention to continuous upgrading and internal auditing of the management system. We take into account the proposals of those involved, audits are conducted at different services and audit teams consist of at least three members.

COMMUNICATION WITH STAKEHOLDERS

Open communication

Estonian Railways wants to be a reliable partner for all stakeholders. We are making a conscious effort to improve internal and external communication. In communication with internal and external stakeholders, we value clarity, openness and honesty.

In 2020, COVID-19 had a major impact on the Company and therefore, we started our day by informing our employees so as to give them an overview of the situation and convey important messages to protect their health. Due to remote work and halting the spread of the virus, we conducted our meetings and exchange of information on digital platforms.

In its communication, Estonian Railways focuses on:

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

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 2020, our media coverage items totalled 1,414 (2019:2129), of which 155 (236) were positive, 64 (83) were negative and 653 (926) were neutral. The share of positive news remained at the same level as in 2019. In 2020, the share of negative news was 7% (2019: 6.7%), while the share of positive news was 18% (19%).



Since 2019, we issue a more comprehensive annual report in compliance with the GRI index, in which we more thoroughly deal with various aspects of our activities and also tie the respective topics with the UN sustainable development goals. In 2020, we increased the number of our followers on Facebook to 1,500 people, created a LinkedIn account for the Company, and actively shared railway and safety related topics with the general 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.

Cooperation and membership

The European railway policy is influenced by three freight transport organisations: Community of European Railways CER, collaboration platform of the European railway infrastructure companies PRIME and collaboration organisation of railway companies OSJD, in whose work also Estonian Railways participates. In 2020, Estonian Railways joined the North Sea – Baltic Sea Rail Freight Corridor (RFC NS-B) and a non-profit organisation set up to organise its work by concluding a Corridor One-Stop-Shop (C-OSS) agreement with the German railway infrastructure company DB Netz AG. With the help of the freight corridor, the necessary volume is coordinated and ensured, and the requirements and procedures of various countries for promoting international freight transport are harmonised. On 9 December 2020, the general assembly of RailNetEurope (RNE) decided to accept Estonian Railways as its member from 1 January 2021.

With the authorisation of the Minister of Economic Affairs and Infrastructure, Estonian Railways fulfils the role of a railway administration in international communication and represents Estonia in the Baltic Rail Transport Council (Sovet) of the CIS and Baltic States. The membership provides an opportunity to meet frequently with all the representatives of the countries with the 1,520 mm gauge railway, thus protecting the interests of Estonian Railways and transport companies in the matters of rolling stock economy, safety, infrastructure, IT development and establishment of international fees and tariffs.

The year 2020 was significant for Estonia since the virtual meeting server that is essential for all the members of Sovet was run from Tallinn. Approval of the new version of the guideline that takes also account of the position of Estonian Railways "Procedure of the joint activities of the railway administrations of the Commonwealth of Independent States (CIS), Republic of Latvia, Republic of Lithuania and Republic of Estonia in official investigation of train safety violations relating to train and manoeuvring work" and a joint engine technical pass were also significant.

The activities of Estonian Railways in the development of the 1,435 mm gauge railway network are related to the implementation of the EU regulatory environment and the construction of the Trans-European Transport Network (TEN-T) railway network, including to Estonian ports. An example is the Rail Baltic project, which will not only bring another gauge but also new requirements for traffic management and safety, and safety systems. The task of Estonian Railways is to ensure their interoperability with the existing railway 1,520 mm gauge infrastructure.

In 2020, under the leadership of the Logistics and Transit Association, the international transit conference TRANSESTONIA was organised in May 2020 that was dedicated to the development of the transport corridor between China and Scandinavia. Estonian Railways also participated in the conference and the main goal of the participants was to discuss and reach agreements on the further development of transportation between China and Sweden through Kazakhstan, Russia and Estonia.

Estonian Railways is associated with several organisations promoting responsible management. In 2004, we participated in the establishment of the NGO Operation Lifesaver Estonia (OLE), which is guided in its operations by the international principles of a similar global organisation. We are a founding member of the Estonian Environmental Management Association and have been represented on its board since 2006. We have a cooperation agreement with NGO Corruption-Free Estonia and we have joined their Honest Enterprise Network. Since 2019, we are a member of the Responsible Business Forum.

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), 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;
- 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;
- Intergovernmental Organisation for International Carriage by Rail (OTIF), based in Bern;
- Council of the CIS and Baltic Railways (Совет по железно-дорожному транспорту государств-участников Содружества) based in Moscow.

ACTIVITIES AND RESULTS IN 2020

Goal-based Management

In 2020, Estonian Railways focused on streamlining its key internal processes, developing infrastructure, raising the safety level as well as developing collaboration with customers and educational institutions. 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 2019–2024, 13 operating activities in four categories were set for the year 2020. The following table provides an overview of the fulfilment of the most important ones of them.



INFRASTRUCTURE

- Earnings before amortisation (EBITDA) EUR 29.3 million

- 85% of the investment plan was fulfilled

- EBITDA EUR 32.7 million, freight volume 11.5 million tonnes (–12.7% as compared to 2019), 99.9% of the operating expense budget was fulfilled

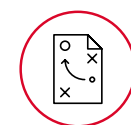
- 94% of the investment plan fulfilled.



CUSTOMERS

- Making the Company more customer-friendly

- A Commercial Department was established in traffic service and work procedures were upgraded, contract terms were renewed with the administrators of prong sections and users of service facilities



INTERNAL PROCESSES

- Fulfilling the traffic schedule (99%), maintaining the speeds of passenger trains and reducing the number of failures obstructing train traffic to 255.

- Preparation of the recovery plans related to business continuity, implementation of the information security work plan

- Continuation of the asset management project

- The traffic schedule under the influence of Estonian Railways was fulfilled by 99.0% for freight trains and 99.4% 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 174.

- A total of 12 recovery plans related to business continuity were prepared, the information security work plan was upgraded and 95% of it was implemented.

- The asset management strategy was prepared and the processing of infrastructure maintenance processes was taken to the D365 (ERP-system) environment within the framework of the pilot project.



LEARNING AND DEVELOPMENT

- Development of digital competencies of employees, launch of the E-training platform

- Upgrading of the recruitment concept to increase the attractiveness of the employer

- Signing of employment documents with employees occurs digitally, using Web-Desktop (information management system), and D365 has been linked to it and taken into use. Ten training courses were entered into the E-training platform, in addition, three railway safety training videos were prepared, etc.

- Recruitment advertisements were upgraded, a recruitment video was made. In addition, a yearbook in conformity with GRI was published on the website, events and job shadow days were organised for school students and jobs were promoted to them, an employee satisfaction survey was conducted, etc.

Based on the Company's strategy for 2019–2024, Estonian Railways has set the following thirteen goals for the year 2021:

- EBITDA of EUR 21.6 million
- Fulfilment of the investment plan to the extent of at least 85% (i.e. EUR 45.0 million) 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
- In terms of the electrification project, the technical solution and the preliminary project Aegviidu–Tapa–Tartu will be completed
- The assets that are not essential for train traffic, incl. 20 buildings, switches and station lines will be reduced
- Supporting the growth in sales volume, incl. renewal of customer contracts, transport documents will become electronic and customer feedback will be arranged
- Development of the contractor certification process, organisation of the IT development and administrative procedure and application of information management
- The functional and technical project for the infrastructure maintenance solution will be created
- Due to infrastructure failures, a maximum of 245 trains will be delayed
- The fulfilment of the traffic schedule of at least 99.1%
- Modernisation of automated equipment on railway crossings and improvement of their operability
- Launch of the training centre, establishment of the development programme for project managers, development of the management competence and team training courses
- Development of the employer brand concept, arrangement of the survey on employer attractiveness, use of new recruitment solutions, creation of traineeship opportunities



Financial Indicators and Ratios

	(million)	2020	2019	2018	2017	2016
Total operating income		63,8	62,8	63,0	45,8	43,3
Revenue		31,1	39,5	41,5	32,9	33,0
incl. infrastructure services		28,7	34,4	36,7	28,7	29,3
incl. other services		2,4	3,5	4,8	4,2	3,7
Other income		32,7	23,3	21,5	12,9	10,3
incl. government grants for assets		7,8	5,3	4,9	4,7	4,2
incl. government grants to achieve performance targets		24,1	16,0	16,0	7,5	5,0
incl. other income		0,8	2,0	0,6	0,8	1,1
Operating profit before depreciation and amortisation (EBITDA)		32,7	29,7	29,3	11,9	9,8
Net profit		7,1	8,9	8,6	–7,6	–10,8
Capital expenditure		32,0	31,5	26,4	13,8	14,5
Assets at year-end		356,9	342,6	334,1	304,2	301,4
Equity at year-end		176,1	159,0	150,1	141,5	149,1
Interest-bearing liabilities at year-end		26,3	30,8	30,2	33,9	37,8
<i>Interest-bearing liabilities / EBITDA (times)</i>		0,80	1,04	1,03	2,84	3,86
Equity-to-asset ratio (%)		49,4	46,4	44,9	46,5	49,5
Total operating expenses		56,4	53,6	54,1	53,0	53,4
incl. goods, materials and services		8,0	10,4	10,0	10,9	11,5
incl. miscellaneous operating expenses		4,3	3,8	5,2	4,5	4,6
incl. personnel expenses		18,4	18,2	18,2	18,2	17,0
incl. depreciation and amortisation		25,3	20,5	20,4	19,1	19,9
incl. other expenses		0,3	0,7	0,3	0,3	0,4

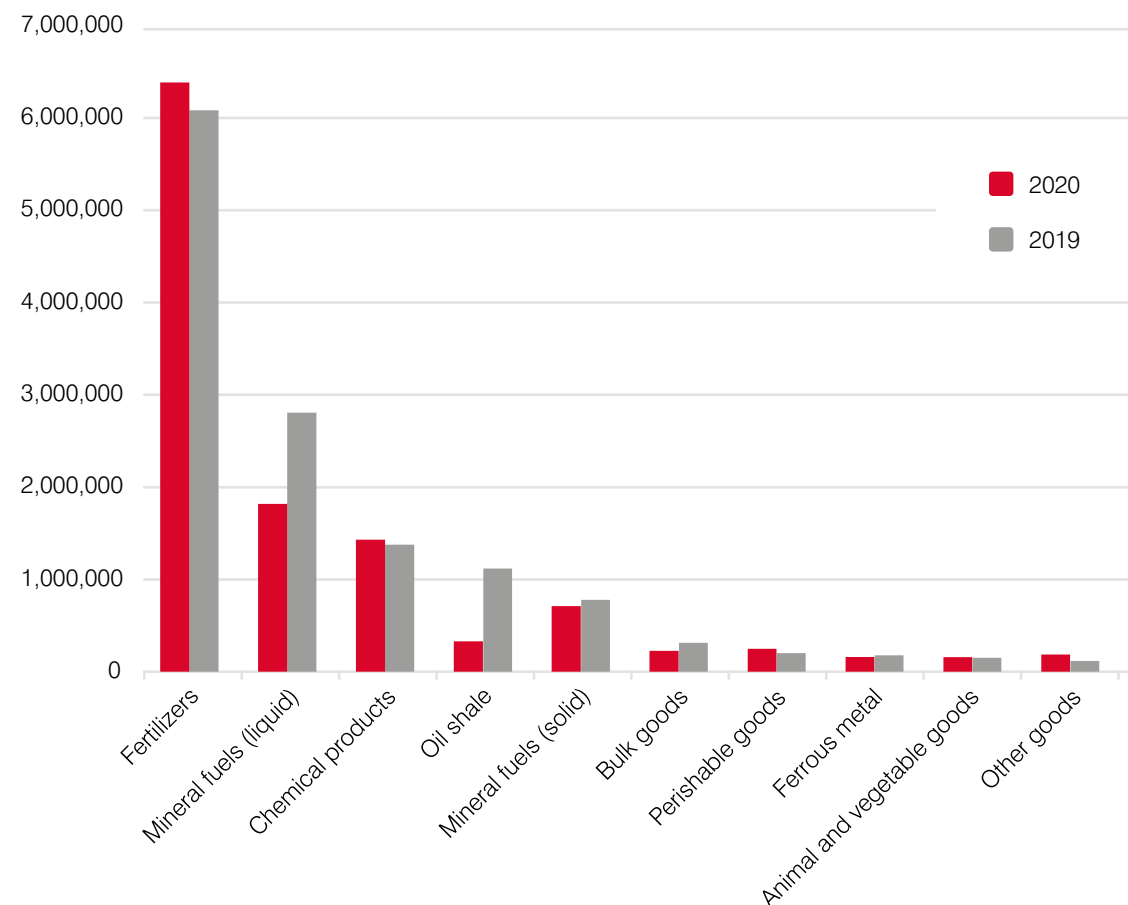
Operating Volumes

Two freight transport companies (AS Operail and AS Enefit Kaevandused) and one passenger transport company (AS Eesti Liinirongid) operate on the infrastructure assigned to Estonian Railways for public use. In addition, in the financial year Estonian Railways continued to organise international passenger train traffic on the route Tallinn–St. Petersburg–Moscow, where services are provided by FPK, the subsidiary of the Russian Railways and where the locomotive service is provided by AS GoRail. The operations on the route were suspended from 20 March 2020 due to the restrictions of COVID-19.

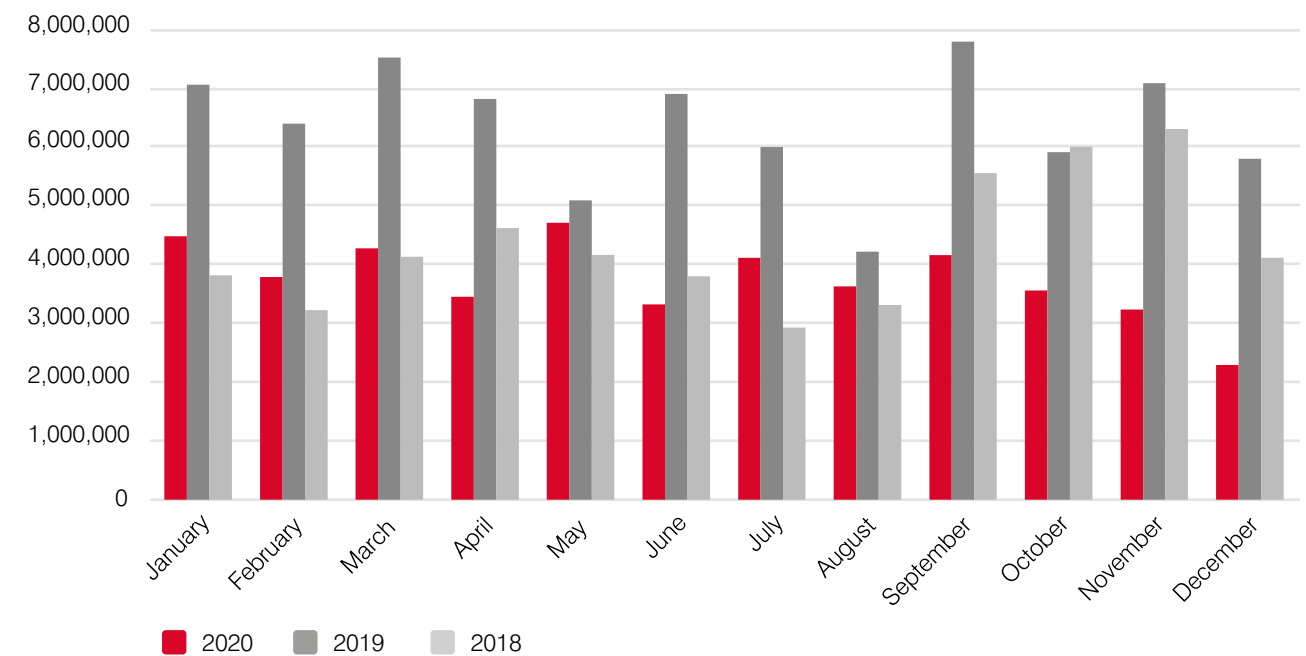
In 2020, 11.5 million tonnes of goods were transported on the infrastructure of Estonian Railways. As compared to 2019, the freight volume decreased by 12.7%. The freight transport company Operail AS transported 98% of the goods.

In 2020, fertilizers still made up the largest share of the freight transported, totalling 6.4 million tonnes and increasing by 4.9% as compared to the previous year. Rail transport of liquid petroleum products totalled 1.8 million tonnes, decreasing by 35.4% as compared to 2019. The transport of chemical goods increased by 1.5% and totalled 1.4 million tonnes. The transport of oil shale (0.3 million tonnes) decreased by 74.0%. The volume of solid mineral fuels transported was 0.7 million tonnes, i.e. 6.7% less than in 2019. In 2020, the volume of container shipments was 44.9 thousand TEUs (20-foot standard container), decreasing by 41.5% as compared to 2019.

TOP 10 freight (tonnes) and structure by freight type 2019-2020

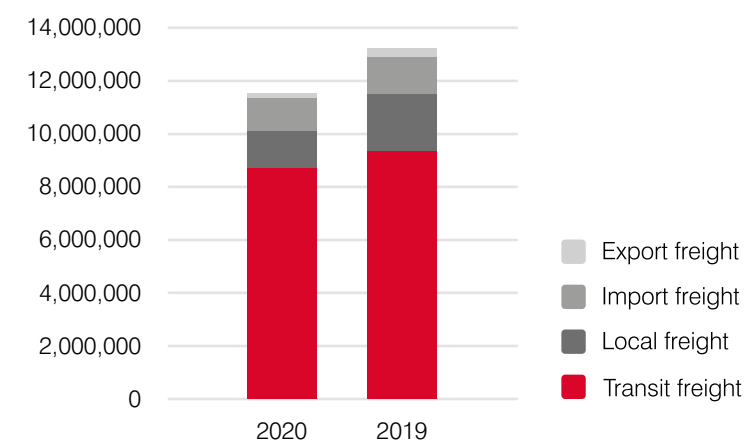


Monthly freight volume of containers 2018–2020 (TEU)



In 2020, transit shipments through Estonia totalled 8.8 million tonnes of goods, i.e. 6.7% less than in 2019. The volume of local shipments decreased by 36.1% and totalled 1.3 million tonnes. Import shipments totalled 1.2 million tonnes, decreasing by 16.5%, and export shipments by 0.2 million tonnes, decreasing by 21.0% as compared to 2019.

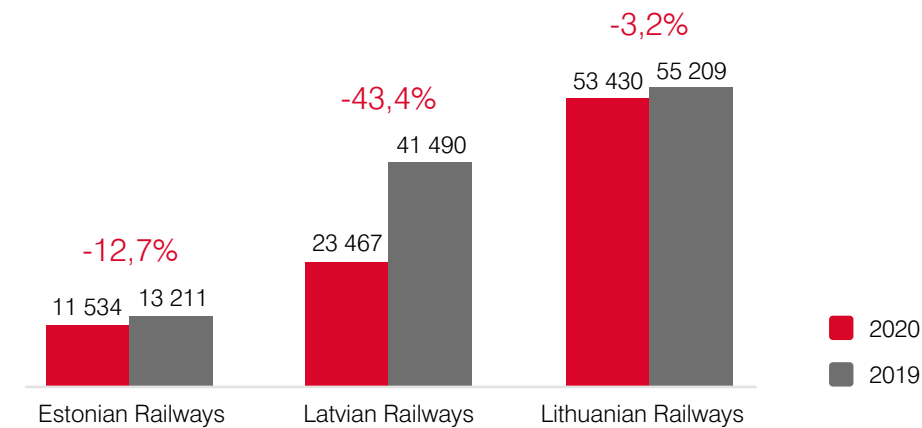
Volume (tonnes) and structure of freight transport by type 2019–2020



As compared to the other Baltic countries, the volume of freight transported on the Estonian public railway is smaller. In 2020, the freight volume decreased in all Baltic States, especially on Latvian Railways.

Freight volume on the public railway of the Baltic States

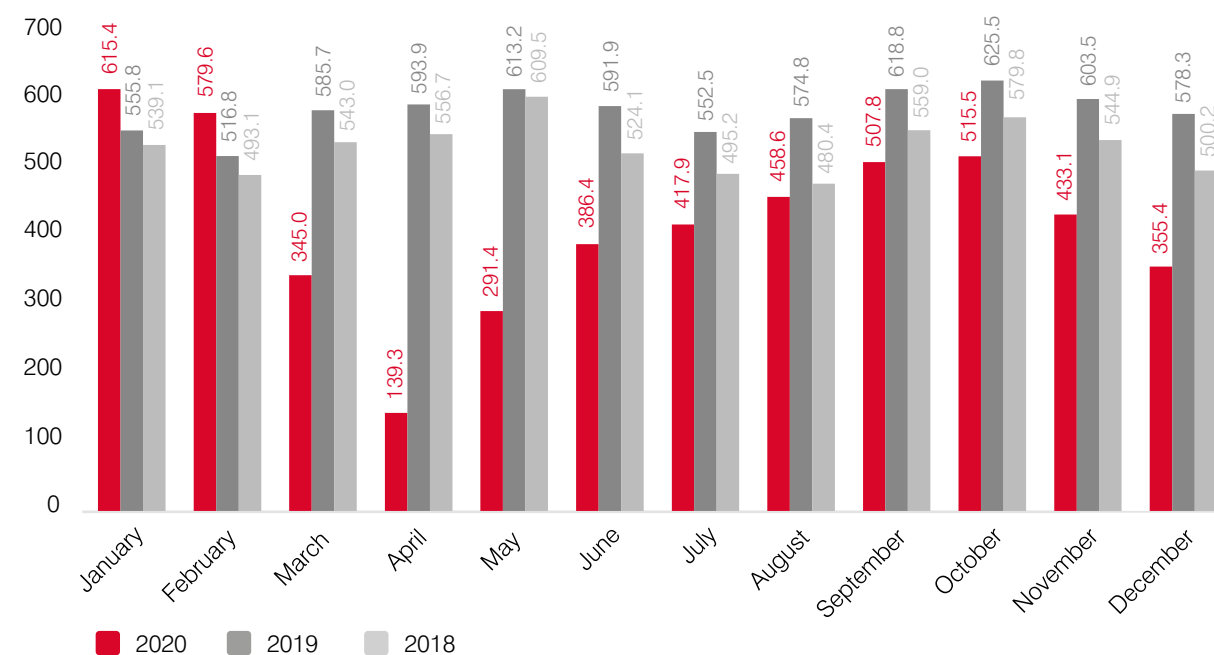
2019–2020 (thousand tonnes)



In 2020, 5.0 million passengers (-28%) were transported by diesel and electric trains operating on the infrastructure of Estonian Railways. There were 20,000 passengers (-82%) on the international route of Tallinn–St. Petersburg–Moscow. With regard to other Baltic States, the number of rail passengers was 12.8 million on Latvia and 3.3 million in Lithuania.

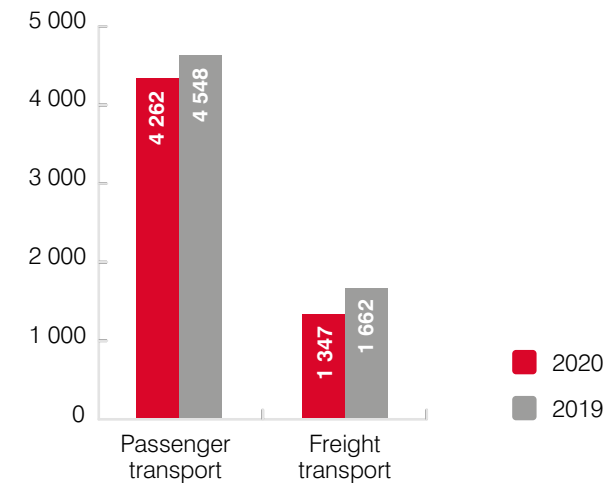
Monthly number of local passengers on the infrastructure of Estonian Railways (thous.)

2018-2020



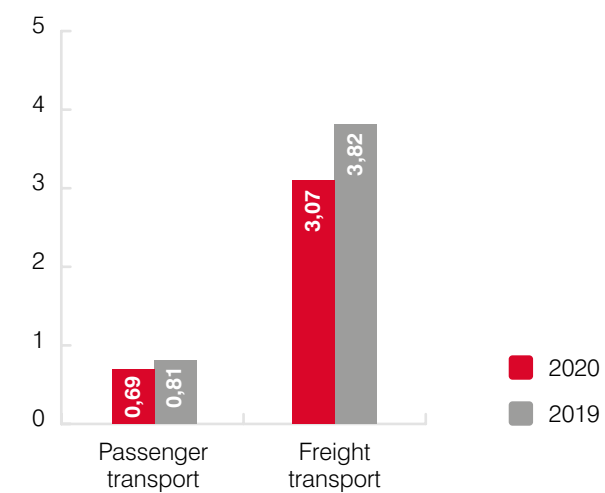
The passenger trains covered 4.3 million train kilometres on the Company's infrastructure which made up 76% of all train usage (2019: 73%). The train kilometres of passenger trains decline by 6.3% as compared to 2019 and that of freight trains by 19.0%.

Rail usage (thous. train km)



The work of rolling stock totalled 3.76 billion gross tonne kilometres on the infrastructure of Estonian Railways, incl. work of freight trains of 3.07 billion gross tonne kilometres or 81.6%. As compared to 2019, the work of freight trains fell by 19.6% and that of passenger trains by 14.8%.

Operation of rolling stock (billion gross tonne km)



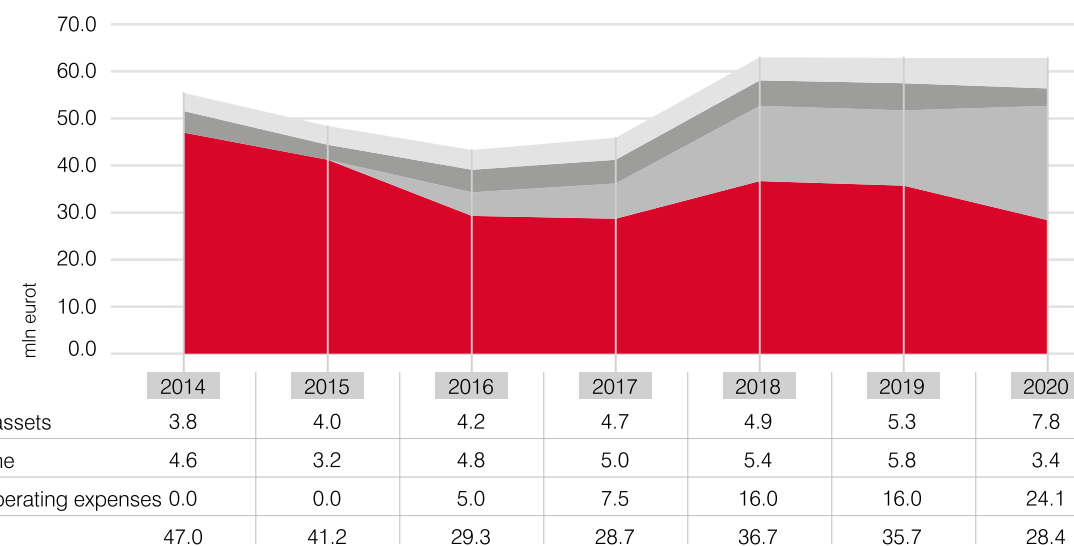
Operating income

In 2020, the revenue of AS Eesti Raudtee totalled EUR 31.1 million (2019: EUR 39.5 million). In 2020, infrastructure services accounted for 92% of revenue (2019: 87%), of which the key services providing access to the railway infrastructure totalled EUR 26.7 million (2019: EUR 32.9 million). In 2020 and 2019, the remaining infrastructure service income was primarily generated by leasing out the service facilities and real estate services.



56% of user fees were received from freight companies (2019: 62%). In a year, the railway infrastructure user fees from freight companies decreased by 27% and that from passenger transport companies decreased by 5%. The railway infrastructure user fees were impacted by the changing market situation (allocation of East-West transit between the Baltic States with transporting certain freight groups to the Baltic Sea ports in Russia), which coincided with the start of the spread of the COVID-19 virus. In order to accommodate the requests of the railway players, the Consumer Protection and Technical Surveillance Board changed its preliminary decision determining the railway infrastructure user fees for the traffic schedule period 2019/2020. As a result, the user fee paid by freight companies fell by more than would have been expected on the basis of operating volumes. Since there is a big scale of density on transporting passenger, the user fee received from the passenger transport companies fell relatively little as compared to the sharp drop of passengers due to the spread of the COVID-19 virus.

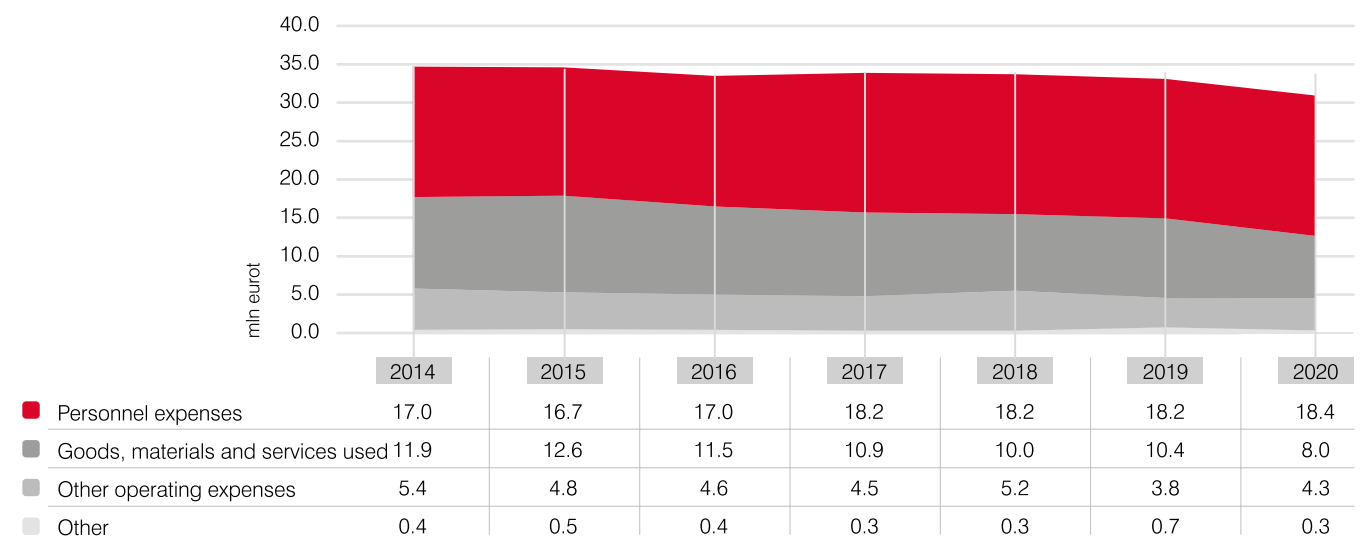
Government grants to achieve performance targets made up 74% of the infrastructure company's other income (EUR 32.7 million) (2019: EUR 23.3 million and 69%, respectively). At the end of 2015, the Company concluded a long-term financing agreement with the Republic of Estonia for allocation of public funds in 2015-2020 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. Under this agreement, EUR 17 million were allocated to the Company in 2020 (2019: EUR 7.1 million which was also recognised as other operating income in 2020). This provision helped Estonian Railways to offset the lower revenue due to the spread of COVID-19 virus.



Operating expenses

In 2020, the operating expenses of Estonian Railways totalled EUR 56.4 million (2019: EUR 53.6 million), increasing by approximately 5% in a year. The key reason for higher operating expenses was a change in depreciation. The cost of goods, materials and services used decreased by approximately 23% as compared to 2019 due to lower infrastructure material and maintenance costs. Other operating expenses increased by 12%. There were no major changes in personnel expenses as compared to 2019.

Operating expenses (except for depreciation)



Results for the year

In 2020, the EBITDA of Estonian Railways was EUR 32.7 million, which is 10.1% higher than in 2019. Similarly to 2019, the Company earned both operating as well as net profit, partly attributable to the growth in government grants received for attaining performance targets of prior years and used in the financial year.

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 2020, the Company's assets totalled EUR 356.9 million (2019: EUR 342.6 million), of which property, plant and equipment accounted for EUR 301.2 million or 84.4%. The financial ratios were in compliance with the requirements set by the keys creditors.



Lääne-Harju consolidation project - EUR 9.2 million, incl.:

- reconstruction of the train stations of Keila and Paldiski EUR 5.9 million: extension of Paldiski's 3rd and 4th lines, major overhaul of the 1st and 2nd lines, construction of Keila unpaired catenary;
- upgrading of the traffic management system EUR 3.3 million: Keila, Vasalemma and Paldiski stations and the area between Keila–Paldiski and Keila–Vasalemma stations was equipped with barriers;
- construction of Paldiski Road overpass was launched.

Lääne-Harju consolidation project consists of several subprojects, the key performance indicators of which are:

- the entire area is managed by the automatic control centre including automatic route determination;
- a total of 47 km rail tracks shall be repaired on Tallinn–Pääsküla–Keila and Klooga–Paldiski railway sections and in Keila, Klooga, Paldiski, Vasalemma and Riisipere stations;
- another main (II) line has been built on Keila–Valingu (km 78.395–81.080) and block post 89–Pääsküla (km 89.050–92.862) railway sections;
- two bridges (Pääsküla and Keila Rivers) and one overpass (Topi node) have been built, Urda passenger tunnel has been extended;
- a new bridge has been built next to the old one on Paldiski Road;
- another main line has been built in addition to the existing one on the Eastern direction in the Baltic Station – Kitseküla section;
- two new electrified station lines with platforms have been built at the Baltic Station, the 4th and 5th lines have been electrified.

Investments

Railway reconstruction works are an important part of the daily operations of Estonian Railways. In 2020, Estonian Railways continued to invest in the railway infrastructure using the funds received from the EU Structural Funds. In 2020, capital expenditures totalled EUR 32.0 million (2019: EUR 31.5 million), of which EUR 5.9 million (2019: EUR 17.7 million) were co-financed from the state budget (European Union and Republic of Estonia). The largest projects of 2020 are:

The performance indicators of Lääne-Harju consolidation project include:

- the peak capacity at stations and distance between stations have increased, incl. also due to higher allowed speed of freight and passenger trains and reduction of speed limits;
- safety and security measures have been adopted, incl. on railway level and pedestrian crossings;
- the probability of risks arising from the human factor have been reduced;
- the land under the railway has been maintained.

■ **Reconstruction of Tapa-Narva railway and increasing the speed up to 135 km/h EUR 4.3 million:**

- 8 km of railways were reconstructed (Sonda-Kiviõli open lines, Kiviõli, Püssi and Kohtla main railway lines), barriers were added to the stations of Rakvere, Kiviõli, Kohtla, Jõhvi and Narva.

The key performance indicator of the project is to enable the speed of 135 km/h for passenger trains on 66 percent of the total length of the main lines on the Tapa-Narva railway line, as a consequence of which the travel time of the express train will decrease from 2 hours and 15 minutes to 2 hours and 2 minutes on Tallinn-Narva section.

■ **Reconstruction of Tapa-Tartu railway and increasing speed to 135 km/h EUR 3.6 million:**

- 10 km of railways was reconstructed (Tabivere-Kaarepere open line and main line of Tabivere Station), safety fence was put up in Tabivere Station;
- Construction of the new Emajõgi railway bridge was launched.



The key performance indicator of the project is to enable the speed of 135 km/h for passenger trains on 44 percent of the total length of the main lines on the Tallinn-Tapa-Tartu railway line, as a consequence of which travel time of the express train will decrease from 1 hour and 55 minutes to 1 hour and 44 minutes on the Tallinn-Tartu section.



- IT-investments EUR 1.5 million:
 - equipping of the spare control centre and computerisation of positions to mitigate the risks arising from the spread of COVID-19 virus, development of the ERP-system Microsoft Dynamics 365 and the information management system ERVIN.
- Major overhaul or reconstruction of line structures (bridges and culverts) EUR 1.2 million.

RESPONSIBLE SERVICE



As a railway infrastructure company, we need to create conditions for safe freight and passenger traffic by rail. 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.

Due to the social trends, it is more and more common that end consumers also wish to communicate with the infrastructure manager in addition to the service provider. The task of Estonian Railways is to adapt to this situation. The activities and goals required for this have been laid down in the Company's strategy.

In 2020, we implemented several changes:

- The Commercial Department was established with the decision of the Management Board. It focuses on making the Company more customer-centred, implementing changes within the Company as well as for external customers.
- The focus of the customer service is on greater involvement – informing customers and engaging them in the projects of Estonian Railways on the one hand, and helping cooperation between the services and departments on the other.

The broader purpose of the Commercial Department is to help increase passenger numbers and freight volumes on the infrastructure of Estonian Railways. Estonian Railways consistently invests in modernisation of the rail network so that the freight and passenger transport by rail would be fast and convenient. A well-maintained infrastructure helps ensure that the rolling stock safely and securely reaches the final destination at the time desired. Thus in order to provide the best service, we need to ensure operability, necessary capacity and scheduled traffic on the railway. All this combined constitutes the responsible service for us.

The state of our infrastructure at the year-end 2020:

- Share of railway enabling fast rail traffic 0.6% – 140km/h, 6% – 135 km/h and 80% – 120 km/h (2019: 84% – 120 km/h);
- Share of renovated passenger platforms: 100% (2019: 100%), i.e. all platforms have been renovated within the last ten years;
- Share of infrastructure with a traffic control system enabling remote control 17% (2019: 14%);
- In 2020, the control communication on the Tallinn–Paldiski and Tallinn–Tapa routes were made IP-based;
- Share of completely upgraded overhead catenary 48% (2019: 40.4%).

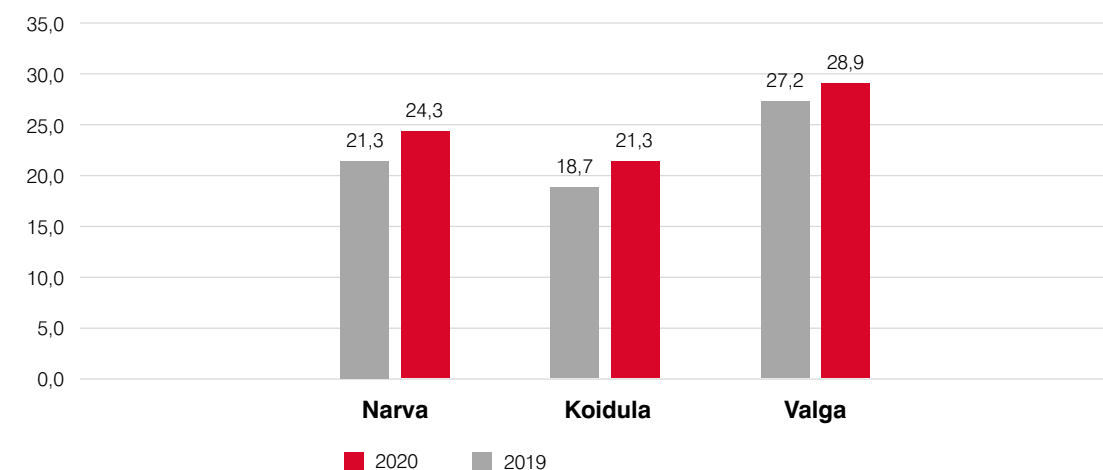


One of the key competitive advantages of Estonian Railways is its available capacity both on the railway as well as in ports. The compilation of schedules for passenger and freight trains is one of the key tasks of Estonian Railways as the infrastructure operator and adherence to them is a prerequisite for uninterrupted rail traffic. Since heavier passenger train traffic lowers railway capacity and thereby slowing the traffic of freight trains, our task is to find a balance between different interests.

Service quality indicators in 2020:

- Estimated use of capacity in border stations: Narva 21,3%; Koidula 18,7%; Valga 27,2% (2019: 24.3%; 21.3% and 28.9%, respectively);

Share of the capacity use at border stations 2020/2019, %



- adherence to passenger train schedules: 99.4% (2019: 99.5%);
- adherence to freight train regime: 99.0% (2019: 99.5%);
- number of disruptions: 1,542 (2019: 1,682);
- number of trains delayed due to disruptions: 174 (2019: 235).

Infrastructure service activities in 2020

Road management

The purpose of the planned maintenance works in 2020 was to attain and keep train traffic safe at the set speed. The key maintenance works were: railway tamping with equipment on 64 kilometres, tamping of 32 switches with equipment, maintenance of Fastclip-type rail fastening on 18.2 kilometres, maintenance of KB-type rail fastening on 9 kilometres. We replaced 5,762 wood sleepers and 1,261 point beams, a total of 40,500 individual sleepers were stuffed. In addition, 230 thermite welding and 90 cross-rail surface welding were completed.

Supervision over line structures

In 2020, we conducted a thorough audit and changed the supervision over line structures by creating new evaluation criteria. The new system provides an integrated overview of the changes in the condition of each line structure, for the territory as whole and also for the entire infrastructure. This will enable us to direct the necessary resources where they are needed.



Telecom and safety systems

Traffic management systems were upgraded in the following stations on Lääne-Harjumaa sections:

- Keila, Vasalemma and Paldiski
- Keila–Vasalemma, Keila–Klooga, Klooga–Paldiski stations sections

For ensuring the sustainable operations of the safety system, duplicate optical cable lines were installed on the following sections:

- Tapa–Jõhvi
- Tapa–Jõgeva
- Valga–Antsla

Electricity networks

In 2020, the number of incidents registered in the electricity network decreased to 419 (2019: 444 incidents were registered), whereby incidents are not always related to malfunctions. As compared to the previous year, the number of incidents related to the outer network increased. We replaced several wood traverses in the distribution network and cleaned the surface under the lines. In the area of the overhead catenary, we replaced the electrical drives in Raasiku station and a major project involved replacement of one old traction transformer and electric rectifier in Raasiku traction station.

In conjunction with electrification of the railway infrastructure and future maintenance works, we arranged procurement for purchasing a maintenance vehicle for the overhead catenary. The acquired vehicle is equipped with all the necessary equipment for performing maintenance works and lead wheels enabling it to ride on rails. In addition to performing maintenance works, the replacement of a trolley by a vehicle that can be used both on the road as well as the railway also helps reduce reaction time to malfunctions and their removal, while obstructing train traffic only minimally.

Real estate

The real estate strategy of Estonian Railways is based on real estate optimisation which foresees demolition of unnecessary buildings and sale of real estate properties. The key goals arising from the real estate strategy are as follows:

- ensure an optimal number of buildings and facilities in order to support the core activity;
- ensure use of idle real estate properties in economic activities in the best possible way;
- ensure real estate management according to its purpose and modern standards;
- ensure real estate maintenance in the most economical way.

As at the start of 2020, Estonian Railways had 286 buildings with the total square area of ca 60,000 m². By the end of the year, we had reduced the number of buildings by 16:

- 8 buildings were demolished; in addition, unlawful buildings/structures were demolished on railway ground;
- 8 buildings were disposed of.

We additionally repair existing administrative buildings each year to ensure suitable working and rest conditions to employees. In 2020, the repair works performed were as follows:

- Repair works of the 2nd floor of Tartu communication centre (Riia tn 43) 75 m²;
- Repair works of the non-work rooms at Valga communication centre (Jaama pst 14a) and the staircase of the ETS-post (Jaama pst 18) 222 m²;
- Renovation of the repair shop at Tartu station (Näituse 26a);
- In addition, the roofs of three buildings were renovated (Antsla substation, Valga traction station no 9, Valga road department building).

The major real estate maintenance works performed in 2020:

- mowing on 320 hectares of land;
- maintenance works in winter (snow removal, anti-slip coating) on 160 properties;
- interior cleaning works in buildings 23,332 m².



Safety reviews demonstrate that in case of train accidents, the reasons frequently include intoxication and suicide; an approaching train is seen but an attempt is made to cross the tracks quickly; the hoods and earplugs distract from noticing the train; a train is let by on one track but it is not ascertained that another one is not approaching on the second track; safety devices are ignored on level crossings, it is not ascertained that there is not an approaching train and the trains are not let by.



Rail safety and security



Safety is the most important keyword for the activities of Estonian Railways. Raising public awareness of rail safety is an outcome of long and systematic work that requires contributions by all parties. The railway operator, infrastructure users and national authorities should be engaged in it. We have launched the so-called Vision Zero approach to railway safety. We are doing everything possible to organise activities related to the railway infrastructure and its safety in such a way that even in case of a human error, people would not be injured or killed on the railway.

Railway safety depends on three key factors: 1) technical safety measures: traffic management systems; monitoring systems used to monitor the work of equipment; and technology to oversee the condition of the railway infrastructure, etc.; 2) barriers, sound signals, fences, traffic lights for passengers, camera systems etc. related to public safety; 3) prevention, i.e. awareness-raising. Our contribution in figures:

11 passenger underpasses constructed over the last years	More than 60 km of fences erected To prevent railcrossing at the wrong place (2020: 10 km)	46 barri-er-equipped level crossings (of total of 150), another 106 crossings will receive barriers by 2023	75 automated traffic light equipped level crossings (a total of- 150)	121 signal equipped level crossings (a total of 150)
354 media reports on safety topics (2019: 481)	11 million euros of investments in the coming years for installa- tion of new safe- ty equipment on 107 level and 9 pedestrian crossings	485 (324 employ-ees of Estonian Railways and 161 infrastruc- ture employ-ees) employ-ees attended safety related training courses during 2020 (2019: 180 em- ployees)	578 children (66% at school and 34% kin- dergarten) have attended training courses conduted by our employees on railroad safety	

International surveys demonstrate that if barriers are erected on railway level crossings with automated traffic lights, accidents decrease by 50%. Thus, such infrastructure innovations are also crucial for Estonian Railways, primarily in order to save human lives.



Preventive work

NGO Operation Lifesaver Estonia (OLE) established by us has almost all the Estonian railway companies as its members and every year it organises railway safety lectures in kindergartens and schools, reaching up to 4,000 children with its safety information in 2020. We also collaborated with OLE in 2020 in carrying out public campaign to increase rail safety (“You Are Expected Home for Christmas”, “The Last Shot” and rail safety week “Look Left and Right, and Let the Train Pass”).

Rescue capacity

Estonian Railways has high rescue capacity and excellent technology as well as total crisis preparedness. As the rail infrastructure operator we are aware of our great responsibility to ensure fast reaction in case of potential pollution. To ensure quick responsiveness, our employees receive regular training in the course of which they practice reacting to various accidents to ensure their preparedness. We are always doing everything in our power to ensure safety and security, and we also have active collaboration with other rail operators and partners.

Incidents

In 2020, there were no major accidents on the infrastructure of Estonian Railways (2019: 0; 2018: 0; 2017: 0).

There were nine accidents (2019: 9; 2018: 23; 2017: 18), incl. 7 cases of people being hit by trains, one col- lusion on the railway level crossing and 1 collision with an obstacle. On a positive note, in terms of the level crossings, it was the second year with only one accident and nobody was injured. On the infrastructure of Estonian Railways, seven people were injured (people being hit by the train), incl. four people were killed and three received physical injuries. As compared to 2019, the number of those injured fell by one and the number of those killed by two people.

There were three incidents (all rail fractures), i.e. as compared to the previous year, there were seven cases less (2019: 10; 2018: 9; 2017: 5). On a positive note, the reason for rail fractures was no longer low-quality thermite weldings made by our contractors that created a lot of problems in 2017–2019.

There were 309 technical incidents, decreasing by 9 (2019: 318; 2018: 356). The areas of concern from the point of view of public safety and rail traffic include automation failures on level crossings and disruptions in rail traffic caused by failures of telecommunication and safety equipment.

Due to the large number of passengers, transport of hazardous freight and operating on an open terrain, rail transport is one of the most frequent targets for criminal attacks as compared to, for example, air transport. Railway catastrophes that have occurred elsewhere in the world, incl. malicious and terrorist attacks against the railway system require systematic, continuous and protective collaboration with the providers of security services, the police and other cooperation partners.

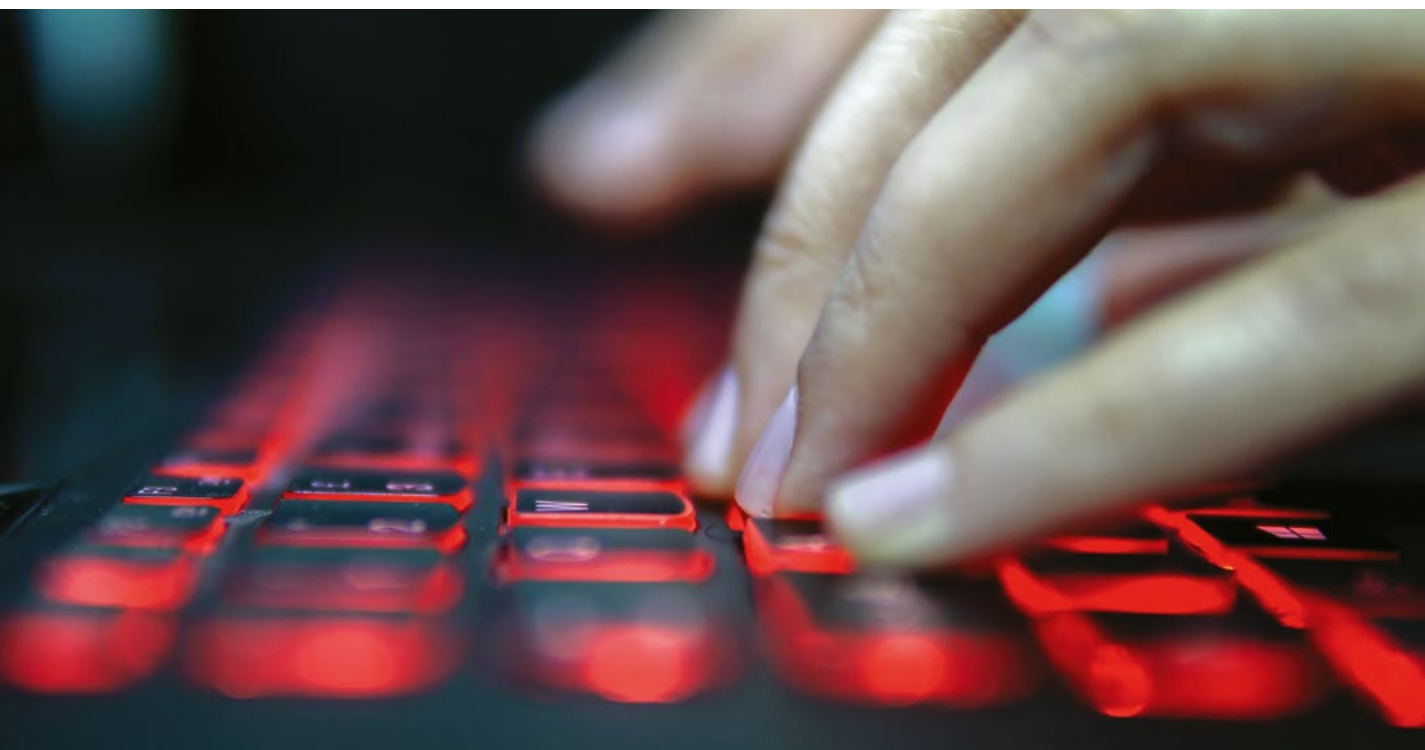
There were 246 acts of vandalism on our infrastructure, four more as compared to last year. None of the acts of vandalism were criminal attacks against the operations or rail traffic of Estonian Railways – they were events impacting rail traffic and/or public safety, such as drivers damaging barriers, destruction of signals, unauthorised persons or items on the railway ground, graffiti, etc.

As a new security solution, Estonian Railways has tested drones in Kopli freight station. Drones can partly replace patrol security rounds on the station's territory. The drones have been equipped with special pre-set GPS codes and they make security flights at certain times.

In 2020, we installed a red signal camera on Nõmme level crossing which helps prevent destruction of barriers by drivers and pedestrians crossing the railway tracks under the red light in the future. The camera will help identify violations and will provide this information to the Police and Border Guard Board.

Information 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 2020, we hired an Information Security Specialist and approved several information security related documents (information security policy, rules and regulations of the PC user, guidelines related to the computer networks). We conducted a company-wide security audit with the help of the Estonian Information System's Authority. A cybersecurity training course was organised for the Company's PC users. All this was necessary for us to launch the EVS-EN ISO/IEC 27001:2017 ex-ante audit that should tell us whether we are on the right track to be granted the respective certificate in 2022.

In 2020, there was one information security incident at Estonian Railways where the e-mail mailbox of one employee leaked. The incident was quickly discovered and it did not create any major damage.

Innovation and digitalization

Estonian Railways is open to various innovations and many internal projects are related to the implementation of new technologies. As a company we keep an eye on modern technological solutions to find opportunities to be applied at the Company. Digitalization and automation of work processes are the keywords in the action plans of Estonian Railways in the coming years.

For the railway, the key challenge in the area of innovations is to become a modern provider of services both for freight companies as well as passengers. There is currently no sector-wide system in place for the best solution to this issue, but we are cooperating with various parties to achieve this.

Key activities in 2020

- We developed a pilot project at Koidula station for the asset management solution based on Microsoft Dynamics 365. Within the framework of the project, asset information was digitalised, asset maintenance plans were entered and the work process from the entry of work orders to collection of feedback was covered. The project provided valuable feedback for implementing the solution throughout the infrastructure.
- In collaboration with the company HxGN Safety & Infrastructure GmbH, we implemented the geospatial information system GeoTrAMS at Estonian Railways. It is a special solution for tracks based on Hexagon Geospatial technology. Until now, Estonian Railways did not have such an information system. The software is related to the maps of the Land Board and the Company's business software Dynamics 365. GeoTrAMS enables to visualise the Company's assets on a map (both static and dynamic) and create services for internal use as well as for external stakeholders.
- We continued with traffic management software project TTCMS (Timetabling, Traffic Control and Management System) by carrying out procurement and concluding an agreement with Indra Systemas SA (Spain). The solution enables us to digitalise development of traffic schedules, organise control centralization and rail traffic, and significantly improve analytical opportunities. The software is expected to be implemented throughout the infrastructure by end of 2024. Of the neighbouring countries, Lithuanian Railways also uses the same software.



- We developed a modernisation concept for safety systems and prepared a technical documentation for the following design and construction procurements. We organised procurement for the main system, its winners were the Estonian branch of Siemens Mobility Oy and GRK Rail Oy. The contract concluded in November 2020 for the period of 25 years includes the design and implementation of the safety systems, and the subsequent maintenance period as support services, the spare parts are also included until the end of the contract period. According to the main control command and signalling (CCS) project, the old relay blocking lines will be replaced by the dual microprocessor based SIL 4 blocking system. Several support procurements need to be carried out in order to implement the entire system.
- In terms of international cooperation, we achieved readiness for paperless freight transport with Latvian and Lithuania Railways concerning both exports and imports.
- We have launched a development project with Russian Railways, as a result of which invoices and packaging documents will also become paperless. The customers will be able to process documents electronically in the portal of Estonian Railways or those of our freight transport companies, and immediately forward them to the customs office.
- We significantly enhanced the reliability of our key information systems, by taking a duplicate server room into use.
- We prepared to take Microsoft 365 into use.
- We started to digitalise the warehouses on the Eastern line area, the purpose of which is to harmonise the levels of its warehouses and that of the central warehouse. A scanner solution is used to move materials, and paper will become history.

Cooperation with educational and research institutions

In the areas of research and development, Estonian Railways is involved in two major projects.

- The purpose of the project 5G ROUTES is to test the functioning of 5G in the cross-border corridor (Via Baltica-North), i.e. to search for opportunities of implementation and cross-border operation of transport corridors (land, railway, etc.). In the Horizon 2020 programme, Estonian Railways participates as a co-applicant of the project. This project was selected by the programme committee and work was launched in 2020.



This project has received funding from the European Union's Horizon 2020 research and innovation programme under the Grant Agreement No 951867

- To harmonize the information exchange systems of Estonian and Latvian Railways, a telematics application interoperability project of passenger (TAP TSI) and freight transport (TAF TSI), including technical specifications, was created. It is led by Latvian Railways and it is funded from the Connecting Europe Facility (CEF Transport)



Co-financed by the Connecting Europe Facility of the European Union

- Collaboration with the Estonian Academy of Arts, where we are able to use the results of two doctoral theses to create a development plan for the Baltic Station and Kopli peninsula.

In December 2020, we concluded a collaboration agreement with Tallinn University of Applied Sciences, to carry out a traineeship with the Logistics Institute and Engineering Institute as well as to develop curricula and study materials. The Chairman of the Supervisory Board of Estonian Railways is also a member of the board at Tallinn University of Applied Sciences.

The representative of Estonian Railways is an expert in his field and hence he is a member of the councils of the Doctoral programme in mechanical engineering, Master's programme in logistics and Bachelor's programme in business at Tallinn University of Technology. The Company's employees were either lecturers, theses supervisors on all levels of higher education or members in thesis committees at Tallinn University of Applied Sciences, Tallinn University of Technology, Estonian Military Academy and Estonian Entrepreneurship University of Applied Sciences Mainor.

Sustainable supply chain

Each year, Estonian Railways organises procurements worth tens of millions of euros: various services, construction and repair works, purchases of equipment, spare parts and means of transport, office supplies, etc. Being a company with an open attitude, we publish procurements in excess of the EUR 10,000 thousand thresholds in the register of public procurements.

The procurements organised at Estonian Railways need to:

- be legal and in compliance with the requirements of the Public Procurements Act;
- ensure sustainable and efficient use of resources;
- be open to competition to receive a great variety of bids enabling to find the best solutions and cooperation partners.

According to the general procurement principles, the Procurement Department reviews all procurements with the cost in excess of EUR 10,000. We have established internal rules for purchasing lower value items. For example, several people approve orders, and procurements of all services and purchases in excess of EUR 1,000 are organised according to the upgraded procurement procedure and in collaboration with the Procurement Department.

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.

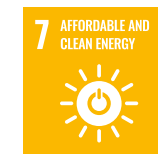
However, 90% (2019: 93%) of procurement contracts of Estonian Railways have been concluded with local, i.e. Estonian partners – thus our contribution as the contractor to local economy is significant. Of the total cost of procurements, 25% stayed in local economy (2019:66%). It is noteworthy that while the contract volumes have been EUR 30–50 million annually, in 2020, it was as high as EUR 162 million. If to exclude a contract concluded with one foreign bidder in the amount of EUR 115 million, the share of contracts concluded with domestic suppliers would be 85%. A few major procurements are an exception, as the fulfilment of such procurement contracts is probably out of reach for local bidders and thus, a foreign company is invited to participate in a joint bid or it may become a contract partner alone.

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. Thus, when making a decision it is not only the cost of the product, but also the cost of the lifecycle described in the underlying documents that is taken into consideration.



Environmental impact and management



The transportation sector inevitably impacts the natural environment and health of people through air pollution, climate change and noise. The environmental pressure arising from the transportation sector depends on three key factors: number and length of trips, the use of means of transport (as some of them are more environmentally-friendly than others) and transport technologies.

Train traffic is considered as one of the most environmentally-friendly modes of transport; however, there is still a possibility to reduce the environmental impact. In order to reduce our footprint on the environment, we use the best possible cost-effective technological solutions, follow changes in legislation and public requirements and do more than legislative acts require of us. Estonian Railways has a responsible and cost-effective attitude towards environmental protection.

The key aspects of our environmental impact are hazardous waste (sleepers), energy consumption and air pollution, noise and vibration and to a lesser extent, water and soil pollution risk and atmospheric emissions.

In environmental management, we proceed from regulations and requirements, the ISO 14001 environmental management standard and the key policies of Estonian Railways concerning safety, occupational safety, quality and the environment, according to which:

- we identify threats, assess risks and devise preventive measures so that our activities would not damage the surrounding environment;
- we prefer technological solutions and more environmentally-friendly materials in railway construction, repair and maintenance to prevent environmental pollution and risk of contamination;
- we develop employee knowledge and skills to ensure environmentally sustainable functioning and operation of the railway infrastructure;
- we provide employees and cooperation partners with underlying policies, and explain and guide them so that they could help increase the effectiveness of environmental protection in their companies.

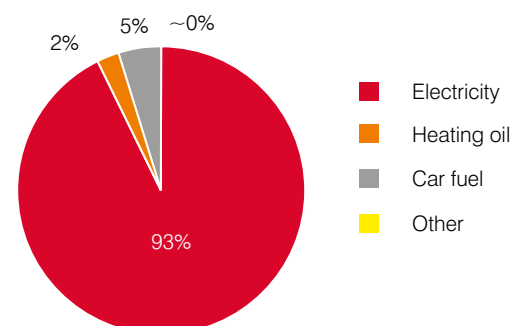
In 2020, the regular follow-up audit of the ISO 14001 certification was carried out that we passed without any major environmental findings. At the Estonian Association for Environmental Management in which we are one of the founding members, our responsibility is to lead the topic of the professional standard of an environmental manager who evaluates the competency of environmental consultants and their work culture.

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 2020, the combined emissions of these boiler houses totalled 232 tonnes of CO₂ and 0.8 tonnes of other emissions (more detailed information is provided in the GRI index at the end of the report).

CO2 footprint of Estonian Railways by pollutant types



Estonian Railways is both in the role of a buyer and a seller of electricity. To increase energy efficiency, we need to obtain a better overview of actual consumption and energy losses, also, the networks need to be upgraded. The power network has already been partly upgraded and the planning of its new sections is optimal.

In 2020, we continued with our activities to fulfil the following tasks:

- switch electricity consumption to remote reading;
- build a 50 kW capacity solar park for the own use of Estonian Railways;
- build a 3.4 MW solar park which would cover part of the capacity of substations.

In 2020, we purchased 33.9 GWh of electricity (2019: 37.1). The fuel consumed by vehicles totalled 409 thousand litres (2019: 443 thousand litres).

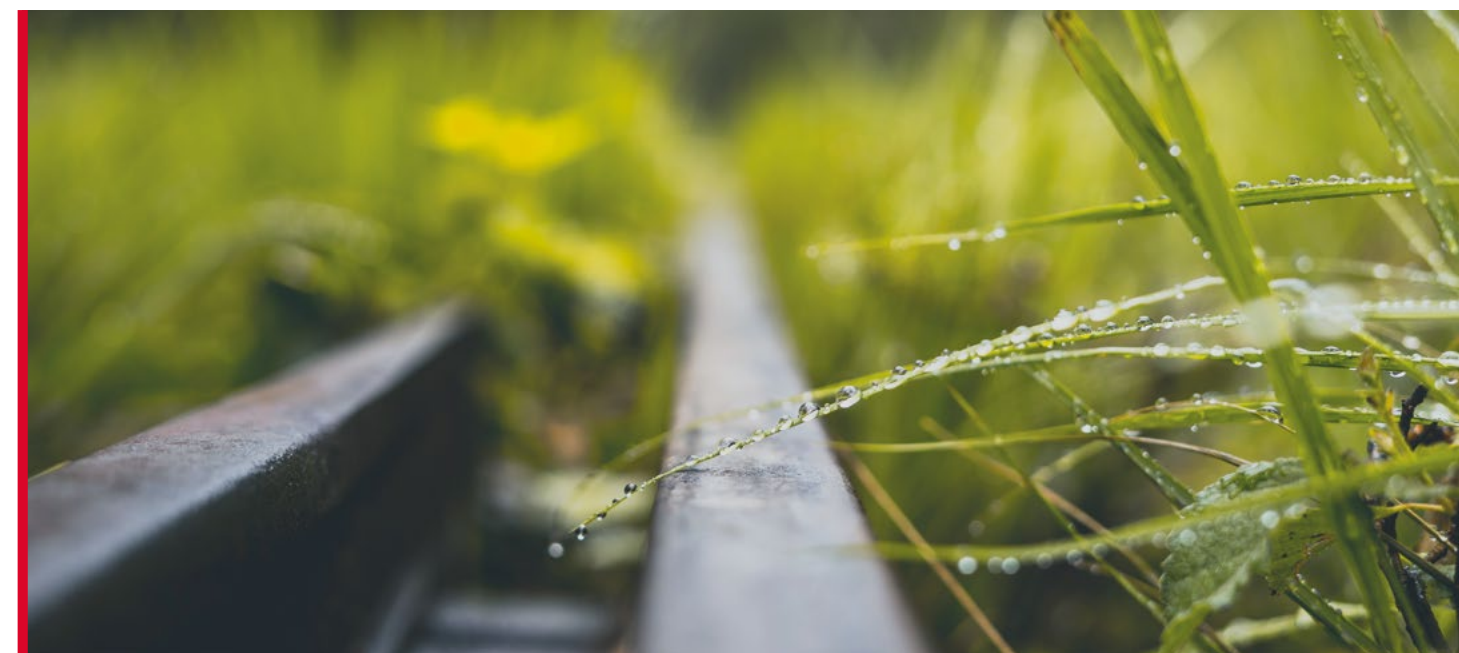
In 2020, Estonian Railways decided to switch to the use of green energy. The Company consumes up to 40 GWh of electric energy per year, equal to the electricity consumption of about 10,000 households per year. About 40% of the purchased electricity is used for the infrastructure of Estonian Railways. 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.

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.

We are actively searching for more environmentally-friendly options for weed control. In 2020, we tested eco-friendly pelargonic acid based herbicide. The test revealed that the cost of pelargonic acid would be 40 l/ha while the cost of the current glyphosate-based herbicide is 6 l/ha. Unfortunately the test was not successful because even if pelargonic acid is a more natural substance, it would not be eco-friendly to use it in huge volumes.



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.

Since 2019, Estonian Railways no longer purchases pine sleepers. All new railway sections are being built on concrete sleepers.



In 2020, we disposed of 1,855 tonnes of sleepers that had been removed from use as well as 4,840 tonnes of other hazardous waste.

Environmental legislation is becoming increasingly stricter and since 2021, we need to secure the plots for storing sleepers so as to ensure disposal of waste.

Noise and vibration

Rail traffic creates vibration and noise. Most of the vibration is felt in the buildings located close to the railway, i.e. in the railway safety zone. According to the surveys, the area affected by vibration is ca 25 metres, thus vibration does not extend beyond the safety zone.

Depending on the soil type, the spread of vibration through the ground varies: the denser the soil, the more the vibration is muffled. The railway is generally surrounded by soil that has a large bearing capacity from the engineering geology point of view, and the transmission of vibration of such soil is weaker.

To reduce vibration and noise, Estonian Railways uses tracks that have been welded together for constructing new railway sections. The bed plates installed between the sleepers and tracks also help reduce noise. We have created noise barriers, for example in Tartu and Muuga.

In 2020, we received three complaints about noise (2019: 3), one of which was related to the railway condition and two were related to the freight trains passing through the area. We are making great progress in blending the railway infrastructure in the city space so that people would be not even aware of it. This requires strong preventive work in the area of safety, noise barriers and human traffic solutions that would actually meet their expectations and resolve the problem.

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 2020, 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.

In 2019, the evaluation of the environmental impact of the Emajõgi bridge was launched within its framework, research has been carried out on protected plants, aquatic biota and noise. The report of the environmental impact assessment was completed by April 2020.

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





Green office

In 2020, we launched the green office management system at the head office of Estonian Railways. 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 avoid unnecessary printing of documents;
- 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 no longer purchase bottled water in the office, 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 2020, we focused on encouraging more active use of video conferences, and promoted the use of public transportation, biking and walking as well as supporting sports activities of our employees.

2020, we did not buy any bottled water in plastic bottles in our offices. In a year, we have saved more than 7,000 plastic bottles.



Our employees participated in the competition of accumulating kilometres in spring and in the step counting competition in autumn.

To celebrate the jubilee, we arranged a competition to count steps called "Step Hunt". 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. 14 teams took a total of 10 million steps, walking through the entire infrastructure of Estonian Railways for 6.3 times!

Two teams of our employees consisting of five members participated in the jogging and walking series of Tradehouse.

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.

One of such places where local people have expressed interest in and have a need for a pedestrian crossing is the railway behind Järve Centre. In 2020, we launched cooperation with the local government to design the new crossing and new illuminated access roads were built. A procurement contract was concluded to build the crosswalk.

At the end of 2020, the representatives of Estonian Railways met with the representatives of Tallinn City Government and the people of Luite city district. We explained the plans to create a new safety solution for Veerenni railway crossing to them.

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.

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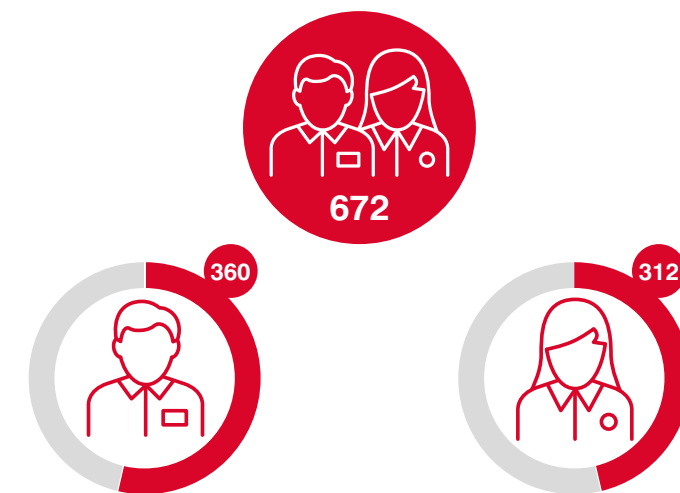


Overview and general information



Estonian Railways employs almost 700 employees: the annual average number of employees was 686 (2019: 725), while it was 672 at the year-end. Most of the employees worked in infrastructure and traffic services: 318 and 251, respectively. The share of women and men in the Company is almost the same, the biggest variations occur in the construction service, (3 women, 14 men), security service (0 women, 19 men), finance service (21 women, 2 men) and infrastructure service (42 women, 276 men).

The average length of service of our employees is 20 years. In 2020, 5.5% of employees voluntarily left the Company (2019: 6.5%). The average age of employees was 51 (2019: 52).

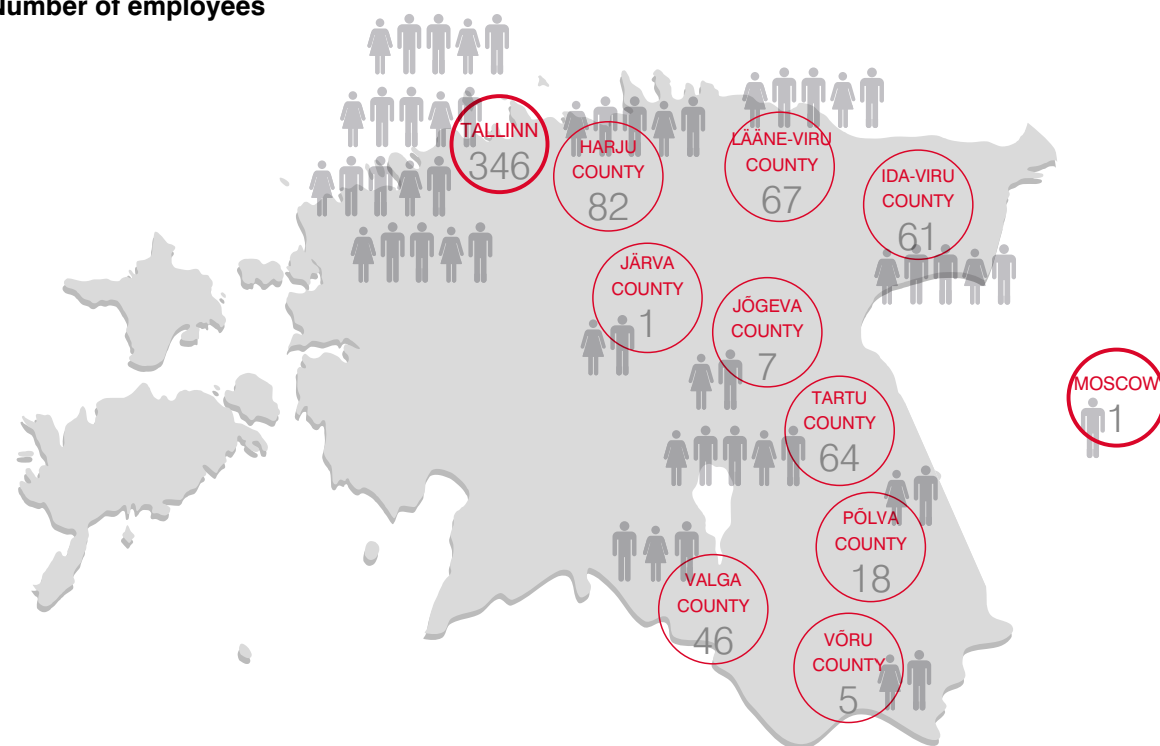


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Number of employees, year-end	TOTAL	WOMEN	MEN
2019	698	335	363
2020	672	312	360
Younger than 30	21	6	15
30–49-year-olds	256	102	154
50 or older	395	204	191
Incl. 60 years and older	100	61	39
Incl. retirement-age	67	34	33

	TOTAL	WOMEN	MEN	AVERAGE AGE
Number of new employees	56	17	39	40
Employees who left	87	41	46	53.8

Number of employees



The key reasons for the decline in the number of employees primarily include digitalization and streamlining of work processes, and outsourcing of services in some areas. However, we will be actively hiring employees with engineering technical, project management and IT skills.

Employee dedication and satisfaction

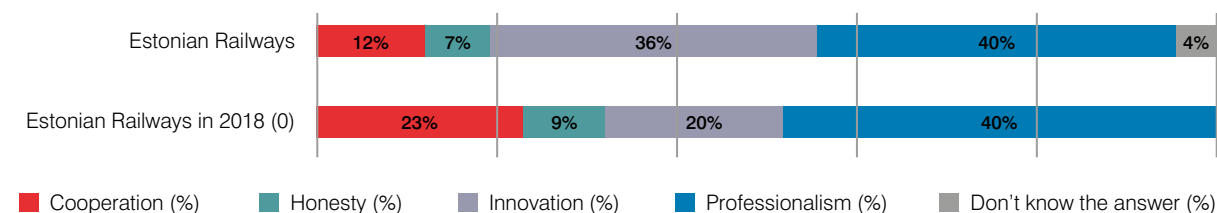


In autumn 2020, an employee satisfaction survey was conducted throughout the Company with the participation rate of 67% (2018: 55%). The strengths of Estonian Railways included (the respondents appreciated the importance of the topic and their satisfaction with it) direct management and professional relationships prevailing in the team. Due to good intra-team relationships and management under strong immediate supervisors, the advantages of Estonian Railways also include such factors as exchange of information, organisation of work and clarity of roles that support efficient functioning of the organisation. 82% respondents consider their work and organisation as engaging and are dedicated to it. The respondents were satisfied the most with collegial relationships and organisation's functioning. In addition, the employees of Estonian Railways feel that their work is not yet demotivating for them and it still provides development opportunities, which also explains the high dedication score.

82% respondents recommend the organisation as the employer.

It is at the same level as that of the Tripod peer group's weighted average: 82%, min 55% / max 96%)

Which values are rated the highest at Estonian Railways?



The key development needs of Estonian Railways included the subscales of constructive cooperation culture and remuneration. According to the employee satisfaction survey conducted in 2018, the overall satisfaction of the employees with their working at the Company was good, but three drawbacks were evident (internal communication, stress level and salary).

Employer reputation, staffing and fair recruitment

Most of the employees of Estonian Railways are between the age of 40 and 60. The average age of our employees is 51 years and many employees with railway specific competencies are in this age group. We need to be able to ensure with our activities that the knowledge and skills of people who are about to retire stay at the Company and as an employer we need to increase our attractiveness primarily among young people.

In 2020, the most important task was to improve the reputation of Estonian Railways as an employer and meet our staffing needs. According to the surveys by Kantar Emor and Instar, Estonian Railways is a prestigious company with an image of being an old and dignified company. According to the survey by CV-Online, we are among the top ten logistics and transportation sector's employers for several years in a row. Due to the specific nature of business, our attractiveness is the lowest among young people.

To ensure successors, we cooperated with universities, higher educational establishments and vocational schools. We visited Tartu Vocational Education Centre, Tallinn Vocational Education Centre and Tallinn University of Technology to talk about career opportunities at Estonian Railways.

In addition we have decided to boost the reputation of Estonian Railways as an employer among high school students by explaining to them why it makes sense for them to study some of the disciplines in our field. We are an open company and young people are welcome to visit us, work as job shadows and trainees. In 2020, one trainee passed the practical training on the infrastructure of Estonian Railways, three in traffic service, two in construction service and IT department and one in safety service.

We redesigned our recruitment concept, making it more personal and open for candidates. At the end of the year, a recruitment video was made of the rail traffic management work, which we can use to better communicate the Company's work processes to the general public.



On 19 February 2020, Estonian Railways participated in the initiative "Let's Go to Work Together!", within the framework of which employees were able to take their children and grandchildren to work with them. A total of 21 children aged 3–16 participated. The children were able to learn about the work and the working environment of their parents as well as railway safety topics and they visited the traffic management centre. In addition, the children were able to go inside a passenger train.

An important progress made in 2020 was development of the internal web ERVIN that is easy to navigate and manage. This is a cooperation environment which enables us to communicate, consolidate the documents necessary for work, process descriptions and current information.



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.

Exchange of information has historically been hierarchical at Estonian Railways, from top to bottom. Over the last years, we have made strong efforts to change it. In 2018, we involved our employees in development of our new values. Today, the values and the code of ethics are available to all employees. When hiring new employees, we assess whether the candidate's personal values match the values of Estonian Railways.

To keep our employees in the same information flow, we arrange regular information days which were organised online in 2020 due to the spread of COVID-19. We also publish an in-house newspaper four times a year and the key news is available on the intranet.

We recognise and reward employees whose activities are in line with the Company's values in four categories: cooperation, integrity, innovation and professionalism. On 5 November 2020, our annual seniority badge gala took place at House of the Blackheads where 53 people were rewarded with seniority badges (one of whom had 55 years and the one 50 years of employment at Estonian Railways).



COOPERATION



INNOVATION



INTEGRITY



PROFESSIONALISM

We recognise our employees on their jubilees, work jubilees, family events, and when senior employees leave the Company. We also remember our retired colleagues, whose endeavours we have promoted with the Company's souvenirs. We would like our employees to feel valued even after retirement.



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;
- 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 2020, 304 employees used it;
- pension subsidy depending on the length of employment, 20-50% of the salary;
- 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.

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.

43% of the employees are members of the trade union of Estonian Railways (2019: 45%). The collective agreement of Estonian Locomotive Workers' Trade Union covers all employees of the Company (2019: 100%).

Occupational safety and health care

The issues related to occupational safety have been laid down in the collective agreement. The specificity in our work poses a risk on employee safety and health in several positions. 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 have additionally reached an agreement in respect of the following principles throughout the Company:

- The policy for management of occupational safety is part of the internal control system of Estonian Railways;
- All Company's employees implement the key principles;
- We identify threats, regularly assess risks and devise preventive measures;
- We comply with legal acts, current contracts and internal standard documents;
- We establish the rules and regulations of the maintenance and leasing of railway infrastructure and oversee their fulfilment so that the activities of railway and other companies would be safe on our railway;
- We identify the root causes of work accidents, remove threats and apply measures to prevent incidents;
- We involve our employees, representatives of employees and cooperation partners to prevent work accidents, take notice of threats jeopardising occupational health and the working environment as well as their notification, analysis and further review;
- We make guiding principles available to our employees and cooperation partners (new hire induction process, regular training courses, safety mentoring), explain and guide them so that they could help increase occupational safety at the Company;
- All employees undergo a health check prior to starting work.

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, the Company plans to review and amend the safety label of positions.

In 2020, safety training courses were organised where 324 employees of Estonian Railways and 161 employees of infrastructure users participated. We also launched digitalization of safety training courses and mentoring, which will enable us to better monitor the process in the future and will leave more time for instructors to engage in other activities.

For contractors, we have prepared a package of safety instructions so that all employees receive the same guidance. We have also started to talk more about occupational safety with our contractors and highlighted the issues that need to be addressed. We will also upgrade employment contracts with regard to the section dealing with sanctions following distribution and violation of liability.

In 2020, there were two minor and one major work accident. We also registered one accident that could have happened, which helps prevent more serious accidents in the future. It did not lead to a loss of working time and therefore, we did not report it to the Labour Inspectorate (2019: one report). However, we disclosed the circumstances of the incident on the Company's intranet and its structural units were informed about it. We are of opinion that all accidents that have happened or nearly happened need to be discussed with employees in order to prevent them in the future.



Training courses and development

Development of employee skills is one of the prerequisites for attaining the Company's goals. We are gradually adopting new technological solutions which require new skills from our employees. Our goal is to become a learning organisation.

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 2020 by services



In 2020, a new performance appraisal procedure became effective. Instead of the former focus on performance, we will focus on emphasizing value-based behaviour and the development of our employees.

The key activities of employee training in 2020:

- We continued with the programme to train in-house trainers so that the knowledge of long-term employees would stay at the Company, and the level of trainers and the study process would become more uniform. 49 in-house trainers participated in the programme;
- Estonian language studies for non-Estonian speaking employees. In 2020, there were 12 study groups of the Estonian language, and 129 employees of Estonian Railways received language lessons. We reward our employees whose native language is Russian for passing the language exam at the B2 and C1 level;
- To enhance the competencies of managers, we continued with management training courses (for 49 employees; management of people, change, finances, oneself), the purpose of which was to harmonise management quality. In November 2020, the development program for managers consisting of six modules and lasting for two years ended,
- With regard to in-house training, we continued with cyber security training courses, shared our knowledge with employees on processing purchase invoices, performance reviews, budget preparations, preparation of process schemes and IT systems.

The goal for 2020 is to provide more in-house training sessions in the e-environment. There are ten training courses posted in the online environment Confluence where one can learn independently.

Diversity, equal treatment and non-discrimination

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.

In staff selection, appraisal of employees, creation of development opportunities for employees, promotion of employees and preference of employees in case of a redundancy situation, we neither evaluate nor take into account the employee's age, gender, nationality, native language; religious, political or social beliefs or membership in legal associations.

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 2020, there were no cases of discrimination.

In the financial year, there was one dispute at the Labour Inspectorate and later in court relating to termination of an employment contract because the retirement-age employee did not pass the health check.



SOCIAL CONTRIBUTION



Involvement of the youth in the work environment

In 2020, we engaged groups of students in maintenance work and provided them primary work experience and useful activity for the 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.

Safety awareness in society

Safe and secure train traffic is one of the key goals of Estonian Railways. Every year we make our contribution to raise awareness through continuous training of our own trainers, safety campaigns, training exercises and cooperation projects. The activities in 2020 are described in a greater detail in the chapter on safety and security of the responsible service described on page 63 of the management report.

Support activities and cooperation projects

In 2020, Eesti Raudtee supported the NGO Estonian Museum Railway with EUR 15,000 which was used to restore the canopy of the depot building built in 1924.

With our membership fees we also support the NGO Operation Lifesaver Estonia that promotes railway safety which totalled EUR 41,328 in 2020.

In accordance with the collective agreement, we supported the activities of the Estonian Railway Workers' Trade Union with EUR 12,660 in 2020.

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

- **We helped Lavassaare museum railway get ready for the 150th anniversary of rail traffic**

We also participated in the joint community event that took place in the only narrow-track museum of Estonia in Lavassaare in August. In the course of the community cleaning event, the surroundings were cleaned of undergrowth, tracks were replaced and other maintenance work was performed. Several of our employees also volunteer there at other times.



- **As partners, we participated in the event “Mini Negavatt 2020” organised by the Environmental Investment Centre.**

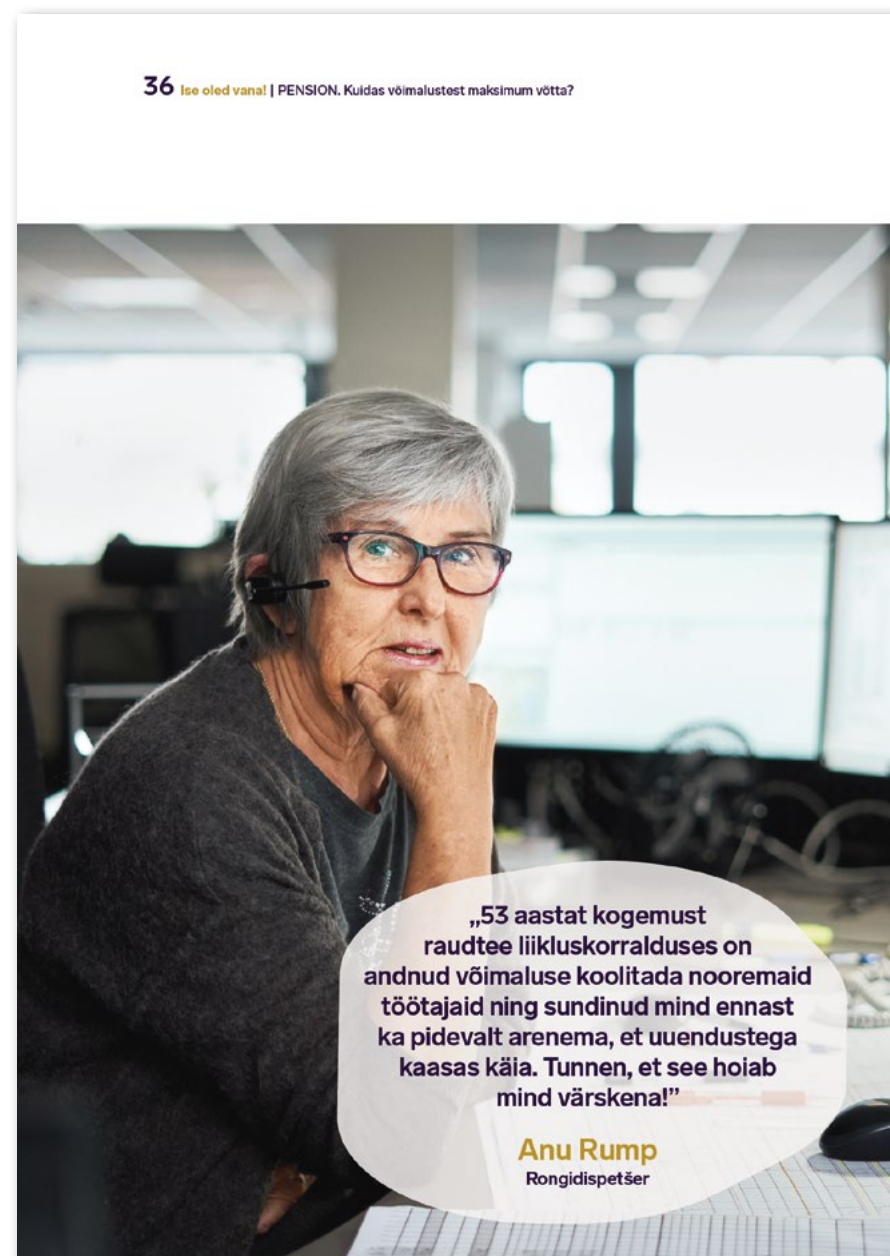
Within the framework of the initiative of Environmental Investment Centre “Mini Negavatt 2020”, elementary school children were expected to submit environmentally friendly solutions to the contest. The topic of the video contest was “The World Taken Over by Cars”. Estonian Railways supplied the special 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, 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. One of the largest projects shot in Kopli Station of Estonian Railways in 2020 was the Hollywood film "Tenet" that premiered in 2020.

■ **Employees of Estonian Railways participated in the project promoting gender equality and equal treatment "You Are Old Yourself".**

The book "You Are Old Yourself" was prepared by the Office of the Commissioner for Equal Opportunities and the book that was published in 2020 teaches people how to find joy in life and work also at an advanced age.



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.

Our employees also participated in the donor-day arranged at Telliskivi Creative City.

The employees of Estonian Railways also voluntarily participate in various safety-related activities. In 2020, seven new railway safety commissioners attended the training course arranged by Operation Lifesaver Estonia.



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ANNUAL FINANCIAL STATEMENTS

Statement of financial position

<i>In thousands of euros</i>	Lisa	31.12.2020	31.12.2019
ASSETS			
Non-current assets			
Property, plant and equipment	3	299,813	294,081
Intangible assets	4	1,394	864
Long-term receivables		10	12
Total non-current assets		301,217	294,957
Current assets			
Inventories	5	5,701	5,929
Receivables and prepayments	6	13,476	22,790
Cash and cash equivalents		36,467	18,922
Total current assets		55,644	47,641
TOTAL ASSETS		356,861	342,598
EQUITY AND LIABILITIES			
Equity			
Share capital		80,303	70,303
Statutory reserve capital		4,119	3,674
Retained earnings		91,695	85,051
Total equity	7	176,117	159,028
Non-current liabilities			
Loan liabilities and borrowings	8	23,826	24,484
Government grants	17	142,570	127,673
Other non-current liabilities		639	767
Provisions		106	106
Total non-current assets		167,141	153,030
Current liabilities			
Loan liabilities and borrowings	8	2,448	6,322
Payables and prepayments	9	11,140	11,209
Government grant prepayments for operating activities	17	0	7,000
Government grant prepayments for purchase of property, plant and equipment	17	0	5,994
Provisions		15	15
Total current liabilities		13,603	30,540
Total liabilities		180,744	183,570
TOTAL EQUITY AND LIABILITIES		356,861	342,598

Notes to the financial statements on pages 98-127 are an integral part of the financial statements.

Statement of comprehensive income

<i>In thousands of euros</i>	Lisa	2020	2019
Operating income			
Revenue		31,095	39,517
Other operating income		32,671	23,328
Total operating income	11	63,766	62,845
Operating expense			
Goods, materials and services	12.1	8,032	10,371
Other operating expense	12.2	4,297	3,828
Personnel expense	12.3	18,411	18,164
Depreciation and impairment	3.4	25,329	20,533
Other operating expense		283	737
TOTAL OPERATING EXPENSE		56,352	53,633
OPERATING PROFIT/LOSS		7,414	9,212
Financial income and expense	13	-325	-319
PROFIT BEFORE INCOME TAX		7,089	8,893
PROFIT FOR THE YEAR		7,089	8,893
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		7,089	8,893

Notes to the financial statements on pages 98-127 are an integral part of the financial statements.

Statement of changes in equity

<i>In thousands of euros</i>	Share capital	Statutory reserve capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
BALANCE AS AT 31.12.2018	70,303	3,243	323	76,266	150,135
Mandatory reserve capital	0	431	0	-431	0
Transfer of revaluation of fixed assets to retained earnings	0	0	-323	323	0
Total comprehensive profit for 2019	0	0	0	8,893	8,893
BALANCE AS AT 31.12.2019	70,303	3,674	0	85,051	159,028
Mandatory reserve capital	0	445	0	-445	0
Increase of share capital	10,000	0	0	0	10,000
Total comprehensive profit for 2020	0	0	0	7,089	7,089
BALANCE AS AT 31.12.2020	80,303	4,119	0	91,695	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 98-127 are an integral part of the financial statements.

Statement of cash flows

<i>In thousands of euros</i>	Lisa	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		7,089	8,893
Depreciation and impairment of property, plant and equipment	3,4	25,329	20,533
Depreciation of property, plant and equipment of the government grant	17	-7,814	-5,349
Profit/loss from the sale and liquidation of property, plant and equipment	3	-156	-1,630
Adjustment/revaluation of provisions		15	-233
Right of superficies fee		-128	-128
State budget operating support	11	-24,100	-16,000
Loss from financial income/expense	13	325	319
Other adjustments		-49	219
Change in receivables and prepayments	6	-2,358	100
Change in inventories	5	228	195
Change in payables and prepayments	9	-1,573	-578
Government grants for operating expenses received from the state budget	17	17,100	7,000
Interest income received	13	61	83
Interest paid	13	-388	-415
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		13,581	13,009
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	-29,550	-29,400
Proceeds from sale of property, plant and equipment	3	245	2,837
Government grants for property, plant and equipment received from the state budget	17	7,577	0
Government grants received for property, plant and equipment	17	10,312	10,349
Cash received from deposit		19,000	34,000
Depositing cash into deposit account		-8,500	-19,000
Repayment of loans granted		1	1
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		-915	-1,213
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital contribution	7	10,000	0
Loans received	8	20,000	0
Repayments of loans received	8	-23,690	-4,966
Finance lease installments	8	-1,431	-1,244
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		4,879	-6,210
TOTAL CASH FLOW		17,545	5,586
Cash and cash equivalents at the beginning of the financial year		18,922	13,336
Cash and cash equivalents at the end of the financial year		36,467	18,922
CHANGE IN CASH AND CASH EQUIVALENTS		17,545	5,586

Notes to the financial statements on pages 98-127 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 19 March 2021

Note 1: Accounting policies

1.1 Basis of preparation and measurement

The Entity's financial statements for 2020 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 except for investment properties, which are measured at fair value.

Changes in the accounting policies

The following new or revised standards and interpretations became effective for the Company from 1 January 2020:

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 ('FRS) 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 2019.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company estimates that there will be no significant impact on the financial statements.

Definition of materiality – amendments to IAS 1 and IAS 8 (effective for annual periods beginning on 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The company estimates that there will be no significant impact on the financial statements.

COVID-19-Related Rent Concessions – Amendments to IFRS 16 -(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.

New or revised standards and interpretations effective from 1 January 2021

New or revised standards and interpretations have been issued that become mandatory for the Company from 1 January 2021 or later and that the Company has not early adopted

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022). 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

The user fee rates of freight infrastructure for railway undertakings for the traffic schedule period 2019/2020 were pressured by the change in market conditions (distribution of east-west transit between the Baltic States with the diversion of certain groups of goods to Russian Baltic ports), which coincided with the COVID-19 virus. As a result, the railway infrastructure charges paid by freight operators decreased more than the change in operating volumes would have required. Due to the high density savings in passenger transport, the infrastructure charges received from passenger operators decreased relatively little compared to

the sharp decrease in the number of passengers due to the spread of the COVID-19 virus. The effect of COVID-19 has been taken into account in the valuation of assets and liabilities as of the reporting date. As a result of the effect of the decrease in rail transport volumes and infrastructure charges, the Management Board prepared a test on the recoverable amount of property, plant and equipment but did not identify the need for a write-down of property, plant and equipment, see also Note 1.2b.

Due to COVID-19, the management estimates that the value of other assets or liabilities has not changed significantly that should be reflected in the financial statements. To compensate for the reduced transport volumes, 17 million euros were allocated to Eesti Raudtee in 2020 on the basis of the financing agreement concluded with the Ministry of Economic Affairs and Communications to ensure the income-expenditure balance, which also covered the decrease in revenue due to the COVID-19 virus.

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 2020. 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 2020 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 4.7% 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 2020, 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.

Under the financing agreement concluded at the end of 2015, the state ensures that, under normal business conditions, the Company's revenues, consisting of infrastructure charges, profits from other economic activities and funds provided by the state or other persons, and railway infrastructure management expenditures are balanced over a five-year period.

Taking into account the trend towards moderate growth in freight and passenger transport at the end of 2020, using the weighted average cost of capital accepted by The Consumer Protection and Technical Regulatory Authority as a discount rate of 3.12% (2019: 2.81%), the annual average GDP growth rate projected by the Ministry of Finance in the period 2025-2070 (1.41%), the recoverable amount of fixed assets exceeds their carrying amount. When performing the recoverable amount test, the part of the residual value of assets acquired with government grants of the European Union, the state and local governments was eliminated.

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 - 80 years
Railways	2 - 50 years
Machines and equipments	
	2 - 30 years
Other	
	3 - 20 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.

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. The cost of inventories 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 Company classifies its financial assets in those to be measured at amortised cost measurement category. 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 now 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. 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 timetabling 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, effective 1 January 2019.

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) fixed 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 2019 and 31 December 2020 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 December 2020		31 December 2019	
	CHF	RUB	CHF	RUB
Cash and cash equivalents	419	4	291	4
Receivables	291	0	323	0
Payables	-255	-1	-227	-4
Net exposure	455	3	387	0

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.

The Company's loan liabilities have a floating interest rate and depend on Euribor fluctuations. Compared to 2019, the average interest rates in 2020 did not change significantly (Note 8). If the interest rate changed by one percentage point, the interest expense would increase by 343.6 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 2020:

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Discount balance at the beginning of the reporting period	75	0
Discounts for the reporting period	553	75
Receivables written off during the reporting period	0	0
Discount at the end of the period	628	75

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 2019 and 31 December 2020.

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 December 2020	31 December 2019	Moody's rating
Bank accounts and deposits			
Swedbank	22,366	18,550	Aa2
SEB	907	177	Aa2
Luminor Estonia	21,690	19,192	Baa1
Bank account of the Company's office in Moscow	4	4	unknown
	44,967	37,923	

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 value of a deposit placed in one bank may not exceed 50% of all the company's funds at the time of placing the deposit.

Liquidity is also improved by the settlement clause stipulated in the contracts, according to which transport undertakings pay the infrastructure usage fee to the Company in the amount of almost 50% in advance.

The table below provides an analysis of financial liabilities by maturity, including estimated future interest payments as of 31.12.2020 and 31.12.2019:

31 December 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	

31 December 2019

<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	23,690	24,236	5,182	10,887	8,167	0	8
Lease payables	7,115	8,662	1,473	1,401	2,897	2,891	8
Trade payables	4,361	4,361	4,361	0	0	0	9
Other payables	271	271	271	0	0	0	
Total	35,437	37,530	11,287	12,288	11,064	2,891	

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. under its loan agreements, the Company has undertaken to maintain its equity to assets ratio at 35%. As at 31 December 2020, the Company's equity to assets ratio was 49.4% (31 December 2019: 46.4%). For more information on equity refer to Note 7.

The Company has also committed in its loan agreements to ensure a certain level of EBITDA and not to exceed the agreed ratio of interest-bearing liabilities to net debt to EBITDA.

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Debt liabilities (Note 8)	26,274	30,805
Cash and cash equivalents (Notes 2.3 and 8)	36,467	18,922
Net debt (debt liabilities-cash and cash equivalents) (Note 8)	-10,193	11,883
Equity	176,117	159,028
Total capital (net debt+equity)	165,924	170,911
Debt to equity ratio	16%	18%
Ratio of net debt to total equity	-6%	7%

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 31.12.2020 and 31.12.2019. 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 December 2018								
Cost	421,603	0	70,579	0	1,187	14,381	507,750	
<i>Incl. EU grants</i>	125,775	0	4,083	0	0	0	129,858	
Accumulated depreciation	-186,035	0	-43,400	0	-1,157	0	-230,592	
<i>Incl. EU grants</i>	-28,254	0	-1,102	0	0	0	-29,356	
Carrying amount 31.12.2018	235,568	0	27,179	0	30	14,381	277,158	
First-time adoption of IFRS 16	0	4,297	0	1,661	0	0	5,958	1.1
Adjusted carrying amount 01.01.2019	235,568	4,297	27,179	1,661	30	14,381	283,116	
Movements in 2019								
Acquisitions and improvements	30	0	1,612	0	180	29,654	31,476	
<i>Incl. leased assets</i>	0	0	97	0	0	0	97	
Addition of right-to-use assets	0	7	0	110	0	0	117	
Removal of access rights	0	0	0	-16	0	0	-16	
Reclassification	23,673	0	6,418	0	5	-30,096	0	
<i>Incl. EU grants</i>	19,493	0	1,641	0	0	-21,134	0	
Carrying amount of assets sold and written off	-287	0	-168	0	0	0	-455	
Depreciation and impairment of fixed assets	-15,543	-473	-3,542	-520	-30	-49	-20,157	
<i>Incl. EU grants</i>	-5,151	0	-198	0	0	0	-5,349	17
31.12.2019								
Cost	441,370	4,304	76,758	1,752	1,135	13,890	539,209	
<i>Incl. EU 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 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	13,890	294,081	
Movements in 2020								
Acquisitions and improvements	60	0	918	0	80	29,672	30,730	
<i>incl. leased assets</i>	0	0	570	0	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 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 charge/impairment of fixed assets	-19,240	-510	-4,585	-510	-55	0	-24,900	
<i>Incl. EU 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	17,133	560,674	
<i>Incl. EU 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 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	17,133	299,812	

In 2020, fixed assets were sold at a sale price of 245 thousand euros (2019 sales price: 1,206 thousand euros of fixed assets and 1,631 thousand investment properties). Profit on the sale of assets are recognised in the statement of comprehensive income under other operating income in the amount of 156 thousand euros (2019: 1,630 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 December 2020	31 December 2019
Buildings (buildings and facilities)	55,114	52,900
Machines and devices	22,866	23,056
Other equipment	879	92
Total	78,859	76,048

As at 31 December 2020 and 31 December 2019, no assets of the Company were pledged as loan collateral.

Note 4: Intangible assets

<i>In thousands of euros</i>	Intangible asset	Prepayments for intangible assets	Total intangible assets
31.12.2018			
Cost	3,560	0	3,560
Accumulated depreciation	-2,731	0	-2,731
Carrying amount 31.12.2018	829	0	829
Changes in 2019			
Reclassification from tangible assets	410	0	410
Depreciation and impairment of fixed assets	-376	0	-376
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

Note 5: Inventories

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Road administration spare parts	3,948	4,228
Spare parts for Telecom and Security Systems	1,296	1,255
Electricity agency spare parts	343	304
Other inventories	114	142
Total inventories	5,701	5,929

The Company did not write down obsolete or unusable inventories during 2020 and 2019.

Note 6: Receivables and prepayments

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Trade receivables	2,365	1,201
Government Grants Receivables (Note 17)	841	2,013
Tax prepayments (Note 10)	1,598	366
Deposits with maturities over three months	8,500	19,000
Prepaid expenses	169	205
Other short-term receivables	3	5
Total receivables and prepayments	13,476	22,790

Movements of allowance for doubtful accounts:

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Impairment balance at the beginning of the reporting period	75	0
Write-offs for the reporting period (Note 12.2)	553	75
Receivables written off during reporting period	0	0
Impairment balance at the end of the reporting period	628	75

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.

By the decision of the sole shareholder No. 1.1-5 / 20-050 07.09.2020, the share capital of the Company was increased by 10,000 thousand euros, the amount was transferred fully to the current bank account of the Company.

As at 31 December 2020, the Company's share capital amounted to EUR 80,3030 thousand euros (2019: 70 303 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 EUR 127,823 thousand.

7.2 Statutory reserve capital

In 2020 the statutory reserve capital was increased by 445 thousand euros (2019:431).

7.3 Property, plant and equipment revaluation reserve

The revaluation reserve comprises the effects of the revaluation to fair value of the plot of land, which has been reclassified to investment property. In case of subsequent disposal of the investment property the revaluation reserve included in the equity can be recorded within retained earnings. Transfer of the revaluation reserve to retained earnings is not recognised in the income statement.

Regarding the disposal of the investment property in 2019, the revaluation reserve of fixed assets has been transferred to the retained earnings.

Note 8: Loans and lease liabilities**Loan and lease liabilities as at 31.12.2020**

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

Loan and lease liabilities as at 31.12.2019

<i>In thousands of euros</i>	Balance	Incl. non-current portion	Incl. current portion	Maturity date	Interest rate
OP Corporate Bank bonds	10,350	8,050	2,300	20.12.2021	6 month euribor + 0,81%
Nordic Investment Bank bonds	13,340	10,674	2,666	15.12.2024	6 month euribor + 1,091%
Lease liabilities	7,115	5,760	1,356		average 2,37%
Total loan and lease liabilities	30,805	24,484	6,322		

In 2020, interest expense on bank loans and bonds amounted to EUR 229 thousand (2019: EUR 260 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 as at 31 December 2018	13,336	-5,249	-24,977	-16,890
Loans received		-123	-6,666	-6,789
Loans repaid		6,210	0	6,210
Reclassification from long-term to short-term		-7,159	7,159	0
Net debt as at 31 December 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 as at 31 December 2020	36,467	-2,448	-23,826	10,193

In 2020, the company refinanced existing loans with a new Swedbank loan. The new loan agreement has been entered into for 5 years 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. As at 31 December 2020, the Company has not drawn down the EIB loan balance.

As at 31 December 2020 and 31 December 2019, 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 December 2020	31 December 2019
Liabilities on goods and services	6,409	4,647
Other liabilities	5	24
Accrued liabilities to employees	2,710	2,553
Tax liabilities (Note 10)	695	1,106
Deferred income	1,321	2,879
Total	11,140	11,209

Trade payables in the amount of EUR 6,409 thousand (31.12.2019: EUR 4,647 thousand) include amounts payable to suppliers for property, plant and equipment in amount of EUR 3,946 thousand (31.12.2019: EUR 2,442 thousand).

Deferred income in the amount of EUR 1,321 thousand (31.12.2019: EUR 2,879 thousand) includes prepayments from railway and railway freight entities for the usage of the infrastructure and prepayment for the right of superficies

Note 10: Prepaid taxes and tax liabilities

<i>In thousands of euros</i>	31.12.2020		31.12.2019	
	Tax prepayment	Tax liabilities	Tax prepayment	Tax liabilities
Value added tax	1,270	0	0	425
Income tax	0	226	0	214
Income tax on fringe benefits	0	1	0	6
Social security tax	0	424	0	418
Funded pension tax	0	17	0	16
Unemployment insurance tax	0	27	0	26
Other taxes	0	0	0	1
Balance of prepaid taxes	328	0	366	0
Total	1,598	695	366	1,106

Note 11: Revenue and other income**11.1 Revenue by activities**

<i>In thousands of euros</i>	2020	2019
Infrastructure services	28,695	34,419
Rental income	499	528
Sale of inventory	806	1,590
Other services*	1,095	2,980
Total sales revenue	31,095	39,517

* 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>	2020	2019
Total sale to the EU countries		
Estonia	30,881	37,670
Latvia	80	139
Lithuania	4	19
Other countries	5	5
Total sales to countries outside the EU		
Russia	125	1683
Ukraine	0	1
Total sales revenue	31,095	39,517

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 15.

11.3 Other operating revenue

<i>In thousands of euros</i>	2020	2019
Gain on sale of property, plant and equipment	156	1,630
Fines, penalties and rewards	191	189
Financing from the Government grants for operating expenses (Note 17)	24,100	16,000
Financing from the Government grants for operating income (Note 17)	7,814	5,349
Other operating income	410	160
Total other operating income	32,671	23,328

Lisa 12: Note 12: Operating expenses**12.1 Goods, materials and services**

<i>In thousands of euros</i>	2020	2019
Raw materials and consumables	1,991	1,762
Services purchased for resale	473	594
Energy	879	1,179
Railway repair and maintenance	1,479	2,213
Real estate maintenance	724	730
Repair and maintenance of means of transport	595	676
Maintenance of telecommunications, electricity and safety systems	483	285
Other services *	1,408	2,932
Total goods, materials and services	8,032	10,371

* Other railway transport related services include freight security services and the use of locomotives service.

12.2 Other operating expenses

<i>In thousands of euros</i>	2020	2019
Lease and rental charges	421	560
Electricity	256	319
Utilities	485	468
Office expense	629	554
Business travel expense	31	143
Training expense	84	110
National and local taxes	320	332
Insurance services	194	176
Spare parts and maintenance of cars	20	32
Outsources services	468	563
Information services	93	50
Other staff costs	218	164
Environmental costs	501	217
Bad debt (Note 6)	553	75
Other expenses	24	65
Total other operating expenses	4,297	3,828

12.3 Personnel expenses

In thousands of euros

	2020	2019
Remuneration, performance fees, holiday pay and bonuses	14,048	13,681
Taxes on personnel expenses	4,363	4,483
Total personnel expense	18,411	18,164

Number of employees

Number of employees at the beginning of the period	698	758
Number of employees at the end of the period	672	698
Average number of employees	686	725

Note 13: Financial income and expense

In thousands of euros

	2020	2019
Interest income	61	83
Interest expense	-388	-415
incl. interest expense on loans	-229	-260
interest expense on finance lease	-159	-155
Profit/loss from foreign currency translation differences	2	13
Total financial income and expenses	-325	-319

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 2020, the Company's undistributed profits totaled EUR 91,695. 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 2020 in amount up to EUR 91,341 thousand (2019: EUR 84,606 thousand). The maximum income tax liability that would arise, if all of the undistributed profits were distributed as dividends as at 31 December 2020, amounts to EUR 18 268 thousand (2019: EUR 16,921 thousand), net dividends amounts to EUR 73,073 thousand (2019: EUR 67,685 thousand).

According to the profit allocation proposal made by the Management Board, in 2020 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 01.01.2020-31.12.2020. 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 2020, the company has entered into agreements for the years 2021 to 2045, of which the liabilities arising until the end of the agreement period total to 183,5 million euros (2019: 35,9 million euros).
- 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 31.12.2020, 150 million euros had been received from such government grants (31.12.2019: 143 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 court will hear the action at the hearing on 25 March 2021.
- 2) AS E.R.S. has filed two complaints against the decision of the Technical Regulatory Authority (TRA) which has determined the user fee of the railway infrastructure for the 2016/2017 timetabling period and 2017/2018 timetabling period. The Court involved Eesti Raudtee as a third party, because the proceedings may determine the rights and obligations of Eesti Raudtee. The Supreme Court made a decision on 17 December 2020. According to the decision of the Supreme Court, the principles of EU Directive 2012/34 should have been followed by TRA in determining the user fee. TRA had failed to assess the level fee the user could withstand intra-EU freight. The Supreme Court partially upheld the appeal of AS ERS, partially annulled the decisions of the TRA and explained that the TRA can make a new decision setting the estimated railway infrastructure user fee for intra-EU freight services for the same period.

The monetary impact of the decision on Eesti Raudtee is currently difficult to estimate as TRA has not yet made a new user fee decision for the 2016/2017 traffic schedule period. If TRA's new decision changes the user fee significantly it may potentially lead to an adjustment of Eesti Raudtee's previous periods incomes but currently it is not possible to estimate the effect reliably.

- 3) 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.

The court has not yet scheduled a hearing.

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.

- 4) 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. The proceedings are currently pending. The Labor Inspectorate has submitted inspection reports to eliminate deficiencies and submit opinions and objections with deadline on 11 March 2021. As the procedure is still ongoing the financial impact is currently not possible to estimate reliably.



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

<i>In thousands of euros</i>	31 December 2020	31 December 2019
Receivables		
Entities related with members of the Management and Supervisory Boards	9	0
Government related railway entities	2,406	743
Liabilities		
Entities related with members of the Management and Supervisory Boards	373	1
Government related railway entities	1,286	2,794

Transactions with related parties

<i>In thousands of euros</i>	2020	2019
Services sold		
Entities related with members of the Management and Supervisory Boards	37	1
Government related railway entities	26,764	36,559
Services purchased		
Entities related with members of the Management and Supervisory Boards	1,525	156
Government related railway entities	2,638	2,918
	2020	2019
Remuneration and benefits	357	305

Note 17: Government grants**Government grants receivable***In thousands of euros*

	31 Decem- ber 2020	31 Decem- ber 2019
Government grant receivable for the purchase of property, plant and equipment	841	2,013

Government grants for operating expenses*In thousands of euros*

	2020	2019
Government grant received from the state budget for operating expenses to ensure the balance of income and expenditures of the company (Note 11)	24,100	16,000

Gorvernment grants for assets*In thousands of euros*

	2020	2019
Liabilities related to government grants at the beginning of the period	133,666	126,652
EU funds	110,019	102,860
Domestic government grants	19,814	2,292
Prepaid government grants for fixed assets	3,833	21,500

Movements during the accounting period

Increase in government grants for acquired fixed assets	16,718	12,363
EU funds	8,615	12,288
Domestic government grants	8,103	75
Recognition of liabilities acquired through government grants in income	-7,814	-5,349
EU funds	-7,039	-5,129
Domestic government grants	-775	-220

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

	142,570	133,666
EU funds (acquired fixed assets)	109,234	104,026
EU funds (prepayments received)	2,361	,5,993
Domestic government grants	25,296	19,814
Prepaid government grants for fixed assets	5,679	3,833

On 28 December 2015, the Company and the Ministry of Economic Affairs and Communications entered into a financing agreement, on the basis of which the Company was paid 7 million euros in 2019, which is recognised as a liability as at 31.12.2019 and income in 2020 after meeting the performance targets. In addition, the Ministry of Economic Affairs and Communications compensated 0.1 million euros in 2020 for the difference of operating expenses to ensure the balance of income and expenditures of previous periods. 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.

Due to the impact of COVID-19 restrictions on the Company's economic activities, the Ministry of Economic Affairs and Communications financed the Company with 17 million euros to ensure the balance of income and expenditures of the Company's normal economic activities during 2020. Of this amount, EUR 15 million was allocated to ensure the balance of the company's income and expenditures and EUR 2 million to reduce the charges for basic railway infrastructure services in order to increase the solvency of freight operators to the same extent.

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 2020, additional amount of 7.9 million euros was allocated to finance the same investment projects. During 2020, the Company used 5.9 million euros of the government grants received (2019: 17.7 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.





INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS 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 2020, 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

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report and general information, good corporate governance report, 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 and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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.

AS PricewaterhouseCoopers

/signed/

Janno Hermanson
Auditor's certificate no. 570

19 March 2021
Tallinn, Estonia

/signed/

Kristiina Veermäe
Auditor's certificate no. 596

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876 T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Profit distribution proposal

The Management Board of AS Eesti Raudtee proposes to the General Meeting of Shareholders to distribute the net profit of 2020 in the amount of EUR 7,089 thousand as follows:

Increase of statutory reserve capital	EUR 354 thousand
Retained earnings	EUR 6,735 thousand
Retained earnings after profit allocation	EUR 91,341 thousand

Signatures of the Management Board

The annual report of AS Eesti Raudtee for the year ended 31 December 2020 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

19 March 2021

List of business activities

Business activity	EMTAK Code	2020	2019
Infrastructure services	52219	28,419	34,041
Lease and rental services	77391	124	282
Purchased and resold energy	35141	599	761
Telecommunications services	61901	290	377
Real estate services, rental of building and premises	68201	499	528
Sale of inventory	45311	806	1,573
		30,737	37,562

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
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	8-9, 47-52, 58-62
	102-3	Location of headquarters	3
	102-4	Location of operations	6-9
	102-5	Ownership and legal form	8
	102-6	Markets served	48-52
	102-7	Scale of the organisation	8-9, 12-13, 47
	102-8	Information on employees and other workers	79 (All activities are carried out by own employees, except for subcontractors in project-based procurement. The company has no fixed-term employees, except for the members of the Management Board. Nor does it use seasonal, project-based or temporary labor. There is no information on full-time and part-time workers.)
	102-9	Supply Chain	70 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	71
	102-12	External initiatives	34, 65, 66, 73, 76, 81, 88-91
	102-13	Memberships of associations	9, 42-43

Strategy

102-14	Statement from senior decision-maker	10-11
102-15	Key impacts, risks, and opportunities	24-25, 36-37

Ethics and Integrity

102-16	Values, principles, standards and standards of conduct	20, 34-36
102-17	Identification and resolution of ethical issues	34-36

Governance

102-18	Governance structure	30-33 (The ultimate responsibility for social and environmental issues lies with the Management Board of AS Eesti Raudtee).
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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, owner and public sector institutions and the wider Estonian public.
102-41	Collective bargaining agreements	84
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	26, 40-44, 77, 80-85, 88-91 (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 and the same was done for 2020 activities).
102-44	Key topics and concerns raised	20, 26

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	24-29
102-47	List of material topics	26
102-48	Restatements of information	No restatements.
102-49	Muudatused aruandluses	This is the company's first 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 08.05.2020
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	132-137
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	58-60
non-GRI	Performance indicators	58-60

Economic Performance (GRI 201: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	44-57
201-1	Direct economic value generated and distributed	47-57

Indirect economic impact (GRI 203: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	24-25, 27-28
203-1	Infrastructure investments and services supported	24, 54-57
203-2	Significant indirect economic impact	24

Purchasing principles (GRI 204: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	69-70
204-1	Purchases from local suppliers	70

Anticorruption (GRI 205: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	34-36
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	36 The principles are accessible to all employees. All staff with procurement, decision-making and managerial responsibilities must participate in the training (120 employees in 2020). Not separately communicated to partners.)
205-3	Confirmed incidents of corruption and actions taken	In 2020 there were no cases or procedures involving employees or sub-contractors.

Energy (GRI 302: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	71-73, 76
302-1	Energy consumption within the organisation	72-73, 76 (renewable energy was not used)

Biodiversity (GRI 304: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	71, 75
304-1	Operational sites on protected areas and areas of high biodiversity value	75








Emissions (GRI 305: 2016)

Management Approach (GRI 103: 2016)	103-1 to 103-3	72-73
305-1	Direct (Scope 1) GHG emissions	72. Data only for those boiler houses for which the company is obliged to measure ambient air emission.
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Nitrogen oxides NOx – 0.29 tons Sulphur oxides SOx – 0.043 tons Particulate matters in total PM – 0.18 tons Volatile organic compounds VOC – 0.01 tons Carbon dioxide CO ₂ – 232 tons Carbon oxide CO – 0.29 tons Data only for those boiler houses for which the company is obliged to measure ambient air emissions.
non-GRI	Electrification	21

Effluents and Waste (GRI 306: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		74-75
	306-2	Waste by type and disposal method	74. 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	74. There were no significant spills.
Environmental Compliance (GRI 307: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		71-77
	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		78-87
	401-1	New employee hires and employee turnover	79. The company operates in one country and therefore does not keep records by smaller regions.
	non-GRI	Other indicators of the collective	79, 138
Occupational Health and Safety (GRI 403: 2018)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		85
	403-1 to 403-7		85
	403-9	Work-related injuries, absences and days lost, fatal accidents at work	85. There were no fatal accidents at work. There were three accidents at workplace, out of which two were more severe. The company does not measure the performance of subcontractors.
	non-GRI	Safety training for employees	64, 85
Training and Education (GRI 404: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		86-87
	404-1	Average hours of training per year per employee	86. 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	86-87. 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	Management development programs	87

Diversity and Equal Opportunity (GRI 405: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		87
	405-1	Diversity of governance bodies and employees	79-80, 138
Non-discrimination (GRI 406: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		87
	406-1	Incidents of discrimination and corrective actions taken	87 (no cases occurred)
Local Communities (GRI 413: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		77, 88-91
	413-2	Operations with significant actual and potential negative impacts on local communities	77
	non-GRI	Complaints received from residents	74
Customer Health and Safety (GRI 416: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		63-66
	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	63-66
	non-GRI	Safety awareness in society	63-66, 88
Socioeconomic Compliance (GRI 419: 2016)			
Management Approach (GRI 103: 2016)	103-1 to 103-3		30-36
	419-1	Non-compliance with laws and regulations in the social and economic area	36 (no non-compliances occurred)

Table of employees

	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			9	6	6		21
Number of employees aged 30–49	3		77	100	74	2	256
Number of employees aged 50 and over	2	1	88	192	101	11	395
- incl. employees 60 and over	1		17	56	21	5	100
- incl. employees in pensioner age group			17	33	16	1	67
Number of employees in total:	5	1	174	298	181	13	672
Percentage of permanent employees (excl. members of the Management Board) (% of all employees in the category)							100%
Number of new employees under 30			4	2	5		11
Number of new employees aged 30–49			11	11	8		30
Number of new employees aged 50 and over			6	4	5		15
- incl. employees 60 and older			1		2		3
- incl. employees in pensioner age group			1	2			3
New employment contracts in total:	0	0	21	17	18	0	56
Number of employees leaving under 30			2	2	2		6
Number of employees leaving aged 30–49			5	4	10		19
Number of employees leaving aged 50 and over	1		15	34	11	1	62
- incl. employees 60 and over	1		2	5	2	1	11
- incl. employees in pensioner age group			7	13	2		22
Number of contracts ended during the year:	1	0	22	40	23	1	87

